

COVER SHEET

SEC Registration Number

P	W	-	1	0	2										
---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--

Company Name

M	A	N	I	L	A		E	L	E	C	T	R	I	C		C	O	M	P	A	N	Y		A	N	D			
S	U	B	S	I	D	I	A	R	I	E	S																		

Principal Office (No./Street/Barangay/City/Town/Province)

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	A	R	A	N	G	A	Y		U	G	O	N	G	,		P	A	S	I	G		C	I	T	Y	,			
M	E	T	R	O		M	A	N	I	L	A	,		P	H	I	L	I	P	P	I	N	E	S					

Form Type

1	7	-	Q
---	---	---	---

Department requiring the report

--	--	--	--

Secondary License Type, If Applicable

--	--	--	--

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number/s

86312222/ 816220

Mobile Number

N/A

No. of Stockholders

41,755

Annual Meeting
Month/Day

Last Tuesday of May

Fiscal Year
Month/Day

December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person

Atty. William Pamintuan

Email Address

wspamintuan@meralco.com.ph

Telephone Number/s

8632-8014

Mobile Number

N/A

Contact Person's Address

Lopez Building, Ortigas Avenue, Pasig City
--

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: September 30, 2021
2. Commission identification number: PW-102
3. BIR Tax Identification Code: 000-101-528-000
4. Exact name of issuer as specified in its charter: *Manila Electric Company*
5. Country of Incorporation: *Philippines*
6. Industry Classification: (SEC use only)
7. Address of issuer's principal office: *Lopez Building, Ortigas Avenue,
Barangay Ugong, Pasig City
Postal Code: 1605*
8. Issuer's Telephone Numbers including area code: (+632) 8631-5567
9. Former name, former address and former fiscal year, if changed since last report: *N/A*
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of RSA:

Title of Each Class

Number of Shares of Common Stock
Outstanding

Common Stock

1,127,098,705

Debt Securities – bonds

Amount of Debt Outstanding
PhP7,000 Million Fixed Rate Notes

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

Yes ☒ No ☐

If yes, the name of such Stock Exchange and the class/es of Securities:

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed under Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes ☒ No ☐

- (b) has been subject to such filing requirements for the past ninety (90) days:

Yes ☒ No ☐

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The 9M 2021 Financial Statements is hereto attached and made integral part of this report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please refer to the attached 9M 2021 Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II – OTHER INFORMATION

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has caused this report to be signed on its behalf by the undersigned duly authorized representatives.

MANILA ELECTRIC COMPANY
Issuer



WILLIAM S. PAMINTUAN
Senior Vice President
Assistant Corporate Secretary &
Information Disclosure Officer



BETTY C. SIY-YAP
Senior Vice President &
Chief Finance Officer

Date: November 15, 2021

*Cc: Disclosure Department
Listings and Disclosure Group
Philippine Stock Exchange*

*Issuer Compliance and Disclosure Department
Philippine Dealing & Exchange Corp.*

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 September 30, 2021 and for the nine months ended September 30, 2021 and 2020 and the audited consolidated financial statements as at December 31, 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 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 when otherwise indicated. The Exchange rate used to translate U.S. dollars to Philippine peso in this report and in the accompanying unaudited interim consolidated financial statements is US\$1.00 to ₱51.00, the closing rate as at September 30, 2021 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

(Amounts in millions, except earnings per share, and operational data)	Increase (Decrease)			
	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)	Amount	%
Condensed Statements of Financial Position¹				
Total assets	₱470,921	₱390,267	₱80,654	21
Current assets	133,386	128,382	5,004	4
Cash and cash equivalents	43,620	50,912	(7,292)	(14)
Equity attributable to equity holders of the parent	81,037	79,237	1,800	2
Total debt	90,507	40,144	50,363	125
Current liabilities	161,249	142,601	18,648	13
Condensed Statements of Income				
	Unaudited			
	Nine Months Ended September 30		Increase (Decrease)	
	2021	2020	Amount	%
Revenues	₱231,717	₱214,208	₱17,509	8
Costs and expenses	207,577	200,836	6,741	3
Other income, net of expenses	1,735	1,040	695	67
Income before income tax	25,875	14,412	11,463	80
Net income	17,143	11,342	5,801	51
Net income attributable to equity holders of the parent	16,522	11,252	5,270	47
Earnings per share attributable to equity holders of the parent	14.66	9.98	4.68	47
Condensed Statements of Cash Flows				
Net cash provided by (used in) operating activities	44,062	2,872	41,370	1440
Net cash provided by (used in) investing activities	(44,414)	8,395	(52,991)	(631)
Net cash used in financing activities	(6,422)	(18,057)	11,635	(64)
Operational Data				
Number of customer accounts (in thousands):				
Residential	6,782	6,502	280	4
Commercial	553	537	16	3
Industrial	11	11	—	—
Streetlight	5	5	—	—
Electricity sales volume (in GWh)	34,398	32,539	1,859	6
System loss (in percentage) ² :				
MERALCO	5.64	6.18	(0.54)	(9)
Clark Electric Distribution Corporation ("Clark Electric")	2.16	2.13	0.03	1

¹ On March 31, 2021, MGen acquired 86% equity in GBPC, increasing MGen's equity interest in GBPC to 100%. As such, MERALCO's unaudited consolidated statement of financial position as at September 30, 2021 and consolidated statement of income for the nine months ended September 30, 2021 included the consolidation of GBPC's assets and liabilities and results of operations, respectively. In 2020, MERALCO accounted for its 14% investment in GBPC using equity method of accounting.

² Based on 12-month moving average

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

Financial KPI	Definition	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	1.12	0.51
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.83	0.90
		Unaudited	
		Nine Months Ended September 30	
		2021	2020
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	7%	5%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	20%	14%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	0.53	0.56

OVERVIEW

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

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

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

Shin Clark Power Holdings, Inc. ("*Shin Clark*") is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("BCDA"). As at October 25, 2021, the documents for the incorporation of the joint venture company with BCDA has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

Power generation – The *MERALCO* Group's re-entry into power generation is through investments in operating companies or participation in the development of power generation projects.

MERALCO PowerGen Corporation ("*MGen*"), the power generation arm of the *MERALCO* Group, completed the acquisition of the 86% combined equity of Global Business Power Corporation ("*GBPC*") from Beacon Powergen Holdings Inc. ("*BPHI*") and JG Summit Holdings, Inc. ("*JG Summit*"). Thereafter, *GBPC* became a wholly owned subsidiary of *MGen*. Prior to this transaction, *BPHI* holds a 56% ownership interest in *GBPC* while *JG Summit* holds a 30% interest. As a result of the transaction, *MGen* owns 100% of *GBPC*.

GBPC is the largest independent power producer in the Visayas. *GBPC* owns 854 MW (gross) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy Corporation ("*Sarangani Energy*"). *Sarangani Energy*'s first 105 MW (net) CFB plant in Maasim, Sarangani started commercial operations in 2016 while its 105 MW (net) CFB plant started commercial operations in September 2019.

On June 30, 2021, *GBPC* broke ground for its first renewable project – a 115 MWdc solar plant in Baras, Rizal. The plant is expected to start commercial operations in 2022.

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

MGen, through *San Buenaventura Power Limited* (“*SBPL*”), a 51% owned joint venture entity, owns and operates a 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon. The Power Supply Agreement (“*PSA*”) with *MERALCO* was approved by the *ERC* on May 19, 2015.

SBPL’s supercritical coal-fired plant in Mauban, Quezon has been in full operations delivering 2,598 GWh of energy from January to September 2021 with an average plant availability of close to 92%, except during its 21 days of forced outage in February and March.

MGen is developing a 2 x 600 MW (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *Atimonan One Energy, Inc.* (“*A1E*”). It will be the first ultra-supercritical coal-fired facility to be built in the country. Site preparation is in an advanced stage and engineering activities are ongoing to meet the targeted operations date.

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

MGen Renewable Energy, Inc. (“*MGreen*”) is a wholly owned subsidiary of *MGen* engaged in the development, financing, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*. *First Bulacan* has developed a 80 MWdc/50 MWac utility scale solar facility located in San Miguel, Bulacan which is currently the largest single operating solar plant in the country. *First Bulacan* was synchronized to the grid on May 12, 2021 and has since delivered close to 38 GWh of solar energy to *MERALCO* as of September 30, 2021, under an *ERC*-approved *PSA*. The *PSA* is for a period of 20 years from commercial operation date (“*COD*”) of May 12, 2021.

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

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

RES –covers the sourcing and supply of electricity to qualified contestable customers. *MERALCO* and *Clark Electric* also operate as local retail electricity suppliers within their respective franchise areas 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 Energy Solutions and Management, Inc.* (“*Vantage*”), a wholly owned subsidiary of *MERALCO*; *Solvre, Inc.* (“*Solvre*”), a wholly owned subsidiary of *MGen*; *MeridianX Inc.* (“*MeridianX*”), a wholly owned subsidiary of *Comstech Integration Alliance, Inc.* (“*Comstech*”), on January 10, 2017, February 9, 2017 and February 9, 2017, respectively. On April 21, 2021, *Phoenix Power Solutions, Inc.* (“*PPSI*”), a wholly owned subsidiary of *MERALCO*, was issued a *RES* license by the *ERC* while *Vantage RES* renewal is on-going. *Clarion Energy Management Inc.* (“*Clarion*”), a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC*. As at October 25, 2021, the approval of its *RES* licensing is pending with the *ERC*. *Global Energy Supply Corporation* (“*GESC*”), a wholly owned subsidiary of *GBPC*, was issued a *RES*

license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, *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, electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, Miescor Builders, Inc. ("*MBI*"), and Miescor Logistics, Inc. ("*MLI*") (collectively known as "*MIESCOR Group*"), Corporate Information Solutions, Inc. ("*CIS*"), *CIS Bayad Center, Inc. ("Bayad")*, Customer Frontline Solutions, Inc. ("*CFSI*") and Fieldtech Specialist, Inc. ("*Fieldtech*") (collectively referred to as "*CIS Group*"), eMeralco Ventures, Inc. ("*e-MVI*"), Paragon Vertical Corporation ("*Paragon*") and Radius Telecoms, Inc. ("*Radius*") (collectively referred to as "*e-MVI Group*"), MRail, Inc. ("*MRail*"), Comstech, eSakay, Inc. ("*eSakay*"), Lighthouse Overseas Insurance Limited ("*LOIL*"), Meralco Financial Services, Inc. ("*Finserve*"), Meralco Energy, Inc. ("*MServ*") and MSpectrum, Inc. ("*Spectrum*").

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

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

RESULTS OF OPERATIONS

The tables below summarize the consolidated results of operations and the contribution of each business segment to *MERALCO Group's* revenues, costs and expenses, other income, and net income for the nine months ended September 30, 2021 and 2020.

Unaudited				
For the Nine Months Ended September 30, 2021				
	Power³	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱225,404	₱10,223	(₱3,910)	₱231,717
Costs and expenses	203,300	6,739	(2,462)	207,577
Other income (expense) - net	1,927	(165)	(27)	1,735
Net income attributable to equity holders of the parent	15,921	1,222	(621)	16,522

Unaudited				
For the Nine Months Ended September 30, 2020				
	Power⁴	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱208,434	₱7,415	(₱1,641)	₱214,208
Costs and expenses	196,867	5,630	(1,661)	200,836
Other income (expense) - net	1,461	(401)	(20)	1,040
Net income attributable to equity holders of the parent	10,478	864	(90)	11,252

2021 compared with 2020

REVENUES

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

Unaudited						
For the Nine Months Ended September 30						
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ⁵	₱225,404	97	₱208,434	97	₱16,970	8
Other services	10,223	4	7,415	4	2,808	38
Inter-segment transactions	(3,910)	(1)	(1,641)	(1)	(2,269)	138
Total	₱231,717	100	₱214,208	100	₱17,509	8

Consolidated electric revenues, representing 97% of total revenues, grew by 8% mainly due to (a) higher sales volume as compared with the same period last year and b) higher pass through charges resulting from increase in higher Malampaya natural gas prices and absence of force majeure claims this year. Also, beginning April 1, 2021, the Power segment includes the gross revenues of *GBPC* as a result of *MERALCO's* acquisition of the 86% equity interest in *GBPC* on March 31, 2021.

² Principally electricity distribution

⁴ Ibid.

⁵ Ibid.

Non-electric revenues, which accounted for 4% of consolidated revenues, increased by 38% due to higher volume of bills payment transactions, load top-up and remittances of *Bayad*.

Power

Revenues from the power segment consist of generation, transmission, system loss, distribution, subsidies and other charges related to electricity distribution and energy trading. *MERALCO* and *Clark Electric* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, and *Vantage* supply electricity to their respective contestable customers. Beginning April 1, 2021, revenues of the power generation companies of *GBPC* are included in the Power segment.

Revenues of the power segment for the nine (9) months ended September 30, 2021 was at ₱225,404 million, 8% higher than the ₱208,434 million in 2020 mainly due to the higher volumes and contribution from the power generation companies. The increase was mitigated by the decrease in the average retail rate per *kWh*.

Higher pass-through charges caused *MERALCO*'s average retail rate to increase slightly by 1% to ₱8.08 per *kWh* from ₱8.04 per *kWh*. Generation and transmission charges, which accounted for 66% of the total retail price, went up by 3%.

The 12-month moving average ("12-MMA") system loss ("SL") at end-September was at 5.64%, a 0.54 percentage point improvement compared to 6.18% in the same period last year due to system loss management initiatives, including reduction in unbilled services, and the comparatively higher growth in lower loss-to-serve Commercial and Industrial customers as businesses gradually resumed operations. The SL regulatory cap stood at 7.00% including 1.00% assumed typical sub-transmission and substation technical losses. *Clark Electric*'s 12-month moving average SL rate was at 2.16%, 0.03 percentage point higher than last year.

The following table summarizes the customer count of the distribution business as at September 30, 2021 and 2020 and the corresponding energy sales volume per customer class for the nine months ended September 30, 2021 and 2020:

Customer Class	No. of Customers		Electricity Sales		% Change	
	(in thousands)		(in GWh)		No. of Customers	Electricity Sales
	2021	2020	2021	2020		
Residential	6,782	6,502	12,747	12,543	4	2
Commercial	553	537	11,281	11,063	3	2
Industrial	11	11	10,262	8,827	—	16
Streetlights	5	5	108	106	—	2
Total	7,351	7,055	34,398	32,539	4	6

Consolidated energy sales volumes rose 6% to 34,398 *GWh* from 32,539 *GWh* in 2020 as commercial and industrial sectors recovered in the nine-month period following more flexible community quarantine restrictions, and sustained growth in the residential sector. Energy sales volumes from *MERALCO* and *Clark Electric* were 6% and 10% higher, respectively.

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

Despite cooler temperatures since the start of the rainy season in June, residential sales volumes reached 12,747 *GWh*, a 2% increase from 12,543 *GWh* in 2020 driven by continued high-volume energization of applications from socialized and mass housing customers.

Commercial sales volumes grew by 2% to 11,281 *GWh* in 2021 from 11,063 *GWh* owing to the reopening of the economy and increased mobility that led to demand growth from retail, restaurants, and public transport sectors.

Industrial sales registered the highest increase at 16% to 10,262 *GWh* from 8,827 *GWh* in the same period last year, backed by strong performance of the semiconductor industry amid high demand for microchips,

electronic parts, and devices; growth from cement and steel industries stimulated by public and private construction projects; and higher operational capacities in the food and beverage, and plastics industries.

Consolidated customer count increased by 4% to 7.4 million at end-September from 7.1 million in the same period in 2020, as energization of new customers continued.

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) *Bayad* handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions, (d) *Radius* broadband services; and (e) *eSakay* with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

Bayad revenues grew by 14% compared with the same period last year as its digital payments across digital partner platforms increased by 161%. *Bayad* also added 76 new billers, bringing its total number of serviced billers to 433 as of end-September. *Bayad* also launched in January 2021, the *Bayad* App which recorded over 124,400 downloads in the first nine months of the year and booked ₱46.3 million in bills payment transactions during the period. Meanwhile, *Bayad* Online recorded 29,531 registered users since its commercial launch in December 2020.

COSTS AND EXPENSES

Consolidated costs and expenses for the nine months ended September 30, 2021 amounted to ₱207,577 million, lower by ₱6,741 million compared with ₱200,836 million in 2020. The following table shows the breakdown of consolidated costs and expenses by business segment:

Unaudited						
For the Nine Months Ended September 30						
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ⁶	₱203,300	98	₱196,867	98	₱6,433	3
Other services	6,739	3	5,630	3	1,109	20
Inter-segment transactions	(2,462)	(1)	(1,661)	(1)	(801)	48
Total	₱207,577	100	₱200,836	100	₱6,741	3

⁶*Ibid.*

Power

Costs and expenses of power segment for the nine months ended September 30, 2021 amounted to ₱203,300 million, 3% higher compared with ₱196,867 million in the same period in 2020. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Nine Months Ended September 30					
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Purchased power	₱163,446	80	₱156,122	80	₱7,324	5
Salaries, wages and employee benefits	9,473	5	8,161	4	1,312	16
Depreciation and amortization	8,224	4	5,653	3	2,571	45
Contracted services	5,421	3	4,804	2	617	13
Coal and fuel	5,361	3	—	—	5,361	100
Others	11,375	6	22,127	11	(10,752)	(49)
Total	₱203,300	100	₱196,867	100	₱6,433	3

Purchased power accounted for 80% of the total costs and expenses for the nine months ended September 30, 2021 and 2020.

The purchased power cost in 2021 increased by 5% compared with 2020 due to (i) higher volume purchased, (ii) increase in WESM prices which averaged at ₱5.43 per kWh, and (iii) higher Malampaya natural gas prices (US\$6.72/GJ in 2021 vs. US\$7.23/GJ in 2020) following the quarterly repricing to reflect increases in world oil prices. Also, in 2020, MERALCO claimed force majeure against suppliers, which resulted in lower purchased power cost. Average generation cost for the nine months of 2021 was higher than in 2020 at ₱4.38 per kWh.

Salaries, wages and employee benefits is higher by 16% as a result of annual merit increase to employees and higher retirement expense determined by actuary.

Depreciation and amortization increased by ₱2,571 million with the additional depreciation of completed emergency capital expenditures (“CAPEX”) to address customer and load growth requirements, improve service efficiency and customer experience, ensure network resiliency and hardening, and meet information technology (“IT”), security and safety requirements.

Contracted services amounted to ₱5,421 million, higher by ₱617 million compared with last year. Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the resumption of service disconnection activities resulting in higher collection and messengerial service expenses.

Coal and fuel expenses pertain to costs incurred by the power generation companies for the nine months ended September 30, 2021, as a result of the consolidation of GBPC beginning March 31, 2021. Other cost and expense items of GBPC beginning April 1, 2021 are included in the consolidated costs and expenses for the nine months ended September 30, 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 nine months ended September 30, 2021 amounted to ₱6,739 million, 20% higher compared with ₱5,630 million in the same period in 2020.

Unaudited						
For the Nine Months Ended September 30						
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Salaries, wages and employee benefits	₱2,819	42	₱2,357	42	₱462	20
Contracted services	1,264	19	1,332	23	(68)	(5)
Depreciation and amortization	418	6	441	8	(23)	(5)
Others	2,238	33	1,500	27	738	49
Total	₱6,739	100	₱5,630	100	₱1,109	20

Salaries, wages and employee benefits expense is higher by ₱462 million due to the additional personnel in *MIESCOR* and *Radius* for their new businesses/projects.

Other expenses consisted mainly of materials, transportation and travel, taxes, rental and utility expenses.

OTHER INCOME (EXPENSES)

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

Unaudited				
For the Nine Months Ended September 30				
	2021	2020	Increase/Decrease	
			Amount	%
	(Amounts in millions)			
Power ⁷	₱1,929	₱1,461	₱468	32
Other services	(166)	(401)	235	(59)
Intersegment transactions	(28)	(20)	(8)	40
Total	₱1,735	₱1,040	₱695	67

Other income – net for the nine months ended September 30, 2021 is higher by ₱695 million compared with last year resulting from positive contribution from associates and joint ventures, partially offset by lower yield of investments and higher interest and other financial charges.

Power

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

Unaudited				
For the Nine Months Ended September 30				
			Increase/Decrease	
	2021	2020	Amount	%
		(Amounts in millions)		
Interest and other financial income	₱1,655	₱1,844	(₱189)	(10)
Interest and other financial charges	(2,593)	(1,141)	(1,452)	127
Equity in net earnings of associates and joint ventures	1,948	720	1,228	170
Foreign exchange losses	(346)	(548)	202	(37)
Others	1,263	586	677	116
Total	₱1,927	₱1,461	₱466	32

⁷Ibid.

Interest and other financial income declined by ₱189 million due to lower placements and lower yields of investments for nine months of 2021.

Interest and other financial charges increased by ₱1,452 million due to additional loans obtained in 2021. Also, interest expense of *GBPC* and subsidiaries were consolidated beginning March 31, 2021.

Higher equity in net earnings of associates and joint ventures was mainly attributed to the net income contribution of *SBPL*. *SBPL* has been in full operations delivering energy from January to September 2021 with an average plant availability of close to 89%, except during its 19.5 days of forced outage in February and March.

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 Nine Months Ended September 30					
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ⁸	₱15,921	96	₱10,478	93	₱5,443	52
Other services	1,222	8	864	8	358	41
Inter-segment transactions	(621)	(4)	(90)	(1)	(531)	591
Total	₱16,522	100	₱11,252	100	₱5,270	47

Net income attributable to equity holders of the parent is higher by ₱5,443 million compared with the same period last year resulting from increase in energy distributed with the easing of quarantine restrictions, and increased contribution from its different business units and subsidiaries. Also, net income attributable to equity holders of the parent in 2020 included the impairment loss recognized on *MERALCO* group's advances to FPM Power Holdings Limited ("*FPM Power*") amounting to ₱2.7 billion.

⁸*Ibid.*

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)	Increase (Decrease) Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱218,087	₱163,009	₱55,078	34
Investments in associates and interests in joint ventures	21,890	15,688	6,202	40
Investment properties	1,497	1,499	(2)	–
Intangible assets	26,247	2,233	24,014	1,075
Deferred tax assets - net	15,059	28,943	(13,884)	(48)
Financial and other noncurrent assets	54,755	50,513	4,242	8
Total Noncurrent Assets	337,535	261,885	75,650	29
Current Assets				
Cash and cash equivalents	43,620	50,912	(7,292)	(14)
Trade and other receivables	52,957	58,120	(5,163)	(9)
Inventories	8,631	5,484	3,147	57
Financial and other current assets	28,178	13,866	14,312	103
Total Current Assets	133,386	128,382	5,004	4
Total Assets	₱470,921	₱390,267	₱80,654	21
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱81,037	₱79,237	₱1,800	2
Non-controlling interests	10,866	1,494	9,372	627
Total Equity	91,903	80,731	11,172	14
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	53,700	14,809	38,891	263
Customers' deposits - net of current portion	30,870	29,844	1,026	3
Long-term employee benefits	18,633	15,327	3,306	22
Provisions	15,121	17,065	(1,944)	(11)
Refundable service extension costs - net of current portion	1,536	6,632	(5,096)	(77)
Deferred tax liabilities - net	4,616	316	4,300	1,361
Other noncurrent liabilities	93,293	82,942	10,351	12
Total Noncurrent Liabilities	217,769	166,935	50,834	30
Current Liabilities				
Notes payable	27,968	23,373	4,595	20
Trade payables and other current liabilities	119,708	111,261	8,447	8
Customers' refund	2,931	2,949	(18)	(1)
Income tax payable	1,803	3,056	(1,253)	(41)
Current portion of interest-bearing long-term financial liabilities	8,839	1,962	6,877	351
Total Current Liabilities	161,249	142,601	18,648	13
Total Liabilities	379,018	309,536	69,482	22
Total Liabilities and Equity	₱470,921	₱390,267	₱80,654	21

On March 31, 2021, MGen acquired 86% equity in GBPC, increasing MGen's equity interest in GBPC to 100%. As such, MERALCO's unaudited consolidated statement of financial position as at September 30, 2021 included the consolidation of GBPC's assets and liabilities. In 2020, MERALCO accounted for its 14% investment in GBPC using equity method of accounting.

Utility Plant and Others

The ₱55,078 million increase in utility plant and others reflects the consolidation of GBPC's net property, plant and equipment amounting to ₱44,920 million as at September 30, 2021, and the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, totaling to about ₱17,893 million, net of depreciation and amortization of ₱7,684 million for the period.

Investments in Associates and Interests in Joint Ventures

The increase in this account was due to the combined effects of (a) equity in net earnings of ₱1,949 million and (b) effect of GBPC consolidation. Prior to March 31, 2021, MERALCO accounted for its 14% investment in GBPC using equity method of accounting.

Intangible Assets

The increase in this account is attributed to customer contracts valued at ₱13,002 million a result of the acquisition of GBPC, subject to final purchase price allocation.

Deferred Tax Assets

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

Financial and Other Noncurrent Assets

Financial and other noncurrent assets as at September 30, 2021 increased by ₱4,202 million mainly due to the recognition of under recoveries of pass through charges during the period.

Cash and Cash Equivalents

Cash and cash equivalents as at September 30, 2021 included cash and cash equivalents of GBPC amounting to ₱9,731 million.

Inventories

Inventories as at September 30, 2021 included inventories of GBPC amounting to ₱2,543 million.

Financial and Other Current Assets

Additional investments were made during the period resulting in the increase in investments in debt securities at amortized cost as at September 30, 2021.

Interest-bearing long-term financial liabilities

Interest-bearing long-term financial liabilities as at September 30, 2021 included GBPC's current and noncurrent portion of interest-bearing long-term financial liabilities amounting to ₱7,256 million and ₱38,264 million, respectively.

Long-term employee benefits

The increase in this account is due to the long-term employee benefits expense recognized during the period. As at September 30, 2021, this account included GBPC's long-term employee benefits amounting to ₱1,466 million.

Provisions

The decrease in provisions represents the net settlement and adjustments made during period.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to estimated liabilities for regulatory and tax matters, among others. Increase in this account was due to additional obligations recognized during the period.

Notes Payable

On March 31, 2021, *MERALCO* and *MGen* drew a loan amounting to ₱4,999 million and a ₱17,000 million bridge loan, respectively, to cover the first installment of the *GBPC* purchase price.

2020 compared with 2019

REVENUES

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

	Unaudited					
	For the Nine Months Ended September 30					
	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ⁹	₱208,434	97	₱235,376	98	(₱26,942)	(11)
Other services	7,415	4	7,856	3	(441)	(6)
Inter-segment transactions	(1,641)	(1)	(2,106)	(1)	465	(22)
Total	₱214,208	100	₱241,126	100	(₱26,918)	(11)

Consolidated electric revenues, representing 98% of total revenues, declined by 11% largely on account of lower pass-through charges and lower sales volume.

Non-electric revenues, which accounted for 3% of consolidated revenues, decreased by 6% due to lower transactions of subsidiaries as a result of the imposition of total lockdown during Enhanced Community Quarantine (“ECQ”), and limited movements during Modified Enhanced Community Quarantine (*MECQ*) and *GCQ* in Metro Manila.

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*, *Vantage* and *Meridian X* supply electricity to their respective contestable customers.

Electricity revenues of ₱208,434 million, which represent 98% of total revenues, were lower by 11% compared with same period in 2019, mainly due to (a) lower pass through generation charges and (b) lower sales volume. Generation, transmission and system loss charges, which represent 76% of total electricity revenues, were lower than same period in 2019 mainly due to the following: (a) *MERALCO*'s force majeure claims related to the *ECQ* resulting in lower fixed costs of *PSAs*; (b) lower generation costs with the implementation of new *PSAs* which were concluded under the Competitive Selection Process (“*CSP*”) in December 2019; (c) lower *WESM* prices driven by improved supply conditions in the Luzon grid; and (f) the appreciation of the Philippine peso versus the U. S. dollars; and (f) lower fuel prices.

MERALCO's 12-month moving average system loss (“*SL*”) rate was 6.18% as at September 30, 2020. This is 1.07 percentage points below the revised *SL* regulatory cap of 7.25%, mainly due to the shift in sales mix toward higher loss-to-serve residential customers, and unbilled volume from meters which were inaccessible

⁴*Ibid*

as a result of the community quarantine. *Clark Electric's* 12-month moving average *SL* rate was at 2.13%, 5.12 percentage points below the regulatory cap and 0.03 percentage point lower than last year.

The following table summarizes the customer count as at September 30, 2020 and 2019 and the corresponding energy sales volume per customer class for the nine months ended September 30, 2020 and 2019:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2020	2019	2020	2019	No. of Customers	Electricity Sales
Residential	6,502	6,278	12,543	10,920	4	15
Commercial	537	524	11,063	13,712	2	(19)
Industrial	11	11	8,827	10,268	–	(14)
Streetlights	5	5	106	105	–	1
Total	7,053	6,818	32,539	35,005	3	(7)

Consolidated energy sales volume declined by 7% to 32,539 GWh, which include volume distributed by *Clark Electric* of 373 GWh. *MERALCO* volume was 7% lower while *Clark Electric* volume was 14% lower than 2019.

This decline in volumes reflects the net effect of the *ECQ* through *GCQ* period. As at September 30, 2020, residential volume was at 39% (31% in 2019), commercial was at 34% (39% in 2019) while industrial accounted for 27% (29% in 2019).

Overall customer count grew 2% to nearly 7 million for a total year-on-year addition of almost 200 thousand new accounts with residential, commercial, and industrial segments growing at 2%, 2% and 9%, respectively.

The community quarantine impacted heavily on *MERALCO's* sales mix as consumption shifted to residential customers.

Other Services

Non-electric revenues consist mainly of businesses generated by (i) foreign attachments to the *MERALCO* poles; (ii) space rental; and (iii) subsidiaries, which include (a) *MIESCOR Group* from its *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) *Bayad Center* handling payment collections for corporate and government billers in over 9,100 sites and collection partners, spot billing volumes, remittances and other fee-based transactions; and (d) *Radius* which operates the largest end-to-end fiber optic network in the country.

COSTS AND EXPENSES

Consolidated costs and expenses for the nine months ended September 30, 2020 amounted to ₱200,836 million, lower by ₱17,357 million compared with ₱218,193 million in 2019. The following table shows the breakdown of consolidated costs and expenses by business segment:

Unaudited						
For the Nine Months Ended September 30						
	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power ¹⁰	₱196,867	98	₱213,960	98	(₱17,093)	(8)
Other services	5,630	3	6,394	3	(764)	(12)
Inter-segment transactions	(1,661)	(1)	(2,161)	(1)	500	(23)
Total	₱200,836	100	₱218,193	100	(₱17,357)	(8)

Power

Costs and expenses of power segment for the nine months ended September 30, 2020 amounted to ₱196,867 million, 8% lower compared with ₱213,960 million in the same period in 2019. The details of costs and expenses are summarized in the following table:

Unaudited						
For the Nine Months Ended September 30						
	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Purchased power	₱156,122	80	₱183,355	86	(₱27,233)	(15)
Salaries, wages and employee benefits	8,161	4	8,172	4	(11)	–
Depreciation and amortization	5,653	3	6,020	3	(367)	(6)
Contracted services	4,804	2	4,776	2	28	1
Others	22,127	11	11,637	5	10,490	90
Total	₱196,867	100	₱213,960	100	(₱17,093)	(8)

Purchased power accounted for 80% and 86% of the total costs and expenses for the nine months ended September 30, 2020 and 2019, respectively. The electricity distributed by *MERALCO* and *Clark Electric* are contracted through PSAs with generators and long-term Power Purchase Agreements (“PPA”) with Independent Power Producers (“IPP”). The balance was purchased from the *WESM*.

The purchased power cost in 2020 decreased by 15% compared with 2019 due to lower volume consumption and lower generation cost with the (i) implementation of the competitively priced PSAs beginning December 26, 2019 (₱4.37 per kWh in 2020 versus ₱5.09 per kWh in 2019); (ii) lower prices at the *WESM* (₱3.28 per kWh in 2020 versus ₱6.20 per kWh in 2019) with the improved supply condition in the Luzon Grid; (iii) force majeure claims related to the *ECQ* resulting in lower fixed costs of PSAs; (iv) overall lower fuel costs (US\$ 6.80 per Giga Joule (“GJ”) of oil-indexed Malampaya gas in 2020 versus US\$ 7.98 per GJ in 2019); and (v) appreciation of the peso versus the US\$ (₱48.50:US\$1 as at September 30, 2020 versus ₱51.24:US\$1 at end September 2019).

Contracted services amounted to ₱4,804 million, higher by ₱28 million compared with last year. Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services.

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

¹⁰*bid.*

other expenses was due provisions for probable losses and expenses from claims, including additional expected credit losses on trade receivables and impairment on advances to an associate, and accounting accretion of the Day 1 gain recognized in 2019.

Other Services

Costs and expenses of other services business segment for the nine months ended September 30, 2020 amounted to ₱5,630 million, 12% lower compared with ₱6,394 million in the same period in 2019.

Unaudited						
For the Nine Months Ended September 30						
	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Salaries, wages and employee benefits	₱2,357	42	₱2,477	38	(₱120)	(5)
Contracted services	1,332	23	1,266	20	66	5
Depreciation and amortization	441	8	380	6	61	16
Others	1,500	27	2,271	36	(771)	(34)
Total	₱5,630	100	₱6,394	100	(₱764)	(12)

Contracted services pertain to costs directly related to revenue generating projects, repairs and maintenance expenses, online and cloud subscriptions, among others.

Other expenses consisted mainly of materials, transportation and travel, taxes, rental and utility expenses.

OTHER INCOME (EXPENSE)

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

Unaudited				
For the Nine Months Ended September 30				
	2020	2019	Increase/Decrease	
			Amount	%
	(Amounts in millions)			
Power ¹¹	₱1,461	₱1,730	(₱269)	(16)
Other services	(401)	(336)	(65)	19
Intersegment transactions	(20)	(56)	36	(64)
Total	₱1,040	₱1,338	(₱298)	(22)

Other income – net for the nine months ended September 30, 2020 is down by ₱298 million compared with last year due to lower interest and other financial income, higher interest and financial charges, higher foreign exchange losses, and effect of equity in net income in 2020 versus equity in net losses in 2019 of associates and joint ventures.

¹¹*ibid.*

Power

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

Unaudited				
For the Nine Months Ended September 30				
	2020	2019	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Interest and other financial income	₱1,844	₱2,392	(₱548)	(23)
Interest and other financial charges	(1,141)	(1,051)	(90)	9
Equity in net earnings (losses) of associates and joint ventures	720	(265)	985	(372)
Foreign exchange losses	(548)	(74)	(474)	641
Others	586	728	(142)	(20)
Total	₱1,461	₱1,730	(₱269)	(16)

Interest and other financial income declined by ₱548 million due to reduced placements for the nine months of 2020 and lower yields of investments compared with same period last year. Billed receivables continue to age with extended payment terms granted to customers during quarantine.

The additional loan of ₱10 billion drawn in November 2019 resulted in higher interest and other financial charges.

Equity in net earnings in 2020 is largely from SBPL and GBPC. SBPL started commercial operations in September 2019.

Higher foreign exchange losses was due to the appreciation of the Philippine peso vis-à-vis U. S. dollar.

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 Nine Months Ended September 30						
	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ¹²	₱10,478	93	₱17,773	97	(₱7,295)	(41)
Other services	864	8	650	4	214	33
Inter-segment transactions	(90)	(1)	(102)	(1)	12	(12)
Total	₱11,252	100	₱18,321	100	(₱7,069)	(39)

Net income attributable to equity holders of the parent decreased by ₱7,069 million as a result of (a) lower sales volume compared with the same period last year; (b) the recognition of impairment of MERALCO group's advances to FPM Power Holdings Limited ("FPM Power") amounting to ₱2.7 billion; and (c) provision for expected credit losses on billed receivables of ₱1.4 billion.

¹²*bid.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	Increase (Decrease) Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱156,217	₱151,441	₱4,776	2
Investments in associates and interests in joint ventures	16,297	14,965	1,332	6
Investment properties	1,499	1,502	(3)	–
Deferred tax assets - net	29,172	23,440	5,732	17
Financial and other noncurrent assets	56,386	47,982	8,404	7
Total Noncurrent Assets	259,571	239,330	20,241	5
Current Assets				
Cash and cash equivalents	31,697	38,262	(6,565)	(30)
Trade and other receivables	63,834	32,608	31,226	109
Inventories	5,740	4,558	1,182	18
Financial and other current assets	13,538	42,261	(28,723)	(34)
Total Current Assets	114,809	117,689	(2,880)	10
Total Assets	₱374,380	₱357,019	₱17,361	6
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱77,713	₱84,230	(₱6,517)	(7)
Non-controlling interests	1,076	1,011	65	6
Total Equity	78,789	85,241	(6,452)	(7)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	12,392	12,745	(353)	(2)
Customers' deposits - net of current portion	29,544	28,247	1,297	5
Long-term employee benefits	10,891	8,882	2,009	23
Provisions	17,865	17,356	509	3
Refundable service extension costs - net of current portion	7,672	6,932	740	11
Deferred tax liabilities - net	104	84	20	24
Other noncurrent liabilities	85,699	69,971	15,728	22
Total Noncurrent Liabilities	164,167	144,217	19,950	14
Current Liabilities				
Notes payable	23,373	23,393	(20)	–
Trade payables and other current liabilities	95,647	93,680	1,967	20
Customers' refund	2,963	3,032	(69)	2
Income tax payable	4,428	2,341	2,087	89
Current portion of interest-bearing long-term financial liabilities	5,013	5,115	(102)	(2)
Total Current Liabilities	131,424	127,561	3,863	3
Total Liabilities	295,591	271,778	23,813	9
Total Liabilities and Equity	₱374,380	₱357,019	₱17,361	5

Utility Plant and Others

During the first nine months of 2020, completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets amounted to ₱10,705 million, while depreciation and amortization incurred totaled ₱5,728 million. There were no significant disposals nor changes in this account.

Investments in Associates and Interests in Joint Ventures

Additional equity infusions in *SBPL*, *First Bulacan* and other joint ventures during the nine months period ended September 30, 2020 totaled ₱722 million. Equity in net earnings of associates and joint ventures recognized in the first nine months of 2020 amounted to ₱717 million, largely from *SBPL*, *GBPC* and Rockwell Business Center Joint Venture.

Deferred Tax Assets

The increase in deferred tax assets was mainly related to provisions recognized during the period.

Cash and Cash Equivalents

Changes during the nine months ended September 30, 2020 are as follow: net cash used for financing activities of ₱18,057 million, net cash provided by operations of ₱2,872 million and net cash provided by investing activities of ₱8,395 million.

Trade and Other Receivables

The higher trade and other receivables balance was due to extension of payment due dates for billings during the *ECQ* period in accordance with the advisories issued by the Department of Energy and the *ERC*.

Financial and Other Current Assets

The lower balance of financial and other current assets was due to maturities of certain debt securities and recognition of provision for impairment on *MERALCO*'s advances to an associate.

LIQUIDITY AND CAPITAL RESOURCES

The following tables show the cash flows for the nine months ended September 30, 2021 and 2020 as well as the capitalization and other selected consolidated financial data as at September 30, 2021 and December 31, 2020:

	Unaudited	
	For the Nine Months Ended September 30	
	2021	2020
	<i>(Amounts in millions)</i>	
<u>Cash Flows</u>		
Net cash provided by operating activities	₱44,062	₱2,872
Net cash provided by (used in) investing activities	(44,414)	8,395
Net cash used in financing activities	(6,422)	(18,057)
Net decrease in cash and cash equivalents	(6,774)	(6,790)
 <u>Capital Expenditures</u>	 18,305	 10,711

	September 30, 2021	December 31, 2020
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>(Amounts in millions)</i>	
<u>Capitalization</u>		
Interest-bearing long-term financial liabilities		
Current	₱8,839	₱1,962
Noncurrent	53,700	14,809
Notes payable	27,968	23,373
Equity attributable to equity holders of the parent	81,037	79,237
 <u>Other Selected Financial Data</u>		
Total assets	470,921	390,267
Utility plant and others	218,087	163,009
Cash and cash equivalents	43,620	50,912

Debt Financing

In December 2013, *MERALCO* sold and issued by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with principal amount of ₱11.5 billion and ₱7.0 billion, respectively. The 12-year corporate bonds also include a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately. The 7-year bonds have been redeemed in 2020.

The 12-year bonds are listed on and traded through the Philippine Dealing and Exchange Corporation.

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

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated at specific measurement dates. The agreements also contain restrictions with respect to creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

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

GBPC is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity. As at September 30, 2021, *MERALCO* is in compliance with all of the covenants of its loan agreements.

Equity Financing

As at September 30, 2021 and December 31, 2020, *MERALCO*'s capital stock consists of: (Amounts in millions except par value and number of shares)

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

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,470 million and ₱1,472 million as at September 30, 2021 and December 31, 2020, respectively. Total unclaimed dividends amounted to ₱249 million as at September 30, 2021 and December 31, 2020. Interest is no longer accrued when the preferred shares have been called.

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 table below summarizes the cash dividends declared during the nine months ended September 30, 2021 and 2020:

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

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 major factors affecting *MERALCO*’s financial position and results of operations are:

- Regulated rates and cost recoveries
- Sales volume and Philippine economic conditions
- Electricity supply
- Industry restructuring
- Competition and market

Regulated Rates and Cost Recoveries

The most significant determinants of *MERALCO*’s and *Clark Electric*’s rate structure vis-à-vis operating results are 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, *SL* charge up to an annual cap enforced by the *ERC*, taxes, among others.

Performance-Based Regulations (“PBR”)

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

Rate setting under *PBR* is governed by the Rules for 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 (“*OPEX*” and “*CAPEX*”, respectively) to meet operational performance and service level requirements responsive to the needs for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the *ERC*. *PBR* also employs a mechanism that penalizes or rewards a *DU* depending on its network and service performance.

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

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

Sales Volume and Philippine Economic Conditions

For the nine months ended September 30, 2021, *MERALCO* and *Clark Electric*'s combined energy sales volume was 34,398 *GWh*, 6% higher compared with 32,539 *GWh* in 2020, largely on account of the *MERALCO* volumes.

Commercial and industrial sectors recovered in the nine-month period following more flexible community quarantine restrictions, and sustained growth in the residential sector. Energy sales volumes from *MERALCO* and *Clark Electric* were 6% and 10% higher, respectively.

In terms of the sales mix, Residential sales accounted for 37%, while Commercial and Industrial sales accounted for 33% and 30%, respectively.

Despite cooler temperatures since the start of the rainy season in June, residential sales volumes reached 12,746 *GWh*, a 2% increase from 12,543 *GWh* in 2020 driven by continued high-volume energization of applications from socialized and mass housing customers.

Commercial sales volumes grew by 2% to 11,281 *GWh* in 2021 from 11,063 *GWh* owing to the reopening of the economy and increased mobility that led to demand growth from retail, restaurants, and public transport sectors.

Industrial sales registered the highest increase at 16% to 10,262 *GWh* from 8,827 *GWh* in the same period last year, backed by strong performance of the semiconductor industry amid high demand for microchips, electronic parts, and devices; growth from cement and steel industries stimulated by public and private construction projects; and higher operational capacities in the food and beverage, and plastics industries.

Consolidated customer count increased by 4% to 7.4 million at end-September from 7.1 million in the same period in 2020, as energization of new customers continued.

Electricity Supply

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

On September 26, 2018, *IEMOP* took over *WESM* operations from *PEMC* in compliance with the mandate of Republic Act 9136, otherwise known as the Electric Power Industry Reform Act ("*EPIRA*"). Under the policy and regulatory oversight of the *DOE* and *ERC*, *PEMC* shall remain as governing body for *WESM* to monitor compliance by the market participants with the market rules.

The *ERC* and *DOE* issued several resolutions and circulars requiring *DUs* to undergo *CSP* in their supply procurement and specifying procedures in implementing the same.

IPPs

MERALCO

First Gas Power Corporation (“FGPC”) and FGP Corp. (“FGP”)

In compliance with the DOE’s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 MW of the 2,700 MW output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year PPAs with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of kWh of the net electric output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The PPA with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective PPAs. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective PPAs of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective PPAs of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a PPA with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. The PPA is for a period of 25 years from the start of commercial operations up to May 31, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US\$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement (“TLA”) and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US\$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the PPA, as approved by the *ERC*.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“MEQ”) provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the U.S. and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2021	15,327	₱26,086
2022	15,327	26,654
2023	15,327	27,167
2024	15,360	27,768
2025-2030	18,239	30,351

PSAs with Privatized Plants and IPPAs

The PSAs signed with *MPPCL*, *TLI*, *SPPC*, *Sem-Calaca* and *SMEC* were approved by the *ERC* on December 17, 2012. However, *SPPC*, *Sem-Calaca* and *SMEC* filed *MRs* with respect to the *ERC* decisions on the PSAs. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the PSA with *SMEC*. Both *MERALCO* and *SMEC* filed separation motions with respect to such order. In an Order dated May 29, 2018, the *ERC* partially granted the Motion for Partial Reconsideration on the PSA with *Sem-Calaca*. On July 25, 2018, *MERALCO* filed a motion for clarification of the said Order which, as at October 25, 2021, remains pending for resolution of the *ERC*. Meanwhile, the term of the PSA with *Sem-Calaca* expired on December 25, 2018, while the PSAs with *SPPC*, *TLI* and *SMEC* expired on December 25, 2019.

MERALCO entered into separate Supplemental Agreements with *MPPCL* and *TLI* on April 8 and 27, 2016, respectively, for the extension of the term of these PSAs for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the *ERC*. In its order dated September 11, 2019, the *ERC* denied the motion filed by *MERALCO* to extend the *TLI* PSA.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term PSA for the purchase of 250 MW capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term PSA. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term PSA with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the PSA for five days or until December 30, 2020. As at October 25, 2021, hearings have been completed. The case, including the motion, is still pending approval of the *ERC*.

Under the PSAs approved by the *ERC*, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	<i>(In Megawatt)</i>	<i>(In millions)</i>
2021	2,647	₱61,347
2022	2,577	61,273
2023	2,577	62,182
2024	2,977	64,689
2025-2030	19,031	400,713

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 October 25, 2021, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

Power Supply Generators Under PSAs

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 October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

Bacman Geothermal, Inc. ("BGI")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 MW capacity and energy from the latter's power plant. On March 4, 2015, the Joint Application for approval of said *PSA* was

filed with the *ERC*. On August 10, 2020, *MERALCO* and *BGI* filed a joint manifestation with the *ERC*, manifesting that the Joint Application for approval of the *PSA* is deemed moot considering the provisions of the *PSA* are rendered inapplicable and unenforceable given the expiration of the *PSA* without an approval from the *ERC*. As at October 25, 2021, the case is still pending decision by the *ERC*.

Montalban Methane Power Corporation (“MMPC”)

On May 13, 2009, *MERALCO* filed an Application with the *ERC* for approval of its *CSE* with *MMPC* which the *ERC* approved with modification in its Decision dated December 3, 2012. In a Letter Agreement dated June 6, 2013, the *CSE* was extended until September 11, 2013 and parties agreed to automatically renew the *CSE* for a series of 3-month terms unless *MMPC* informs *MERALCO* in writing no longer than 30 days before the lapse of each 3-month term that it no longer intends to extend the *CSE*. Upon information from *MMPC*, in a Letter Agreement dated January 21, 2015, the parties agreed to terminate the *CSE* effective January 26, 2015. However, despite the termination of the *CSE*, *MMPC* was still able to inject energy to *MERALCO*'s distribution system. In its letter dated June 9, 2015, *MMPC* sought the *ERC*'s assistance to, among other things, recover reasonable charges for the energy that was generated and injected by *MMPC* to *MERALCO*'s distribution system. In a letter dated July 20, 2015, the *ERC* suggested that *MERALCO* and *MMPC* discuss and agree on the possible mechanism for the compensation of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. Pursuant to the directive of the *ERC*, *MERALCO* and *MMPC* entered into a Memorandum of Agreement (“*MOA*”) covering the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. On July 1, 2020, *MERALCO* received the *ERC* Decision dated November 5, 2019 approving the collection from the customers of the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system in five (5) equal monthly installments and the remittance of the same to *MMPC*, beginning the billing period following *MERALCO*'s receipt of the Decision. As at October 25, 2021, the collection of the payment and remittance of the same to *MMPC* have been completed.

Panay Energy Development Corporation (“PEDC”)

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 MW of electric output from the 150 MW coal-fired power generating facility in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *ERC* has provisionally approved the *PSA* between *MERALCO* and *PEDC* in its Order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit the *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 MW from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya outage may bring to end-users. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at October 25, 2021, further *ERC* action is pending.

In the meantime, on May 17, 2019, *MERALCO* received the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the *MERALCO* and *PEDC* *PSA*, following the *DOE* Circular entitled, “Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market” (“*2018 DOE Circular*”), which was published on February 9, 2018.

Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for a *PSA* with *PEDC* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from August 26, 2019 to August 25, 2020. In several Joint Manifestations filed by *MERALCO* and *PEDC*, the parties manifested that the *PSA* will continue until implementation of the new *PSA* resulting from the *CSP*. As at October 25, 2021, the *ERC* has not issued a directive to stop the continuation of the *PSA* pending the conduct of the *CSP*.

On September 30, 2021, *MERALCO's* Third Party Bids and Awards Committee ("*TPBAC*") published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the *SC* Decision in G.R. No. 227670, and comply with *CSP* prescribed in the *2018 DOE Circular*. The *TPBAC* conducted pre-bid conferences on October 22 and 29, 2021 and the bid submission and opening of the bids is scheduled on November 19, 2021.

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 October 25, 2021, the parties are awaiting *ERC's* final decision on the Joint Application.

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 October 25, 2021, the case is pending decision by the *ERC*.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 MW electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. As at October 25, 2021, hearings have been completed and the case is pending decision by the *ERC*.

Interim Power Supply Agreements (“IPSAs”)

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation (“*SPDC*”) for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at October 25, 2021, the contract term has expired and *MERALCO* awaits the *ERC*’s final decision on the *IPSA*.

On April 15, 2019, in view of the *NGCP* forecast that low voltage situations will occur for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSAs* with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI*’s Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*’s 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSAs*, *MERALCO* also received the *DOE*’s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSAs* were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSAs*, with the filing of the joint applications and *DOE*’s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the Luzon Grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE*’s grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*’s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at October 25, 2021, 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. As at October 25, 2021, the parties are finalizing the application with the *ERC* for the approval of the *CSEE* and expects to complete the filing process with the *ERC* in the middle of November 2021.

Clark Electric

SMEC

On March 20, 2013, *Clark Electric* and *SMEC*, as the *IPP* Administrator of the Sual coal-fired thermal power plant, entered into a *PSA* through December 25, 2019, unless terminated earlier in accordance with the terms

of the Agreement. The initial contracted capacity from the plant was pegged at 55 MW which may be increased up to 70 MW.

On July 09, 2015, *Clark Electric* and *SMEC* filed a joint application for the amendment of the *PSA*, which prayed that *Clark Electric* be allowed to get additional supply from *SMEC* as replacement power during scheduled maintenance shutdown of the Sual Power Plant Unit 1 at rate lower than that of the *WESM* rate. Although a decision has yet to be granted by the *ERC* with respect to the said application, it has, nonetheless, granted *Clark Electric*'s application for Interim Power Supply Agreements for the replacement power during the outage of Sual Power Plant Unit 1 in 2016 and in 2017 through the *ERC* orders dated September 20, 2016 and September 13, 2017, respectively.

With the effectivity of *RCOA*, the various contestable customers shifted their power supply sourcing from *Clark Electric* to their respective *RES*. In line with the switching, *Clark Electric* and *SMEC* agreed to gradually lower the *PSA* contracted capacity by an aggregate of 40 MW in 2017 to manage the electric retail rates of its captive customers.

On October 10, 2019, *Clark Electric* and *SMEC* jointly filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension in which the *ERC* resolved to grant an interim relief to extend the implementation of the *PSA* from December 26, 2019 to December 25, 2020. As at October 25, 2021, the parties are awaiting decisions of the *ERC*.

SPDC

On February 20, 2017, *Clark Electric* executed a *PSA* with *SPDC*, the *IPP* Administrator of the 345 MW San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *Clark Electric* and *SPDC* agreed that the latter shall supply a total of 25 MW, consisting of 20 MW (firm) and 5 MW (non-firm) capacities during Mondays to Saturdays, excluding national holidays from trading intervals 0901H to 2100H. On May 29, 2019 and May 30, 2019, *Clark Electric* and *SPDC* received, respectively, the *ERC*'s Order dated December 19, 2019, which granted interim relief to implement the *PSA*. In view of this, the parties immediately implemented the *PSA* beginning July 2019 billing period.

On December 10, 2019, *Clark Electric* and *SPDC* filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension praying for the confirmation of the extension of the *PSA* effective December 26, 2019 to December 25, 2020. On December 19, 2019, the *ERC* issued an order which granted an interim relief to implement the said extension.

On June 17, 2020, *Clark Electric* and *SPDC* filed a Joint Ex-Parte Manifestation to the *ERC* to address the significant reduction in electric demand across the *Clark Electric* franchise area and to spare *Clark Electric*'s customers from high generation charges during the implementation of *ECQ*. Under the Supplemental Agreement, the parties agreed that for the periods affected by the *ECQ* commencing from April 07, 2020 until June 30, 2020 or earlier upon resumption of *Clark Electric*'s normal demand, *Clark Electric* will only pay *SPDC* the energy actually taken and consumed from its take or pay 20 MW (firm) power requirement under the *SPDC* *PSA* and the unpaid amount shall be banked and consumed by *Clark Electric* after the *ECQ* billing periods, in a least cost manner. Relative thereto, the unpaid amounts during the *ECQ* billing periods may be consumed by *Clark Electric* through replacement power consumed during scheduled maintenance outage of Sual Power Plant Unit 1. Accordingly, since the maintenance outage of Sual Power Plant Unit 1, which was initially scheduled on October 13, 2020, was deferred to a later date, the banked energy will not be fully utilized by *Clark Electric* on or before the expiration date. In line with this and in view of the expiration of the *SPDC* *PSA* on December 25, 2020, *Clark Electric* proposed to utilize the remaining balance of the banked energy under the Supplemental Agreement after the expiration date through the extension of the term of the *SPDC* *PSA* from December 26, 2020 until the banked energy is fully consumed. On December 23, 2020, *Clark Electric* and *SPDC* filed a Joint Ex-Parte Manifestation to the *ERC* to allow the implementation of the 2017 *PSA* beyond the contract expiration date until the banked energy is consumed. As at October 25, 2021, the parties are awaiting decision of the *ERC*.

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*. As at October 25, 2021, the parties are awaiting decision of the *ERC*.

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*.

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

PPC has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply *PPC*'s total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at *PPC*'s premises the equipment and facilities for the storage and servicing of products purchased at no cost to *PPC*. The agreement is effective for 15 years and ended until 2013, subject to pricing review every five years. As *PPC* has not utilized the contracted quantity, the *PPC*'s bid committee approved the renewal of the agreement for another five years or until the contracted quantity is fully utilized. Under the new contract, pricing is subject to review every year.

Long-term Coal Supply Agreements ("CSA")

In order to ensure that there is an adequate supply of coal to operate the power plants, the respective operating plants entered into several long-term contracts with local and foreign coal suppliers. The long-term supply agreements are as follows:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Sakti Nusantara Bakti	Indonesia	2017 - 2026	New C Index	150,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	100,000 MT
Galaxy Resources and Trading Corp. ("Galaxy")	Indonesia	2020 - 2025	GNewC Index	200,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Adaro	Indonesia	2020 - 2024	GNewC Index	165,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2024	GNewC	275,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	110,000 MT
Kideco	Indonesia	2021 - 2025	GNewC	110,000 MT
Galaxy	Indonesia	2021 - 2025	GNewC	55,000 MT
RWood Resources	Indonesia	2021 - 2025	GNewC	55,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	–2021	GNewC Index with Forex	157,000 MT
Kideco	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	55,000 MT
Galaxy	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources	Indonesia	2021 - 2025	GNewC	110,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project ("Cagbalete Microgrid Project")

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 kW PV system, 150 kWh battery energy storage system and two (2) units of 30 kW diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("PV") panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemental Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at October 25, 2021, *MERALCO* is awaiting further action by the *ERC*.

Industry Restructuring

Under the *EPIRA*, the Philippine power industry continues to undergo fundamental restructuring.

These restructuring measures include:

- the deregulation of, and introduction of competition in, power generation and supply activities and pricing;
- the privatization of the *NPC*'s power generating assets and *IPP* contracts;
- the unbundling of the relative costs of the various segments of the power supply chain and reflecting these in the bills to customers;
- freedom of consumers to choose electricity suppliers;
- open and non-discriminatory access in the networks of *DUs*, subject to the fulfillment of certain conditions precedent;
- the implementation of the *WESM*; and
- removal of inter-grid, intra-grid, and inter-class cross-subsidies.

Competition and Market

Power generation through *GBPC* and *MGEN* is becoming increasingly competitive due to *RES*, migration of contestable customers from the captive market, increasing numbers of competitors, and the amended *CSP* rules. This is being address using efficient processes and technology and using low cost fuel to remain competitive.

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

1. Implementation of *PBR*

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

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

PBR

a. *MERALCO*

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process for each *RY* within the *RP*. In each of *RYs* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the distribution *MAPs* for each of the *RY*. As at October 25, 2021, *MERALCO* is awaiting the final approval of the *ERC*.

Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (“*FOE*”) after the *ERC* has resolved pending motions. As at October 25, 2021, the *ERC*’s ruling on these motions remains pending.

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

While *MERALCO* complied with the directive to refund the total amount of ₱263.9 million representing regulatory reset costs, equivalent to ₱0.0731 per *kWh* in its July 2019 billing, it wrote a letter seeking clarification or reconsideration on the basis for such refund, including the imposition of and basis for the interest computed therein. The refund was included as a separate line item in *MERALCO*’s July 2019 billing to its customers. As at October 25, 2021, the *ERC* has yet to reply to *MERALCO*’s letter.

Distribution Rate True-Up Application

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff (“*AWAT*”) vis-à-vis *ERC*-approved Interim Average Rate (“*IAR*”) for the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from July 2015 to November 2020 when *MERALCO* was implementing the *IAR*. *MERALCO* prayed that a Decision be rendered: (a) approving *MERALCO*’s proposed mechanism to address the issue of the rates governing the period from July 2015 to November 2020 (“*lapsed period*”) through the true-up mechanism between *MERALCO*’s *AWAT* and *IAR*; (b) confirming *MERALCO*’s resulting calculation of the total amount to be refunded to its customers of ₱13,886 million; (c) approving *MERALCO*’s proposed refund scheme and refund period, within 24 months or until fully refunded, to its customers; and (d) declaring all issues relating to *MERALCO*’s *lapsed period* (and until a new rate has been determined by the *ERC* for the next regulatory period), as resolved, closed and terminated with prejudice. In an Order dated January 27, 2021, the *ERC* granted *MERALCO* provisional authority to implement the refund. The refund will be reflected as a separate line item in the billings to customers. As at October 25, 2021, hearings on the case are ongoing.

Regulatory Reset Process Application

Under *ERC* Resolution No. 25, Series of 2016 dated July 12, 2016, the *ERC* promulgated a Resolution modifying the *RDWR* for privately-owned *DUs* entering the *PBR*. The *ERC* has directed *MERALCO* and Private Electric Power Operators Association (“*PEPOA*”) to publish the Resolution. However, *MERALCO* sought clarification from the *ERC* on certain issues in the Resolution.

In a Notice dated November 16, 2016, the *ERC* approved the draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Handbook*”) for posting in its website. All interested parties were asked to submit their respective comments on the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group’s Petition as referred in the preceding paragraph has been resolved. As at October 25, 2021, the *ERC* has yet to resolve *MERALCO*’s Omnibus Motion. In the meantime, on April 29, 2021, the *ERC* posted the proposed draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Roll Forward*”).

Handbook”) (2nd Draft) for comments of all interested parties. *MERALCO* has filed its comments and is awaiting further action of the *ERC*.

On December 21, 2018, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the Fifth *RP* of the First Entry Group Under *PBR*. As at October 25, 2021, the *ERC* has yet to act on *MERALCO*’s Petition.

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and “Regulatory Reset for the Fourth (4th) and Fifth (5th) *RP* for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. *MERALCO* and other stakeholders have submitted their respective comments and public consultations were held. Thereafter, on March 15, 2021, the *ERC* posted the *RDWR* (2nd Draft) and “Regulatory Reset for the Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper (2nd Draft) for comments of all parties. Under said rules, the timelines were modified such that the 4th *RP* or “Lapsed Period” would now cover the period from July 2016 to June 2022; while the 5th *RP* would cover the period from July 2022 to June 2026. *MERALCO* and other stakeholders submitted their respective comments and their counter-comments and/or counter-proposals to those submitted by the other stakeholders. As at October 25, 2021, *MERALCO* is awaiting further action of the *ERC*.

In preparation for the regulatory reset process, the *ERC* directed all *DUs* under *PBR* to submit certain information in connection with the validation of the actual/historical expenditures for prior years. For *MERALCO*, the period covered is from July 1, 2011 to September 30, 2019. *MERALCO* has submitted the requested information and as at October 25, 2021, *MERALCO* is awaiting further action of the *ERC*.

In a letter dated August 18, 2021, and in further preparation for the regulatory reset process, the *ERC* directed *MERALCO* to submit required information in relation to the review of the Regulatory Asset Base and validation of expenditures. *MERALCO* made an initial submission on September 15, 2021 and is set to provide the remaining required information on October 30, 2021.

Capital Expenditures (“CAPEX”) for 4th RP, RY 2020, RY 2021 and RY 2022

Absent the release by the *ERC* of the final rules to govern the filing of the 4th *RP*, *RY 2020*, *RY 2021*, and *RY 2022*. *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, for each of the *RPs* beginning July 1, 2015.

Pending *ERC*’s approval, *MERALCO* manifested several projects as “Urgent” or “Emergency in Nature” and proceeded with the implementation of said *CAPEX* to avoid compromising the network reliability.

On July 27, 2021, *MERALCO* filed its application for the approval of its *RY 2022 CAPEX* program. The initial hearing is set on November 26, 2021.

Clark Electric

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

3rd RP PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* and subsequent regulatory period, the approved *MAP* for *RY 2015* was used beginning *RY 2016*.

On February 18, 2016, December 29, 2016, May 17, 2018 and July 5, 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for RYs 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to the *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for RYs 2016, 2017 and 2018. As at October 25, 2021, the application is pending approval by the *ERC*.

2. Application for Recoveries

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

MERALCO

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the “Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”. These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, local franchise and business taxes. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the *SL* true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *DUs* in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter. On December 15, 2010, the *ERC* promulgated Resolution No. 23, Series of 2010 to govern the recovery of senior citizens discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On June 1, 2015, the *ERC* approved with modification *MERALCO*’s applications for the confirmation of its under- or over-recoveries of its pass-through costs for the periods June 2003 to December 2010 and January to December 2011, directing *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges until such time that the full amount has been collected. As at September 30, 2021, the net under-recoveries are fully recovered.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net senior citizens discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. In an Order dated December 5, 2019, the *ERC* provisionally approved the application. *MERALCO* started implementation of the Order in its March 2020 billing. As at October 25, 2021, hearings are ongoing.

On January 29, 2016, *MERALCO* filed its application to confirm its under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at October 25, 2021, the application is pending before the *ERC*.

On March 31, 2017, *MERALCO* filed its application with the *ERC* to confirm its net generation charge over-recoveries of ₱4,919 million, net transmission charge over-recoveries of ₱632 million, net lifeline subsidy over-recoveries of ₱131 million, net *SL* over-recoveries of ₱1,243 million, net senior citizen discount over-recoveries of ₱2 million from January 2014 to December 2016 and real property tax (“*RPT*”) payments under-recoveries of ₱1,090 million from June 2014 to December 2016. On May 11, 2017, the *ERC* provisionally approved *MERALCO*’s application to refund the over-recoveries of pass-through charges (generation costs, transmission costs, system loss, life line subsidies and senior citizen discount) for the period January 2014 to December 2016 amounting to ₱6,927 million. The Order deferred action on *MERALCO*’s application for the recovery of *RPT* payments, citing the absence of any rule or guideline providing for the process of confirmation, approval and recovery of *RPT*. The ₱6,927 million was included in the June 2017

until August 2017 billings to customers. *MERALCO* then filed a manifestation in order to zero out the remaining balance. *MERALCO* filed its *FOE* on April 27, 2018. As at October 25, 2021, the application is pending final approval by the *ERC*.

On September 1, 2020, *MERALCO* filed its application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of ₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021. *MERALCO* filed its *FOE* on February 5, 2021. As at October 25, 2021, the application is pending final approval by the *ERC*.

Clark Electric

Clark Electric filed its application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with the *ERC* Resolution No. 16, series of 2009. A public hearing was held on June 17, 2014 and the *ERC* decision was received by *Clark Electric* on January 13, 2017. On January 30, 2017, *Clark Electric* filed a *MR* on the decision of the *ERC*. As at October 25, 2021, the *MR* is pending decision by the *ERC*.

On March 31, 2017, *Clark Electric* filed with the *ERC* its second application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014, 2015 and 2016. A public hearing was held on October 25, 2017. On March 5, 2020, *Clark Electric* received an *ERC* Order dated December 9, 2019 directing *Clark Electric* to refund over-recoveries of transmission costs amounting to ₱22 million and to collect under-recoveries of generation and system loss costs amounting to ₱6 million and ₱4 million, respectively. Refund and collection of under- or over-recoveries of these pass-through charges is for a period of six (6) months starting the next billing period from the receipt of the *ERC* Order or such time that the full amount shall have been refunded.

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 October 25, 2021, hearings are ongoing.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at October 25, 2021, the proceedings remain suspended.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchase power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per

kWh. MERALCO implemented the refund beginning November 2009 until September 2010. However, the ERC has yet to rule on MERALCO's deferred purchase price adjustment under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, MERALCO filed an MR with the ERC. As at October 25, 2021, the MR is still pending resolution by the ERC.

Applications for Recovery of Local Franchise Tax ("LFT")

MERALCO has filed distinct applications for provisional authority to implement new LFT rates based on Ordinances from the cities of Manila, Quezon City, Binan, Makati, Valenzuela, Taguig and Pasig. Some hearings have been completed and are waiting final approval. Application for recovery of taxes paid have been filed and pending Decision by the ERC.

3. RCOA

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

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

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

On July 1, 2015, the DOE published a Department Circular "Providing Policies to Facilitate the Full Implementation of RCOA in the Philippine Electric Power Industry". The Circular essentially provided for mandatory contestability.

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

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

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

5. Prohibits *RESs* from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

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

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

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

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

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

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

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

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars, but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at October 25, 2021, the *ERC* has yet to respond to *MERALCO*'s letter.

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

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

4. 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 October 25, 2021, 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.

5. Philippine Economic Zone Authority (“*PEZA*”) – *ERC* Jurisdiction

On September 13, 2007, *PEZA* issued “Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones” and “Guidelines for the Supply of Electric Power in Ecozones” (“*Guidelines*”). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.

On February 4, 2015, the *RTC-Pasig* issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC-Pasig*. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC-Pasig*. In a Decision dated July 3, 2015, the *RTC-Pasig* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC-Pasig* dismissed the petition upon motion by *PEZA*. The *ERC* filed a *MR* which is pending resolution by the *RTC-Pasig*.

6. 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 October 25, 2021, *MERALCO* continues to process the refund claims of eligible customers.

7. Purchase of Subtransmission Assets (“*STAs*”)

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*’s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*'s *MR* and approved the sale of the Dasmariñas-Abubot-Rosario 115 kV line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC-Pasig*, praying for the *RTC-Pasig* to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC-Pasig* granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC-Pasig*. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale ("*DOAS*") on December 10, 2020, covering the Batch 2 and Batch 4 *STAs*. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated October 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges ("*CC/RSTC*") of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

8. Feed-in-Tariff ("*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

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

Starting 2014, *TransCo* applied for the following *FiT-All* rates with the *ERC*, and *ERC* rendered a Decision approving the following *FiT-All* rates for the respective years:

Year	Applied Rate per kWh	Approved Rate per kWh	Date Approved
2014-2015	₱0.0406	₱0.0406	December 10, 2015
2016	0.1025	0.1830	May 9, 2017
2017	0.2291	0.2563	February 27, 2018
2018	0.2932	0.2226	March 12, 2019
2019	0.2780	0.0495	October 28, 2019
2020	0.2278	0.0983	November 23, 2020
2021	0.1881	–	Pending final decision
2022	0.3320 or 0.3165 (alternative rate in consideration of Covid 19)	–	Hearings are ongoing

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. As at October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, the said petition is ongoing and remains pending with the *ERC*.

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the consumer price index (“*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.

9. Net Metering Program

The *RE* Act mandates the *DUs* to provide the mechanism for the “physical connection and commercial arrangements necessary to ensure the success of the *RE* programs”, specifically the Net Metering Program. The *RE* Act defines Net Metering as “a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid”. By their nature, net metering installations will be small (less than 100 kW) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, “A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy”. The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the

interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs'* blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy".

10. Recovery of National Power Corporation's ("NPC") Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM's* petition for the recovery of *NPC's* stranded contract costs portion of the universal charge ("*UC-SCC*"). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the collection of *UC-SCC* and stranded debts portion of the universal charge ("*UC-SD*") from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM's* petition for the availment of the *NPC's* stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

In separate Orders dated May 28, 2020, the *ERC* dismissed *PSALM's* petitions for the availment of the *NPC's* stranded contract costs portion of the universal charge for calendar years 2015 to 2018 due to the promulgation of the Murang Kuryente Act.

11. 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 September 30, 2021, there are 133 companies with a total committed de-loading capacity of 584.56 MW that have signed up with MERALCO, MPower and with other retail electricity suppliers as ILP participants.

12. 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 October 25, 2021, the ERC has yet to resolve MERALCO’s Motion for Partial Reconsideration.

On October 29, 2019, MERALCO filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and MERALCO filed its FOE. On January 21, 2021, MERALCO filed its Manifestation with Urgent Motion to Resolution. As at October 25, 2021, MERALCO is awaiting final approval of the ERC.

13. 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 October 25, 2021, the ERC has yet to act on the Motion.

14. CSP for PSAs

On February 9, 2018, the DOE published the 2018 DOE Circular. Upon effectivity of the Circular, all prospective PSAs in grid and off-grid areas shall be procured through CSP. The CSP under the 2018 DOE Circular involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from CSP may be granted by the DOE in the following instances:

- i. Generation project owned by the DU funded by grant or donations
- ii. Negotiated procurement of emergency supply
- iii. Generation project embedded in the DU, utilizing indigenous energy resources in the franchise area of the DU and subject to a maximum capacity of 10 MW per Luzon DU and 5 MW per Visayas and Mindanao DU (introduced by the 2021 Revised CSP Circular, see discussion below)
- iv. Provision of supply in off-grid areas prior to the entry of new power providers
- v. Provision of supply by PSALM through bilateral contracts for power produced from undisposed generating assets and IPP contracts sanctioned by EPIRA.

PSAs that were granted exemption from CSP by reason of need for emergency supply shall be implemented by the DU immediately without prejudice to the evaluation and final decision of the ERC.

The DU's CSP may be managed by a Third Party Bids and Awards Committee ("TPBAC") or a Third Party Administrator ("TPA"). The DU's TPBAC shall be composed of the following (a) one (1) DU officer or employee knowledgeable in the technical operations of the DU; (b) One (1) DU officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the DU's TPBAC shall be submitted to the DOE for approval. The DOE has already approved the selection process of MERALCO's TPBAC captive customer representatives.

Direct negotiations may be made by the DUs after at least two (2) failed CSPs and there is no outstanding dispute on the conducted CSP. A CSP is considered failed when during its conduct:

- i. No proposal was received by the DU
- ii. Only one (1) generator submitted an offer
- iii. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

On October 14, 2021, the DOE published a DOE Circular entitled "Amending Certain Provisions of and Supplementing [the 2018 DOE Circular] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market" ("2021 Revised CSP Circular"). The 2021 Revised CSP Circular mainly improved the procedural process and flow prescribed under the 2018 DOE Circular and, most importantly, introduced a new alternative mode of CSP – a competitive challenge for unsolicited proposals ("USP"), if the USP offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility's peak demand for the year of the USP's required commercial operations minus any capacity previously procured through USP for commercial operations in the same year.

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

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

Meanwhile, following the 2018 DOE Circular, MERALCO constituted its TPBAC to conduct CSP in accordance with the 2018 DOE Circular and its submitted Power Supply Procurement Plan.

On September 13, 2019, MERALCO signed three (3) PSAs for baseload capacity with AC Energy for 200 MW, SMEC for 330 MW, and SPPC for 670 MW. On September 16, 2019, MERALCO signed three (3) PSAs for mid-merit capacity with First Gen Hydro Power Corporation ("First Gen Hydro") for 100 MW, AC Energy for 110 MW, and SPPC for 290 MW. On October 22, 2019, the joint applications for approval of these six (6) PSAs were filed before the ERC. In its letters to MERALCO, all dated December 23, 2019, the ERC granted provisional authority to implement MERALCO's three (3) PSAs for baseload capacity with AC Energy, SPPC and SMEC. On January 30, 2020, MERALCO received the orders of the ERC granting provisional authority to implement MERALCO's two (2) PSAs for baseload and 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 four (4) PSAs for baseload capacity with SPPC and SMEC, and mid-merit capacity with FGHP and SPPC. In its Orders dated November 26, 2020, the ERC granted interim relief authorizing continued implementation of the PSAs with AC Energy, SPPC and SMEC for baseload capacity and PSA with FGHP for mid-merit capacity, until revoked or until the issuance of a final decision by the ERC. As at October 25, 2021, the six (6) PSA applications are pending final decision by the ERC.

On March 2, 2021, after a CSP for 1,800 MW baseload capacity from greenfield power plants was conducted, MERALCO signed two (2) PSAs with Excellent Energy Resources, Inc. (“EERI”) with commercial operations date in December 2024 for 1,200 MW, and with Masinloc Power Partners Co. Ltd. (“MPPCL”) with commercial operations date in May 2025 for 600 MW. The joint applications for approval of MERALCO’s PSAs with MPPCL and EERI were filed with the ERC on March 18, 2021 and March 24, 2021, respectively. As at October 25, 2021, the two (2) PSA applications are awaiting final resolution by the ERC.

On September 30, 2021, the TPBAC published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the SC Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) directing PSAs entered into on and after June 30, 2015, which includes the MERALCO and PEDC PSA, to comply with CSP prescribed in the 2018 DOE Circular. The TPBAC conducted pre-bid conferences on October 22 and 29, 2021 and the bid submission and opening of the bids is scheduled on November 19, 2021.

15. ECQ/MECQ due to Covid-19 Pandemic

In March 2020, President Rodrigo Duterte issued Proclamation Nos. 922 and 929, series of 2020, which declared a State of Public Health Emergency throughout the Philippines due to COVID-19 and imposed ECQ on the entire Luzon island, beginning March 16, 2020 until April 12, 2020. All citizens, residents, tourists and establishment owners were urged to act within the bounds of law and to comply with the lawful directives and advisories to be issued by appropriate government agencies to prevent further transmission of COVID-19 and to ensure the safety and well-being of all. On April 7, 2020, the Office of the President of the Republic of the Philippines through the Office of Executive Secretary issued a Memorandum extending the ECQ until April 30, 2020. Under Executive Order No. 112, Series of 2020, President Duterte extended the ECQ in high risk areas, including National Capital Region (“NCR”) from May 1, 2020 to May 15, 2020. Thereafter, Modified ECQ (“MECQ”) was declared in high risk areas, including NCR, from May 15, 2020 until May 30, 2020.

In line with the foregoing Government pronouncements, the DOE and ERC issued several advisories and guidelines to electric power industry stakeholders.

Meanwhile, on various dates beginning as early as March 16, 2020, MERALCO sent out notices of event of force majeure to power suppliers for its ERC-approved PSAs currently being implemented. These notices explained that based on the respective PSAs entered into by MERALCO and its power suppliers, MERALCO is entitled to claim relief by reason of an event of force majeure given the prevailing circumstances.

On September 11, 2020, President Duterte signed into law Republic Act No. 11494, the Bayanihan to Recover as One Act (“Bayanihan 2”) which serves as the government’s second coronavirus pandemic relief measure. In an Advisory dated September 23, 2020, the DOE directed power sector entities to observe the grace period and staggered payment for unpaid bills provided under the Bayanihan 2. The DOE also requested the ERC to issue necessary procedures and guidelines for the implementation of the Advisory in line with the policies and purpose of the Bayanihan 2. On October 29, 2020, the ERC issued an Advisory regarding Bayanihan 2 with directives on non-disconnection of service due to non-payment of bills; implementation of a minimum 30-day grace period and a 3-month installment plan for the payment of ECQ/MECQ bills. MERALCO complied with these directives.

In an Advisory dated February 5, 2021, the DOE directed all distribution utilities to implement a non-disconnection policy due to non-payment of bills for all electricity consumer whose consumption levels are within the lifeline rate set by the ERC. The policy shall apply to all unpaid regular bills and installment payments relative to various advisories of DOE and ERC. As clarified with the DOE, with respect to MERALCO’s customers, the non-disconnection policy shall apply to MERALCO’s residential customers with an average consumption of 100 kWh and below in their November 2020, December 2020 and January 2021 bills. MERALCO extended the no disconnection policy until May 14, 2021.

The latest advisory issued by the ERC was on September 16, 2021. In this Advisory, the ERC made the following directives:

- a. *DUs* are directed to cause the conduct of actual meter reading of their customers' electricity consumption;
- b. *DUs* should provide their meter readers and other frontline personnel with complete Personal Protective Equipment (“*PPE*”) and other logistical requirements, such as transportation, in order to ensure the safety and smooth performance of their duties; and
- c. *DUs* are directed to submit a report to the *ERC* on their compliance to the above directives on a monthly basis.

16. *Violation of the ERC's Advisories during the 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 October 25, 2021, 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.

17. *Renewable Portfolio Standards (“RPS”)*

In accordance with the *RE Act*, the *DOE* issued Department Circular No. DC2017-12-0015 “Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas” or the *RPS Rules* on December 22, 2017. On June 30, 2020, *MERALCO* submitted its *RPS* Form for 2020 to the *DOE* as part of its compliance with the *RPS Rules*. The *RPS* form contains *MERALCO*'s computation of its requirements, as well as plans to comply with the requirements. *MERALCO* intends to fully comply with its *RPS* obligations while minimizing the rate impact to its customers.

MERALCO is also preparing to register with the Renewable Energy Market or “*REM*”. On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at October 25, 2021, the *REM* is not yet operational.

18. *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.

19. *Clean Air Act*

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* (“the Operating Subsidiaries of *GBPC*”) in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*’s existing facilities, the Operating Subsidiaries of *GBPC* believe that they comply with the provisions of the Clean Air Act and the related *IRR*.

20. *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.

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

On December 23, 2020, *MGen* signed separate Share Purchase Agreements (“*SPAs*”) with *BPHI*, a wholly owned subsidiary of *Metro Pacific*, and *JG Summit* for the transfer of their respective shareholdings in *GBPC* to *MGen* for consideration of ₱22,443 million and ₱12,023 million, respectively, subject to adjustments in accordance with the terms of the *SPA*. The consideration shall be paid in installments based on the following schedule: 60% upon closing, 20% after six (6) months and the remaining 20% after 18 months.

On March 31, 2021, *MGen* completed the acquisition of the 86% combined equity of *GBPC* from *BPHI* and *JG Summit*, and paid the first installment of the purchase price.

Prior to this transaction, *BPHI* holds a 56% ownership interest in *GBPC* while *JG Summit* holds a 30% interest. As a result of the transaction, *MGen* owns 100% of *GBPC*.

(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 *NPC*

The *NPC* embarked on a Power Development Program (“*PDP*”), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the Department of Energy (“*DOE*”) required that *MERALCO* enter into a long-term supply contract with the *NPC*.

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

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

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

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

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

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

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a *MR* which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO's* Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the Office of the Solicitor General (“*OSG*”) with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the SA valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the SA as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at October 25, 2021, *MERALCO* is awaiting further action of the *SC* on the matter.

2. Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 kV line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City “the *Plaintiffs*”, filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs' homes* and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000,

RTC-Makati granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 kV line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the Writ of Preliminary Injunction.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*' motion and directed the re-affle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at October 25, 2021, *MERALCO* is awaiting further action of the *SC* on the matter.

3. RPT Assessments

Several Local Government Units ("*LGUs*") assessed *MERALCO* for deficiency *RPT* on certain assets. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, one (1) has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers. On October 22, 2015, *MERALCO* received a copy of the *SC* Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGC*. *MERALCO* did not appeal the *SC* Decision. The cases of the other *LGUs* are pending with their respective administrative bodies or government offices.

In 2016, *MERALCO* began the process of settlement with the affected *LGUs*. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGUs* from customers in the relevant areas with the *ERC* and will file for similar recovery for succeeding payments.

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass-through cost in the light of the *SC* Decision. Hearings have been completed and *MERALCO* filed its intervention and submitted its comments. A similar Petition was likewise filed by the Philippine Rural Electric Cooperative Association ("*PHILRECA*") on April 17, 2019. In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* approved a revised mechanism for the recovery of real property taxes. For *DUs* under *PBR*, the rules shall apply to the recovery of real property taxes of machineries only until the next regulatory reset process when the real property taxes would be excluded from the financial building blocks in the annual revenue requirement. However, the said rules did not cover the recovery of payments of real property taxes for the years before the promulgation of the rules.

MERALCO has filed for recovery of such *RPT* paid in accordance with the rules promulgated by the *ERC*. For recovery of real property taxes for the years before the promulgation of the rules, *MERALCO* intends to recover the same in accordance with the rules as may be promulgated by the *ERC* to address the regulatory reset process for the lapsed period.

On July 6, 2021, *PEPOA* filed a Petition for rule-making proposing to amend certain provisions of *ERC* Resolution No. 02, series of 2021 on the recovery of pass-through local taxes consisting of *RPT*, *LFT*, and business tax. Among the main points raised by *PEPOA* is that: (i) the local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* on years prior to the Resolution's issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGUs* on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at October 25, 2021, the Petition is pending with the *ERC*.

4. *LFT* Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code ("*LGC*"), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

5. SC Decision on Unbundling Rate Case

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

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

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to

Intervene and Admit Comment-in-Intervention filed by other *DUs* that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by the National Association of Electric Consumers for Reforms Inc. (“*NASECORE*”), which among other things, (i) voided the adoption by the *ERC* of the current or replacement cost in the valuation of *MERALCO*’s *RAB*; and (ii) remanded the case to *ERC* to determine, within 90 days from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a distribution utility shall be passed on wholly or partially to consumers.

MERALCO, the other *DUs* and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at October 25, 2021, the case is pending before the *SC*.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of *MERALCO* with unconsolidated entities or other persons created during the reporting period.

2021 Capital Expenditure Requirements (in millions)	
Electric capital projects	₱17,845
Non-electric projects and other capitalized items	6,375
Total capital expenditures	₱24,220

MERALCO has a *BOD*-approved capital expenditure budget of ₱24,220 million for the year ending December 31, 2021, of which about 74% represents planned expenditures for the electric capital projects of the power distribution business. The capital expenditure budget shall address requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries’ capital expenditure budget for 2021 mainly covers the following requirements: *AIE*’s development of its 2 x 600 MW coal-fired power plant in Atimonan Quezon; *Radius* expansion of new areas and segments; and *Bayad* evolution into a full-service fintech company.

(iv) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

1. Retail Competition

See related preceding discussions under *RCOA*.

2. Petition for Dispute Resolution against *PEMC*, *TransCo*, *NPC* and *PSALM*

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, and the 500 kV 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*’s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use (“*TOU*”) rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*’s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract (“*TSC*”) quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line

rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGCs* against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the *SGCs* should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) "*SCPC Ilijan*" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "*SCPC Ilijan*" should be added to *SPPC*'s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and (vi) deny the respective *MRs* filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at October 25, 2021, *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 October 25, 2021, *MERALCO* is still awaiting further action of the *SC* on the Petition.

3. Petition for Dispute Resolution Against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*

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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at October 25, 2021, the Joint Motion to Dismiss is pending resolution by the *ERC*.

4. *PSALM* versus *PEMC* and *MERALCO*

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised its concerns with the *PEMC* with request for the latter to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. On July 1, 2020, *MERALCO* received the *SC* Resolution dated March 11, 2020, affirming the *CA* decision that upheld *ERC*'s order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates. Entry of Judgment has been rendered and the resolution has become final and executory on October 14, 2020.

5. Petition for Dispute Resolution with *NPC* on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at October 25, 2021, the Petition is pending resolution by the *ERC*.

6. *SC TRO* on *MERALCO*'s December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation

charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* ("*PanAsia*"), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for

reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

MERALCO and several consumers have elevated the *CA* Decision and Order to the *SC* where the case is pending. In a Resolution dated November 4, 2020, the *SC* consolidated *ERC*'s and *MERALCO*'s petitions and transferred *MERALCO*'s petition to the member-in-charge of *ERC*'s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the *SC*.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*'s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*'s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at October 25, 2021, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

7. *ERC* Investigating Unit (“*IU*”) Complaint

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

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

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

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

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

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

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

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

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

In Resolution dated January 28, 2019, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect.

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. As at October 25, 2021, *MERALCO* is awaiting further action by the *SC* on the matter.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve the *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 October 25, 2021, *MERALCO* is awaiting further action by the *ERC* on the matter.

8. *SPPC* vs. *PSALM*

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* had a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, *PSALM* terminated the said Agreement. *SPPC* filed a complaint at the *RTC-Mandaluyong* to nullify the termination notice for lack of factual and legal basis. On said date, the executive judge of *RTC-Mandaluyong* issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC-Mandaluyong* extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC-Mandaluyong* granted the prayer for preliminary injunction. *PSALM* has filed *MRs* to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC-Mandaluyong* allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC-Mandaluyong* issued an Order dated June 27, 2016 denying the *MRs*. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC-Mandaluyong*.

9. *Ombudsman Case Against Directors*

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. As at October 25, 2021, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

10. *Overpayment of Income Tax related to SC Refund*

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCCs*"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at September 30, 2021 and December 31, 2020, the amount of unissued *TCCs* of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

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 October 25, 2021, 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 is disclosed in Note 6 to the consolidated financial statements. *CCNI* for the period is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

(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 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 nine months ended September 30, 2021 and 2020.

Period	2021	2020
First Quarter	10,473	10,879
Second Quarter	12,190	10,260
Third Quarter	11,735	11,400
Fourth Quarter	—	—
Total	34,398	32,539

The businesses of all other subsidiaries are not highly seasonal.

The *kWh* sales of *MERALCO* declined in the 2nd quarter of 2020 due to the onset of the *COVID-19* pandemic wherein community quarantine was implemented resulting to limited business activities of commercial and industrial customers. Business activities started to recover in the latter part of the year.

(vii) Any known trends, demands, commitments, events or uncertainties that will have a material impact of the issuer's liquidity.

The Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO Group's* liquidity as at September 30, 2021, other than those already disclosed in this report and in the consolidated financial statements.

(viii) Discussion of *MERALCO's* and its majority-owned subsidiaries top five (5) key performance indicators. It shall include a discussion of the manner by which *MERALCO* calculates or identifies the indicators presented on a comparable basis.

Listed hereunder are *MERALCO's* five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the nine months ended September 30, 2021 and 2020.

Financial Highlights and Ratios¹³ of Major Subsidiaries
As at and for the Nine Months Ended September 30, 2021 and 2020
(Amounts in million pesos except for financial ratios and % change)

	<i>Clark Electric</i>			<i>MGen</i>			<i>MIESCOR</i>			<i>e-MVI</i>			<i>CIS</i>		
	2021	2020	% change	2021	2020	% change	2021	2020	% change	2021	2020	% change	2021	2020	% change
Percentage of ownership	65%	65%		100%	100%		99%	99%		100%	100%		100%	100%	
<u>Condensed Statements of Financial Position</u>															
Total assets	₱3,297	₱3,060	8	₱115,684	₱21,621	435	₱5,649	₱5,566	1	₱3,735	₱3,275	14	₱3,329	₱3,174	5
Current assets	1,419	1,209	17	21,512	1,130	1804	4,907	4,990	(2)	1,377	1,810	(24)	3,216	3,036	6
Cash and cash equivalents	1,055	872	21	10,255	473	2068	542	449	21	940	1,381	(32)	1,166	1,185	(2)
Equity	2,126	1,840	16	27,638	20,872	32	1,135	1,157	(2)	2,781	2,573	8	907	971	(7)
Total debt ¹⁴	–	–	–	48,413	81	59669	689	741	(7)	–	–	–	–	–	–
Current liabilities	609	622	(2)	29,290	595	4823	3,855	4,136	(7)	838	551	52	2,323	2,186	6
<u>Financial Ratios</u>															
Debt-to-equity ratio	–	–	–	1.75	–	45037	0.61	0.64	(5)	–	–	–	–	–	–
Current ratio	2.33	1.94	20	0.73	1.90	(61)	1.27	1.21	6	1.64	3.28	(50)	1.38	1.39	–
<u>Condensed Statements of Income</u>															
Revenues	1,865	1,802	3	12,338	–	–	3,540	3,003	18	1,042	1,065	(2)	1,408	1,237	14
Costs and expenses	1,690	1,624	4	11,281	3,150	258	3,253	2,729	19	766	594	29	1,298	1,138	14
Net income (loss)	167	185	(10)	1,770	(2,532)	(170)	30	143	(79)	232	329	(29)	12	11	9
<u>Financial Ratios</u>															
Profit margin	9.0%	10.3%	(13)	14.3%	–	–	0.8%	4.8%	(82)	22.3%	30.9%	(28)	0.9%	0.9%	(4)
Return on equity	7.9%	10.1%	(22)	6.4%	(12.1%)	(153)	2.6%	12.4%	(79)	8.3%	12.8%	(35)	1.3%	1.1%	(97)
Asset turnover	0.59	0.61	(16)	0.18	–	–	0.63	0.59	–	0.30	0.35	(30)	0.43	0.43	(18)

¹³ 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*.

¹⁴ 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 September 30, 2021

(Amounts in millions)

	T o t a l	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	₱50,419	₱28,906	₱3,702	₱2,657	₱15,154
Other trade receivables	2,667	776	–	–	1,891
Gross trade receivables	53,086	29,682	3,702	2,657	17,045
Non-trade receivables	12,319	11,655	179	9	476
Total receivables	65,405	41,337	3,881	2,666	17,521
Allowance for doubtful accounts	(5,699)	(89)	(263)	(778)	(4,569)
Net receivables	₱59,706	₱41,248	₱3,618	₱1,888	₱12,952

Manila Electric Company and Subsidiaries

Consolidated Financial Statements
as at September 30, 2021 (Unaudited) and December 31, 2020 (Audited)

And

For the Nine Months Ended September 30, 2021 and 2020(Unaudited)

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		September 30, 2021 (Unaudited - Note 1)	December 31, 2020 (Audited)
	Note		
(Amounts in millions)			
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	7 and 10	₱218,087	₱163,009
Investments in associates and interests in joint ventures	8 and 23	21,890	15,688
Investment properties	9	1,497	1,499
Intangible assets	7 and 10	15,059	2,233
Deferred tax assets - net	28	26,247	28,943
Financial and other noncurrent assets	2, 11, 15, 26, 27 and 30	54,755	50,513
Total Noncurrent Assets		337,535	261,885
Current Assets			
Cash and cash equivalents	12 and 27	43,620	50,912
Trade and other receivables	13, 24 and 27	52,957	58,120
Inventories	14	8,631	5,484
Financial and other current assets	11, 15, 23 and 27	28,178	13,866
Total Current Assets		133,386	128,382
Total Assets		₱470,921	₱390,267

EQUITY AND LIABILITIES

Equity Attributable to Equity Holders of the Parent

Common stock	16	₱11,273	₱11,273
Additional paid-in capital		4,111	4,111
Equity reserve		(116)	(116)
Employee stock purchase plan	16	1,049	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("FVOCI")	11	408	324
Remeasurement adjustments on retirement and other post-employment liabilities	26	(4,110)	(3,822)
Share in remeasurement adjustments on associates' retirement liabilities	8	(25)	(13)
Cumulative translation adjustments of associates	8	6	6
Cumulative translation adjustments of subsidiaries		34	22
Treasury shares	16	(11)	(11)
Retained earnings	16	68,418	66,414
Equity Attributable to Equity Holders of the Parent		81,037	79,237
Non-controlling Interests		10,866	1,494
Total Equity		91,903	80,731

(Forward)

		September 30, 2021 (Unaudited - Note 1)	December 31, 2020 (Audited)
	Note		
(Amounts in millions)			
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	17, 25 and 27	₱53,700	₱14,809
Customers' deposits - net of current portion	18, 22 and 27	30,870	29,844
Long-term employee benefits	26	18,633	15,327
Provisions	19, 22 and 29	15,121	17,065
Refundable service extension costs - net of current portion	22 and 27	1,536	6,632
Deferred tax liabilities - net	28	4,616	316
Other noncurrent liabilities	2, 5, 7, 24 and 29	93,293	82,942
Total Noncurrent Liabilities		217,769	166,935
Current Liabilities			
Notes payable	21, 25 and 27	27,968	23,373
Trade payables and other current liabilities	16, 22, 23, 27 and 29	119,708	111,261
Customers' refund	2, 20 and 27	2,931	2,949
Income tax payable		1,803	3,056
Current portion of interest-bearing long-term financial liabilities	17, 25 and 27	8,839	1,962
Total Current Liabilities		161,249	142,601
Total Liabilities		379,018	309,536
Total Liabilities and Equity		₱470,921	₱390,267

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

		Unaudited			
		For the Nine Months Ended September 30		For the Three Months Ended September 30	
	Note	2021	2020	2021	2020
(Amounts in millions, except per share data)					
REVENUES					
	6, 23, 24, 30 and 32				
Sale of electricity		₱225,404	₱208,434	₱80,564	₱69,803
Sale of other services	23	6,313	5,774	2,056	2,151
		231,717	214,208	82,620	71,954
COSTS AND EXPENSES					
Purchased power	24 and 30	163,639	156,122	57,595	51,975
Salaries, wages and employee benefits	25 and 26	11,619	10,024	3,846	3,096
Depreciation and amortization	7, 9, 10 and 25	8,642	6,094	3,161	2,049
Provision for probable losses and expenses from claims	2, 19 and 29	6,446	18,348	3,955	5,077
Coal and fuel		5,361	—	2,946	—
Contracted services		4,972	5,034	1,624	2,062
Taxes, fees and permits		1,520	848	524	230
Power plant operations and maintenance cost		783	—	464	—
Other expenses	23 and 25	4,595	4,366	1,000	1,101
		207,577	200,836	75,115	65,590
OTHER INCOME (EXPENSES)					
Interest and other financial income	12 and 25	1,686	1,875	549	487
Interest and other financial charges	21 and 25	(2,665)	(1,223)	(1,111)	(402)
Equity in net earnings of associates and joint ventures	8	1,949	717	930	15
Foreign exchange gains (losses)		(306)	(561)	363	(384)
Others	2, 23, 30 and 32	1,071	232	348	(110)
		1,735	1,040	1,079	(394)
INCOME BEFORE INCOME TAX		25,875	14,412	8,584	5,970
PROVISION FOR (BENEFIT FROM) INCOME TAX					
	28				
Current		6,366	8,878	2,551	3,212
Deferred		2,366	(5,808)	(915)	(1,683)
		8,732	3,070	1,636	1,529
NET INCOME		₱17,143	₱11,342	₱6,948	₱4,441
Attributable To					
Equity holders of the Parent	31	₱16,522	₱11,252	₱6,573	₱4,408
Non-controlling interests		621	90	375	33
		₱17,143	₱11,342	₱6,948	₱4,441
Earnings Per Share Attributable to Equity Holders of the Parent					
	31				
Basic		₱14.66	₱9.98	₱5.83	₱3.91
Diluted		14.66	9.98	5.83	3.91

See accompanying Notes to Unaudited Interim Consolidated Financial Statements

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Unaudited			
		For the Nine Months Ended September 30		For the Three Months Ended September 30	
	Note	2021	2020	2021	2020
		(Amounts in millions)			
NET INCOME		₱17,143	₱11,342	₱6,948	₱4,441
OTHER COMPREHENSIVE INCOME					
Items that will be reclassified to profit or loss in subsequent periods:					
Unrealized fair value gains (losses) on fair value financial assets	11	36	54	(34)	34
Cumulative translation adjustments of subsidiaries		12	(8)	9	(5)
Cumulative translation adjustments of associates		–	(756)	–	–
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods		48	(710)	(25)	29
Items that will not be reclassified to profit or loss in subsequent periods:					
Remeasurement adjustments on retirement and other post-employment liabilities	26	(384)	(65)	–	(14)
Income tax effect		96	19	–	4
		(288)	(46)	–	(10)
Unrealized fair value gains (losses) on equity securities at FVOCI		53	(4)	20	(3)
Income tax effect		(5)	1	(2)	1
		48	(3)	18	(2)
Share in remeasurement adjustments on associates' retirement liabilities	8	(12)	–	–	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(252)	(49)	18	(12)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		(204)	(759)	(7)	17
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱16,939	₱10,583	₱6,941	₱4,458
Total Comprehensive Income Attributable To					
Equity holders of the Parent		₱16,318	₱10,493	₱6,566	₱4,425
Non-controlling interests		621	90	375	33
		₱16,939	₱10,583	₱6,941	₱4,458

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

	Equity Attributable to Equity Holders of the Parent													
	Common Stock (Note 16)	Additional Paid-in Capital	Equity Reserve (Note 3)	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI (Note 11)	Remeasure- ment Adjustments on Retirement and Other Post- Employment Liabilities (Note 26)	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Associates (Note 8)	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares (Note 16)	Retained Earnings (Note 16)	Equity Attributable to Equity Holders of the Parent	Non- controlling Interests (Note 6)	Total Equity
	(Amounts in millions)													
At January 1, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731
Net income	–	–	–	–	–	–	–	–	–	–	16,522	16,522	621	17,143
Other comprehensive income (loss)	–	–	–	–	84	(288)	(12)	–	12	–	–	(204)	–	(204)
Total comprehensive income (loss)	–	–	–	–	84	(288)	(12)	–	12	–	16,522	16,318	621	16,939
Dividends	–	–	–	–	–	–	–	–	–	–	(14,518)	(14,518)	(7)	(14,525)
Effect of consolidation of Global Business Power Corporation ("GBPC")	–	–	–	–	–	–	–	–	–	–	–	–	8,758	8,758
	–	–	–	–	–	–	–	–	–	–	(14,518)	(14,518)	8,751	(5,767)
At September 30, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱408	(₱4,110)	(₱25)	₱6	₱34	(₱11)	₱68,418	₱81,037	₱10,866	₱91,903
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	–	–	–	–	–	–	–	–	–	–	11,252	11,252	90	11,342
Other comprehensive income (loss)	–	–	–	–	51	(46)	–	(756)	(8)	–	–	(759)	–	(759)
Total comprehensive income (loss)	–	–	–	–	51	(46)	–	(756)	(8)	–	11,252	10,493	90	10,583
Dividends	–	–	–	–	–	–	–	–	–	–	(17,010)	(17,010)	(25)	(17,035)
At September 30, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱278	(₱239)	(₱12)	₱6	₱24	(₱11)	₱61,350	₱77,713	₱1,076	₱78,789

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

		Unaudited	
		For the Nine Months Ended	
		September 30	
	Note	2021	2020
(Amounts in millions)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱25,875	₱14,412
Adjustments for:			
Provision for probable losses and expenses from claims - net	2 and 29	1,226	17,465
Depreciation and amortization	7, 9 and 10	8,642	6,094
Interest and other financial charges	25	2,665	1,223
Interest and other financial income	25	(1,686)	(1,875)
Equity in net earnings of associates and joint ventures	8	(1,949)	(717)
Provision for expected credit losses ("ECL")	25	324	1,440
Others		(367)	(138)
Operating income before working capital changes		34,730	37,904
Decrease (increase) in:			
Trade and other receivables		10,596	(35,130)
Inventories		(950)	(1,182)
Financial and other current assets		331	(89)
Increase (decrease) in:			
Trade payables and other current liabilities		(596)	3,833
Customers' deposits		911	998
Customers' refund		(18)	(69)
Long-term employee benefits		4,320	2,060
Cash generated from operations		49,324	8,325
Income tax paid		(5,262)	(5,453)
Net cash flows provided by operating activities		44,062	2,872
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Global Business Power Corporation ("GBPC")	1	(26,294)	—
Additions to:			
Debt securities at amortized cost	11	(21,309)	(15,629)
Financial assets at FVOCI	11	(30,411)	(78,221)
Utility plant and others	7	(17,922)	(10,496)
Intangible assets	10	(382)	(215)
Investments in associates and interests in joint ventures	8	(489)	(722)
Short-term investments		(740)	(5,472)
Investment properties	9	(1)	—
Proceeds from maturity of:			
Financial assets at FVOCI		31,371	70,630
Debt securities at amortized cost		8,082	21,824
Short-term investments		—	23,680
Additional cash from the acquisition of GBPC	1	9,731	—
Interest and other financial income received		1,656	2,299
Proceeds from disposal of:			
Utility plant and others		431	211
Intangible assets		2	—
Dividends received from associates		1,210	107
Decrease in minority interests		(489)	(30)
Decrease in financial and other noncurrent assets		1,140	429
Net cash provided by (used in) investing activities		(44,414)	8,395

(Forward)

Unaudited			
For the Nine Months Ended			
September 30			
	Note	2021	2020
<i>(Amounts in millions)</i>			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of interest-bearing long-term financial liabilities	17	₱24,386	₱–
Availment of notes payable	21	22,002	78
Payments of:			
Notes payable		(17,441)	(98)
Dividends	16	(17,306)	(16,745)
Interest-bearing long-term financial liabilities	17	(6,670)	(476)
Interest and other financial charges		(5)	(1,289)
Increase (decrease) in other noncurrent liabilities		(11,388)	473
Net cash used in financing activities		(6,422)	(18,057)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,774)	(6,790)
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF PERIOD		50,912	38,262
NET UNREALIZED FOREIGN EXCHANGE LOSSES			
(GAINS)		(518)	225
CASH AND CASH EQUIVALENTS			
AT END OF PERIOD	12	₱43,620	₱31,697

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company (“*MERALCO*”) holds a 25-year congressional franchise under Republic Act (“*RA*”) No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission (“*ERC*”) granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*’s congressional franchise. *MERALCO*’s participation in retail electricity supply (“*RES*”) is directly through its local *RES* unit, *MPower* and indirectly through its affiliate *RES* entities. The *ERC* granted the following subsidiaries of *MERALCO* distinct *RES* licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. (“*Vantage*”), a wholly owned subsidiary of *MERALCO*; Solvre, Inc., a wholly owned subsidiary of *MERALCO* PowerGen Corporation (“*MGen*”); and MeridianX Inc. (“*MeridianX*”), a wholly owned subsidiary of Comstech Integration Alliance, Inc. (“*Comstech*”), 60% owned by *MERALCO*. Clarion Energy Management Inc. (“*Clarion*”), a wholly owned subsidiary of *Clark Electric*, and Phoenix Power Solutions, Inc. (“*PPSI*”), a wholly owned subsidiary of *MERALCO*, have submitted the requirements for its *RES* licensing to *ERC*. As at October 25, 2021, the approval of its *RES* licensing is pending with the *ERC*. The *RES* license of Global Energy Supply Corporation (“*GESC*”), a wholly owned subsidiary of Global Business Power Corporation (“*GBPC*”), was renewed by the *ERC* for another five years beginning September 13, 2021.

The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, Clark Electric Distribution Corporation (“*Clark Electric*”). *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation (“*CDC*”) to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones.

MERALCO is developing power generation facilities of various fuel sources through its wholly owned subsidiary, *MGen*, and is also engaged in rooftop solar energy projects through its wholly owned subsidiary, MSpectrum, Inc. (“*Spectrum*”). Through several subsidiaries in the services segment, *MERALCO* provides engineering, design, construction and consulting services, bill collection services, distribution and energy management services, and communication, information system and technology services.

On December 23, 2020, *MGen* signed separate Share Purchase Agreements (“*SPAs*”) with Beacon Powergen Holdings Inc. (“*BPHI*”), a wholly owned subsidiary of Metro Pacific Investments Corporation (“*Metro Pacific*”), and JG Summit Holdings, Inc. (“*JG Summit*”) for the transfer of their respective shareholdings in *GBPC* to *MGen* for consideration of ₱22,443 million and ₱12,023 million, respectively, subject to adjustments in accordance with the terms of the *SPA*. The consideration shall be paid in installments based on the following schedule: 60% upon closing, 20% after six (6) months and the remaining 20% after 18 months.

Closing of this proposed transaction is conditional on the satisfaction and/or waiver, where applicable, of the following conditions:

- the approval on ruling or waiver of review by the *PCC* in respect of the proposed transaction or an acknowledgement by the *PCC* that the proposed transaction is not subject to mandatory merger review;
- third party approvals required from (i) lenders under certain loan agreements or arrangements entered into by *GBPC* or its subsidiaries and (ii) certain shareholders pursuant to a shareholders' agreement of a subsidiary, having been obtained; and
- other conditions typical and customary for share purchase agreements, including regulatory and third-party approvals.

BPHI holds a 56% ownership interest in *GBPC* while *JG Summit* holds a 30% interest. *MGen* currently owns the remaining 14%. As a result of the transaction, *MGen* will own 100% of *GBPC*.

The *PCC* confirmed on February 9, 2021, that the proposed transaction qualifies as an internal restructuring and thus, does not require further approval by the *PCC*. On March 31, 2021, *MGen* completed the acquisition of the 86% combined equity in *GBPC* from *MPIC* and *JG Summit*. 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 assets and liabilities recognized as a result of the acquisition are as follows:

	Amounts In millions
Current assets	₱18,377
Noncurrent assets	73,774
Current liabilities	(15,069)
Noncurrent liabilities	(29,685)
Net identifiable assets acquired	47,397
Less:	
Non-controlling interests	9,520
Value of existing 14% ownership in <i>GBPC</i>	5,302
Net assets acquired	₱32,575

As of September 30, 2021, *MGen* settled ₱26,294 million, representing the 80% of the total purchase price consideration.

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

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

MERALCO is owned directly by two (2) major shareholder groups, *Metro Pacific* and *JG Summit*. *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its

wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*'s combined direct and indirect ownership interests in *MERALCO* totaled 45.46% while *JG Summit* has 29.56% direct ownership interest in *MERALCO*. First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation have a combined direct equity ownership of 3.95% in *MERALCO*. The balance of *MERALCO*'s common shares is held by institutional investors and the public.

The common shares of *MERALCO* are listed and traded in the Philippine Stock Exchange ("*PSE*") with ticker symbol, *MER*.

The registered office address of *MERALCO* is Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, Philippines.

The consolidated financial statements were approved and authorized for issue by the *BOD* on October 25, 2021.

2. Rate Regulations

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

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

Performance-Based Regulations ("PBR")

MERALCO

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RYs* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAPs* for each of the *RY*. As at October 25, 2021, *MERALCO* is awaiting the final approval of the *ERC*.

Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (“*FOE*”) after the *ERC* has resolved pending motions. As at October 25, 2021, the *ERC*’s ruling on these motions remains pending.

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

While *MERALCO* complied with the directive to refund the total amount of ₱263.9 million representing regulatory reset costs, equivalent to ₱0.0731 per *kWh* in its July 2019 billing, it wrote a letter seeking clarification or reconsideration on the basis for such refund, including the imposition of and basis for the interest computed therein. The refund was included as a separate line item in *MERALCO*’s July 2019 billing to its customers. As at October 25, 2021, the *ERC* has yet to reply to *MERALCO*’s letter.

MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the “Other noncurrent liabilities” and “provision for probable losses” accounts in the consolidated statements of financial position and “consolidated statements of income” mainly include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards (“*PFRSs*”) as it may prejudice the position of *MERALCO*.

Distribution Rate True-Up Application

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff (“*AWAT*”) vis-à-vis *ERC*-approved Interim Average Rate (“*IAR*”) for the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from July 2015 to November 2020 when *MERALCO* was implementing the *IAR*. *MERALCO* prayed that a Decision be rendered: (a) approving *MERALCO*’s proposed mechanism to address the issue of the rates governing the period from July 2015 to November 2020 (“*lapsed period*”) through the true-up mechanism between *MERALCO*’s *AWAT* and *IAR*; (b) confirming *MERALCO*’s resulting calculation of the total amount to be refunded to its customers of ₱13,886 million; (c) approving *MERALCO*’s proposed refund scheme and refund period, within 24 months or until fully refunded, to its customers; and (d) declaring all issues relating to *MERALCO*’s *lapsed period* (and until a new rate has been determined by the *ERC* for the next regulatory period), as resolved, closed and terminated with prejudice. In an Order dated January 27, 2021, the *ERC* granted *MERALCO* provisional authority to implement the refund. The refund was reflected as a separate line item in the billings to customers starting March 2021. As at October 25, 2021, the refund and the hearings on the case are ongoing.

Of the ₱13,886 million, the amount expected to be refunded within the next 12 months is presented as part of “Provisions” under “Trade payables and other current liabilities” account, and the balance

which is expected to be refunded beyond one year is presented as part of “Other noncurrent liabilities” account in the consolidated statements of financial position.

CAPEX for 4th RP, RY 2020 to RY 2022

Absent the release by the *ERC* of the final rules to govern the filing of the 4th *RP* and 5th *RP*, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, for each of the *RPs* beginning July 1, 2015.

In a Decision dated June 15, 2016, the *ERC* approved *MERALCO*’s *RY* 2016 *CAPEX* application. For *MERALCO*’s *RY* 2017 *CAPEX* application, the *ERC* granted a provisional authority to implement certain projects amounting to ₱8,758 million. As at October 25, 2021, *MERALCO*’s *CAPEX* applications for the rest of the 4th *RP* and *RYs* 2020 to 2021 remain pending with the *ERC*.

On July 27, 2021, *MERALCO* filed its application for the approval of its *RY* 2022 *CAPEX* program. The initial hearing is set on November 26, 2021.

Pending *ERC*’s approval, *MERALCO* manifested several projects as “urgent” or “emergency in nature” and proceeded with the implementation of said *CAPEX*.

Regulatory Reset Process Application

Under *ERC* Resolution No. 25, Series of 2016 dated July 12, 2016, the *ERC* promulgated a Resolution modifying the *RDWR* for privately-owned *DUs* entering the *PBR*. The *ERC* has directed *MERALCO* and Private Electric Power Operators Association (“*PEPOA*”) to publish the Resolution. However, *MERALCO* sought clarification from the *ERC* on certain issues in the Resolution.

In a Notice dated November 16, 2016, the *ERC* approved the draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Handbook*”) for posting in its website. All interested parties were asked to submit their respective comments on the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group’s Petition as referred in the preceding paragraph has been resolved. As at October 25, 2021, the *ERC* has yet to resolve *MERALCO*’s Omnibus Motion. In the meantime, on April 29, 2021, the *ERC* posted the proposed draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Roll Forward Handbook*”) (2nd Draft) for comments of all interested parties. *MERALCO* has filed its comments and is awaiting further action of the *ERC*.

On December 21, 2018, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the Fifth *RP* of the First Entry Group Under *PBR*. As at October 25, 2021, the *ERC* has yet to act on *MERALCO*’s Petition.

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and “Regulatory Reset for the Fourth (4th) and Fifth (5th) *RP* for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. *MERALCO* and other stakeholders have submitted their respective comments and public consultations were held. Thereafter, on March 15, 2021, the *ERC* posted the *RDWR* (2nd Draft) and “Regulatory Reset for the Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations”

Issues Paper (2nd Draft) for comments of all parties. Under said rules, the timelines were modified such that the 4th *RP* or “Lapsed Period” would now cover the period from July 2016 to June 2022; while the 5th *RP* would cover the period from July 2022 to June 2026. *MERALCO* and other stakeholders submitted their respective comments and their counter-comments and/or counter-proposals to those submitted by the other stakeholders. As at October 25, 2021, *MERALCO* is awaiting further action of the *ERC*.

In preparation for the regulatory reset process, the *ERC* directed all *DUs* under *PBR* to submit certain information in connection with the validation of the actual/historical expenditures for prior years. For *MERALCO*, the period covered is from July 1, 2011 to September 30, 2019. As at October 25, 2021, *MERALCO* has submitted the requested information and is awaiting further action of the *ERC*.

In a letter dated August 18, 2021, and in further preparation for the regulatory reset process, the *ERC* directed *MERALCO* to submit required information in relation to the review of the Regulatory Asset Base and validation of expenditures. *MERALCO* made an initial submission on September 15, 2021 and is set to provide the remaining required information on October 30, 2021.

Clark Electric

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

3rd and 4th RP PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* and subsequent regulatory period, the approved *MAP* for *RY* 2015 was used beginning *RY* 2016.

On February 18, 2016, December 29, 2016, May 17, 2018 and July 5, 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for *RYs* 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to the *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for *RYs* 2016, 2017 and 2018. As at October 25, 2021, the application is pending approval by the *ERC*.

Supreme Court (“SC”) Decision on Unbundling Rate Case

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

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility’s rates. However, while the *SC* affirmed *ERC*’s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*’s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In

compliance with the directive of the SC, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DUs* that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by the National Association of Electric Consumers for Reforms Inc. ("*NASECORE*"), which among other things, (i) voided the adoption by the *ERC* of the current or replacement cost in the valuation of *MERALCO*'s *RAB*; and (ii) remanded the case to *ERC* to determine, within 90 days from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a distribution utility shall be passed on wholly or partially to consumers.

MERALCO, the other *DUs* and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at October 25, 2021, the case is pending before the *SC*.

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

MERALCO

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities". These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, local franchise and business taxes. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the *SL* true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering

adjustments from January 2011 to December 2013) as the new deadlines for *DUs* in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter. On December 15, 2010, the *ERC* promulgated Resolution No. 23, Series of 2010 to govern the recovery of senior citizens discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On June 1, 2015, the *ERC* approved with modification *MERALCO*'s applications for the confirmation of its under- or over-recoveries of its pass-through costs for the periods June 2003 to December 2010 and January to December 2011, directing *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges until such time that the full amount has been collected. As at September 30, 2021, the net under-recoveries are fully recovered.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net senior citizens discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. In an Order dated December 5, 2019, the *ERC* provisionally approved the application. *MERALCO* started implementation of the Order in its March 2020 billing. As at October 25, 2021, hearings are ongoing.

On January 29, 2016, *MERALCO* filed its application to confirm its under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at October 25, 2021, the application is pending before the *ERC*.

On March 31, 2017, *MERALCO* filed its application with the *ERC* to confirm its net generation charge over-recoveries of ₱4,919 million, net transmission charge over-recoveries of ₱632 million, net lifeline subsidy over-recoveries of ₱131 million, net *SL* over-recoveries of ₱1,243 million, net senior citizen discount over-recoveries of ₱2 million from January 2014 to December 2016 and real property tax ("*RPT*") payments under-recoveries of ₱1,090 million from June 2014 to December 2016. On May 11, 2017, the *ERC* provisionally approved *MERALCO*'s application to refund the over-recoveries of pass-through charges (generation costs, transmission costs, system loss, life line subsidies and senior citizen discount) for the period January 2014 to December 2016 amounting to ₱6,927 million. The Order deferred action on *MERALCO*'s application for the recovery of *RPT* payments, citing the absence of any rule or guideline providing for the process of confirmation, approval and recovery of *RPT*. The ₱6,927 million was included in the June 2017 until August 2017 billings to customers. *MERALCO* then filed a manifestation in order to zero out the remaining balance. *MERALCO* filed its *FOE* on April 27, 2018. As at October 25, 2021, the application is pending final approval by the *ERC*.

On September 1, 2020, *MERALCO* filed its application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of ₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021. *MERALCO* filed its *FOE* on February 5, 2021. As at October 25, 2021, the application is pending final approval by the *ERC*.

Clark Electric

Clark Electric filed its application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with the *ERC* Resolution No. 16, series of 2009. A public hearing was held on June 17, 2014 and the *ERC* decision was received by *Clark Electric* on January 13, 2017. On January 30, 2017, *Clark Electric* filed a *MR* on the decision of the *ERC*. As at October 25, 2021, the *MR* is pending decision by the *ERC*.

On March 31, 2017, *Clark Electric* filed with the *ERC* its second application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014, 2015 and 2016. A public hearing was held on October 25, 2017. On March 5, 2020, *Clark Electric* received an *ERC* Order dated December 9, 2019 directing *Clark Electric* to refund over-recoveries of transmission costs amounting to ₱22 million and to collect under-recoveries of generation and system loss costs amounting to ₱6 million and ₱4 million, respectively. Refund and collection of under- or over-recoveries of these pass-through charges is for a period of six (6) months starting the next billing period from the receipt of the *ERC* Order or such time that the full amount shall have been refunded.

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 October 25, 2021, hearings are ongoing.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("WESM") billing adjustments based on regulated Luzon WESM prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the SC involving generation costs for the November and December 2013 supply months and the regulated WESM prices for the said period. As at October 25, 2021, the proceedings remain suspended.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchase power adjustment ("PPA") transmission line costs related to Quezon Power (Philippines) Limited Company ("QPPL") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per kWh. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred purchase price adjustment under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at October 25, 2021, the *MR* is still pending resolution by the *ERC*.

Applications for Recovery of Local Franchise Tax (“LFT”)

MERALCO has filed distinct applications with request for provisional authority to implement new *LFT* rates based on Ordinances from the cities of Manila, Quezon, Binan, Makati, Valenzuela, Taguig and Pasig. Some hearings have been completed and are awaiting final approval. Application for recovery of taxes paid have been filed and pending decision by the *ERC*.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*’s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per kWh for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*’s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*’s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at October 25, 2021, *MERALCO* continues to process the refund claims of eligible customers.

See Note 19 – 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 October 25, 2021, 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 *PFRSs*.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of *MERALCO* and its directly and indirectly owned subsidiaries, collectively referred to as the *MERALCO Group*. The following table presents such subsidiaries and the respective percentage of ownership:

Subsidiaries	Place of Incorporation	Principal Business Activity	2021		2020	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. (“CIS”)	Philippines	e-Transactions	100	–	100	–
Customer Frontline Solutions, Inc. (“CFSI”)	Philippines	Teller services	–	95	–	95
CIS Bayad Center, Inc. (“Bayad”)	Philippines	Bills payment collection	–	95	–	95
Fieldtech Specialist, Inc. (“Fieldtech”)	Philippines	Bills payment collection	–	48	–	48
Meralco Energy, Inc. (“MServ”)	Philippines	Energy systems management	100	–	100	–
Aurora Managed Power Services, Inc. (“AMPSI”) ¹	Philippines	Energy systems management	–	60	–	60
eMeralco Ventures, Inc. (“e-MVT”)	Philippines	e-Business development	100	–	100	–
Paragon Vertical Corporation (“Paragon”)	Philippines	Information technology (“IT”) and multi-media services	–	100	–	100
Radius Telecoms, Inc. (“Radius”)	Philippines	Telecommunication services	–	100	–	100
MGen	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation ²	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. (“A1E”) ³	Philippines	Power generation	–	100	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	–	100	–	100
MPG Asia Limited (“MPG Asia”)	British Virgin Islands	Holding company	–	100	–	100
Solvre, Inc. ²	Philippines	Retail electricity supplier	–	100	–	100
MGen Renewable Energy, Inc. (“MGreen”)	Philippines	Renewable energy	–	100	–	100
LagunaSol Corporation (“LagunaSol”) ²	Philippines	Renewable energy	–	100	–	100
Nortesol III Inc. (“NorteSol”) ²	Philippines	Renewable energy	–	70	–	70
Powersource First Bulacan Solar, Inc. (“First Bulacan”)	Philippines	Renewable energy	–	60	–	60
GBPC	Philippines	Power generation	–	100	–	–
ARB Power Ventures, Inc.	Philippines	Holding company	–	100	–	–
Toledo Power Company (“TPC”)	Philippines	Power generation	–	100	–	–
Toledo Holdings Corporation	Philippines	Real estate	–	100	–	–
Global Trade Energy Resources Corp.	Philippines	Trading of coal	–	100	–	–
Panay Power Holdings Corporation	Philippines	Holding company	–	89	–	–
Panay Energy Development Corporation (“PEDC”)	Philippines	Power generation	–	89	–	–
Panay Power Corporation	Philippines	Power generation	–	89	–	–
GBH Power Resources, Inc.	Philippines	Power generation	–	100	–	–
Global Formosa Power Holdings, Inc.	Philippines	Holding company	–	93	–	–
Cebu Energy Development Corporation (“CEDC”)	Philippines	Power generation	–	52	–	–
GESC	Philippines	Retail electricity supplier	–	100	–	–
Mindanao Energy Development Corporation	Philippines	Power generation	–	100	–	–
Global Hydro Power Corporation	Philippines	Power generation	–	100	–	–
Global Luzon Energy Development Corporation (“GLEDC”)	Philippines	Power generation	–	57	–	–
Lunar Power Core, Inc.	Philippines	Holding company	–	57	–	–
Global Renewable Power Corporation	Philippines	Renewable energy	–	100	–	–
CACI Power Corporation	Philippines	Power generation	–	60	–	–
PH Renewables Inc.	Philippines	Power generation	–	54	–	–
Spectrum	Philippines	Renewable energy	100	–	100	–
Vantage	Philippines	Retail electricity supplier	100	–	100	–
(Forward)						

Subsidiaries	Place of Incorporation	Principal Business Activity	2021		2020	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Meralco Financial Services Corporation (“Finserve”)	Philippines	Financial services provider	100	–	100	–
Lighthouse Overseas Insurance Limited (“LOIL”)	Bermuda	Insurance	100	–	100	–
MRAIL, Inc. (“MRail”)	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
eSakay, Inc. (“eSakay”)	Philippines	Maintenance and operation of transport service networks	100	–	100	–
MIESCOR	Philippines	Engineering, construction and consulting services	99	–	99	–
Miescor Builders Inc. (“MBI”)	Philippines	Electric transmission and distribution operation and maintenance services	–	99	–	99
Miescor Logistics Inc. (“MLI”)	Philippines	General services, manpower/maintenance	–	99	–	99
Clark Electric	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. (“Clarion”) ²	Philippines	Retail electricity supplier	–	65	–	65
Comstech	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	–	60	–	60
Meridian Power Ventures Limited (“MPV Limited”) ²	Hongkong	Investment holdings	100	–	100	–
Shin Clark	Philippines	Holding company	60	–	60	–
Phoenix Power Solutions, Inc. (“PPSI”) ²	Philippines	Retail electricity supplier	100	–	100	–

¹ The BOD of AMPSI approved the dissolution and shortening of corporate life until March 31, 2021.

² Has not started commercial operations.

³ In development stage as at September 30, 2021.

Control is achieved when the *MERALCO Group* is exposed, or has the right, to variable returns from its involvement with the investee. Specifically, the *MERALCO Group* controls an investee if and only if the *MERALCO Group* has (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When the *MERALCO Group* has less than majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the *MERALCO Group*’s voting rights and potential voting rights.

The *MERALCO Group* re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one (1) or more of the three (3) elements of control. Consolidation of a subsidiary begins when the *MERALCO Group* obtains control over the subsidiary and ceases when it loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date it gains control until the date it ceases to control the subsidiary.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets 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.

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 period except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2021.

Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate ("*IBOR*") is replaced with an alternative nearly risk-free interest rate ("*RFR*"):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of *IBOR* reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an *RFR* instrument is designated as a hedge of a risk component

The *MERALCO Group* shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to *IBOR* reform, and how the entity manages those risks; and

- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments do not have material effect on the consolidated financial statements of the *MERALCO Group*.

Effective beginning on or after January 1, 2022

Amendments to PFRS 3, Reference to the Conceptual Framework

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of *PFRS 3, Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of *PAS 37, Provisions, Contingent Liabilities and Contingent Assets* or *Philippine-IFRIC 21, Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to *PFRS 3* to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively.

Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest year presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the *MERALCO Group*.

Amendments to PAS 37, Onerous Contracts – Costs of Fulfilling a Contract

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting years beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting year in which it first applies the amendments.

The amendments are not expected to have a material impact on the *MERALCO Group*.

Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of *PFRS 1* to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to *PFRS*. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of *PFRS 1*.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the *MERALCO Group*.

Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The *MERALCO Group* will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment. The amendments are not expected to have a material impact on the *MERALCO Group*.

Amendments to PAS 41, Agriculture, Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of *PAS 41* that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of *PAS 41*.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting year beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the *MERALCO Group*.

Effective beginning on or after January 1, 2023

Amendments to PAS 1, Classification of Liabilities as Current or Non-current

The amendments clarify paragraphs 69 to 76 of *PAS 1, Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting year
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting years beginning on or after January 1, 2023 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.

PFRS 17, Insurance Contracts

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, *PFRS 17* shall replace *PFRS 4, Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions shall apply.

The overall objective of *PFRS 17* is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in *PFRS 4*, which are largely based on grandfathering previous local accounting policies, *PFRS 17* provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of *PFRS 17* is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting year beginning on or after January 1, 2023, with comparative figures required. Early application is permitted. The *MERALCO Group* is currently assessing the impact of adopting *PFRS 17*.

Deferred Effectivity

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

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

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

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

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are as follows:

Utility Plant, Generation Plant and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant, 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 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:

<u>Asset Type</u>	<u>Estimated Useful Lives</u>
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Boilers and powerhouse	3-25 years
Buildings and improvements	15-40 years
Communication equipment	5-10 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	2-20 years

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Investments in Associates and Interests in Joint Ventures

An associate is an entity where *MERALCO Group* has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and interests in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Under the equity method, the investment in an associate or interest in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

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

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

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

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

Business Combinations and Goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability will be recognized in accordance with *PFRS 9* in profit or loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree, over the

fair value of net identifiable assets acquired. If the difference is negative, such difference is recognized as gain in the consolidated statement of income.

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

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

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

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

Investment Properties

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

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

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

The *MERALCO Group*’s investment properties acquired before January 1, 2004 are stated at deemed cost.

See *Note 16 – Equity* for the related discussions.

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

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the commencement of an operating lease to another party. If owner-occupied property becomes an investment property, the *MERALCO Group* accounts for such property in accordance with the policy stated under utility plant, generation plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or the commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property as at the date of change in use.

Intangible Assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either finite or indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 10 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the consolidated statement of income.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of intangible assets with indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of income.

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the period 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 period.

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 period 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 period. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

Financial 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 *SPPI* on the principal amount outstanding. This assessment is referred to as the *SPPI* test and is performed at an instrument level.

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

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

Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

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

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

Financial assets at amortized cost are subsequently measured using the effective interest rate ("*EIR*") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The *MERALCO Group*'s financial assets at amortized cost includes cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost, advances to an associate and advance payments to a supplier.

Financial assets at FVOCI (debt instruments)

The *MERALCO Group* measures debt instruments at *FVOCI* if both of the following conditions are met:

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

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognised in *OCI*. Upon derecognition, the cumulative fair value change recognised in *OCI* is recycled to profit or loss. The *MERALCO Group*'s debt instruments at *FVOCI* include investments in government securities and investments in corporate bonds.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32, Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of profit or loss when the right 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*”).

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act (“*Bayanihan 1*”) was enacted. *Bayanihan 1* provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the *ECQ* period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act (“*Bayanihan 2*”), was enacted. Under *Bayanihan 2*, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

In 2020, the *MERALCO Group*, in addition to the reliefs provided under *Bayanihan 1* and *Bayanihan 2*, has offered financial reliefs to its borrowers/counterparties as a response to the effect of the *COVID-19* pandemic. These relief measures included the following:

- Restructuring of existing receivables including extension of payment terms
- Relief for principal and interest repayments

Based on the *MERALCO Group* assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets.

Impairment of Financial Assets

The *MERALCO Group* recognizes an allowance for expected credit losses (“*ECLs*”) for all debt instruments not held at *FVPL*. *ECLs* are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the *MERALCO Group* expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, *ECLs* are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month *ECL*). For those credit exposures for which there has been a significant increase in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime *ECL*).

Financial assets are credit-impaired when one (1) or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime *ECLs* are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

For trade receivables and contract assets, the *MERALCO Group* applies a simplified approach in calculating *ECLs*. Therefore, the *MERALCO Group* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. The *MERALCO Group* has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In 2020, due to the *COVID 19* pandemic, the *MERALCO group* has considered resegmentation of its customer bills starting from the *ECQ* period, the expected deferred payment arrangements and expected default upon resumption of service disconnection activities in the *ECL* assessment.

For debt instruments, the *MERALCO Group* applies the low credit risk simplification. At every reporting date, the *MERALCO Group* evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the *MERALCO Group* reassesses the internal credit rating of the debt instrument. In addition, the *MERALCO Group* considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The *MERALCO Group*'s debt instruments at *FVOCI* comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the *MERALCO Group*'s policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the expected lifetime credit losses.

Credit losses are recognized based on 12-month *ECL* for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term, may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

At each reporting date, the *MERALCO Group* assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The *MERALCO Group* considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the *MERALCO Group*'s investment grade criteria, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month *ECL*. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the *MERALCO Group* from the time of origination.

An exposure will migrate through the *ECL* stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime *ECL* to 12-months *ECL*.

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

Financial Liabilities

Initial Recognition and Measurement

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

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

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

Subsequent Measurement

Financial liabilities at FVPL

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

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

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

Loans and borrowings

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

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

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Exchange or modification of financial liabilities

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10%

different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the *MERALCO Group* recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

The *MERALCO Group* has not availed of any reliefs and has not renegotiated the terms of its existing loan agreements with its lenders.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the consolidated statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the consolidated statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

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

Prepayments

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

Value-Added Tax ("VAT")

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

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

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

Provisions

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

Retirement Benefits

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

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

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

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

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

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

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

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 period is recognized for services rendered by employees up to the end of the reporting period.

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

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the 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 period are disclosed as events after the financial reporting period.

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, the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance (“FiT-All”) are also separately presented in the customer’s billing statement. VAT billed and collected on behalf of the national governments, LFT billed and collected on behalf of the local government units, universal charges and FiT-All [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation (“PSALM”) and National Transmission Corporation (“TransCo”), respectively] do not form part of MERALCO and Clark Electric’s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

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 (“ASPA”), and sale of electricity to WESM.

The MGen Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The MGen Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the MGen Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from contracts with customers is consummated whenever the electricity generated by the MGen Group is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is recognized monthly based on the actual energy delivered made available to customers or minimum energy off take or contracted capacity, adjusted by actual days of downtime, whichever is higher.

Revenue from sale of electricity through ancillary services to the NGCP is recognized monthly based on the capacity scheduled and/or dispatched and provided.

Energy fees derived from trading operations are recognized based on actual delivery of such electricity supplied and made available to customers multiplied by the applicable tariff rate as agreed with its customers.

Revenue from Contracts with Customers - Recognized at the Point in Time

Revenues from the following are recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods:

Coal Sales

Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer.

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.

Sale of Services

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

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

Interest Income

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

Lease Income

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

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

Receivables

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

Contract Assets

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

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

Contract Liabilities

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

(whichever is earlier). Contract liabilities are recognized as revenue when the *MERALCO Group* performs under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

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

Net Over-recoveries of Pass-through Charges

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

Cost and Expense Recognition

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

MERALCO Group recognizes contract costs relating to satisfied performance obligations as these are incurred. Contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. Project mobilization costs and incremental costs of obtaining a contract with a customer are recognized as an asset if the *MERALCO Group* expects to recover them and the contract term is for more than one year. The project mobilization costs and costs of obtaining a contract is amortized over the expected construction period following the pattern of revenue recognition. Costs incurred prior to obtaining a contract with a customer are not capitalized but are expensed as incurred. Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single construction contract.

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

Lease Liabilities

At the commencement date of the lease, the *MERALCO Group* recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual

value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the *MERALCO Group* and payments of penalties for terminating a lease, if the lease term reflects the *MERALCO Group* exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period which the event or condition that triggers the payment occurs.

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

Short-term Leases and Leases of Low-value Assets

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

Leases

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

Company as Lessee

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

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

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

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

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

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

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period 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 periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent these have become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

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

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

Earnings per Share

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

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

Contingencies

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

Events After the Reporting Date

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

5. 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 periods.

Judgments

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

Determination of Functional Currency

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

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

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 *PPAs* and *PSAs* no longer qualify to be accounted for as lease and are accounted for as ordinary service contracts. *PPAs* and *PSAs* do not qualify under *PFRS 16* since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified asset.

Principal versus Agent

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

Revenue from sale of electricity requires *MERALCO* and *Clark Electric* to bill customers based various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC Resolution No. 16, A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*.

Moreover, *MERALCO* and *Clark Electric* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the 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 San Buenaventura Power Ltd. Co. (“SBPL”). While MERALCO owns majority of the voting rights in SBPL, it does not have sole control of SBPL. MERALCO’s investment in SBPL is accounted for as a joint venture since key operating and financial decisions of SBPL require the unanimous vote and consent of the parties sharing control.

*Entity in which the MERALCO Group Holds less than 20% of the Voting Rights
Accounted for as an Associate*

Until March 31, 2021, MERALCO, through MGen, has a 14% interest in Global Business Power Corporation (“GBPC”). GBPC was considered an associate and, thus, MERALCO’s interest in GBPC was accounted for using the equity method until March 31, 2021 as MERALCO was deemed to have significant influence in GBPC as evidenced by its representation in the BOD and Executive Committee and the provision of essential technical information to GBPC. This representation guarantees MGen’s participation in the decision-making acts and policy making process of GBPC.

On December 23, 2020, MGen signed separate Share Purchase Agreements with Beacon Power Holdings, Inc. (“BPHI”) and JG Summit to acquire the respective 56% and 30% holdings in GBPC. The Philippine Competition Commission (“PCC”) confirmed on February 9, 2021 that the transaction qualifies as an internal restructuring and thus, does not require further approval by the PCC.

MERALCO, through Finserve, has 10% interest in AF Payments, Inc. (“AF Payments”). AF Payments is considered an associate and, thus, MERALCO/Finserve’s interest in AF Payments is accounted for using the equity method as MERALCO/Finserve is deemed to have significant influence as evidenced by its representation in the BOD which guarantees MERALCO’s participation in the decision making and policy making process of AF Payments.

Contingencies

The MERALCO Group has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See Note 29 – Contingencies and Legal Proceedings.

Estimates and Assumptions

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

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

The MERALCO Group estimates the useful lives of utility plant, generation plant and others, intangible assets with finite lives and, investment properties based on the 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 period 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 ₱8,042 million and ₱5,728 million for the nine months ended September 30, 2021 and 2020, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱218,087 million and ₱163,009 million as at September 30, 2021 and December 31, 2020, respectively.

Total depreciation of investment properties amounted to ₱3 million for each of the nine months ended September 30, 2021 and 2020. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,497 million and ₱1,499 million as at September 30, 2021 and December 31, 2020, respectively.

Total amortization of intangible assets with finite lives amounted to ₱597 million and ₱363 million for the nine months ended September 30, 2021 and 2020, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱15,059 million and ₱2,233 million as at September 30, 2021 and December 31, 2020, respectively.

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

Impairment of Nonfinancial Assets

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

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

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

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

Account	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(Amounts in millions)</i>	
Utility plant, generation plant and others	₱218,087	₱163,009
Investments in associates and interests in joint ventures	21,890	15,688
Intangible assets	15,059	2,233
Investment properties	1,497	1,499
Receivable from the <i>BIR</i>	181	181
Goodwill	35	35

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

Realizability of Deferred Income Tax Assets

The *MERALCO Group* reviews the carrying amounts of deferred income tax assets at the end of each reporting period and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting period. 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:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(Amounts in millions)</i>	
Recognized deferred income tax assets	₱33,898	₱37,019
Unrecognized deferred income tax assets	2,099	2,379

See *Note 28 – Income Taxes and Local Franchise Taxes*.

Provision for ECL of Receivables and Contract Assets

The *MERALCO Group* applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in 2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the expected deferred payment arrangements and expected default upon resumption of service disconnection activities.

In previous periods, to measure the expected credit losses, trade and other receivables and contract assets have been grouped based on credit risk characteristics and the days past due. The expected loss rates are based on the collection profiles of receivables over the period of 36 months before December 31, 2019 and the corresponding historical credit losses experience within the year. The historical rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The contract assets relate to unbilled receivables and under-recoveries of pass-through charges and have substantially the same risk characteristics as the trade and other receivables. The *MERALCO Group* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

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

ECLs for trade and other receivables amounted to ₱586 million and ₱1,464 million for the nine months ended September 30, 2021 and 2020, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱52,957 million and ₱58,120 million as at September 30, 2021 and December 31, 2020, respectively.

See *Note 13 – Trade and Other Receivables*.

The *MERALCO Group* has also recognized provision for expected credit losses on its advances to an associate amounting to ₱5,776 million as at September 30, 2021 and December 31, 2020.

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 ₱8,631 million and ₱5,484 million as at September 30, 2021 and December 31, 2020, respectively.

See *Note 14 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement and other post-employment benefits expense amounted to ₱1,584 million and ₱1,199 million for the nine months ended September 30, 2021 and 2020, respectively. Retirement and other post-employment benefit liabilities as at September 30, 2021 and December 31, 2020 amounted to ₱16,401 million and ₱14,020 million, respectively.

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

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

See *Note 25 – Expenses and Income* and *Note 26 – Long-term Employee Benefits*.

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 28 – Contingencies and Legal Proceedings*. The *MERALCO Group's* estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsel, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

The *MERALCO Group*, in consultation with its external legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies and actions relating to these proceedings.

The *MERALCO Group* recognized net provisions on various claims and assessments amounting to ₱6,446 million and ₱15,685 million for the nine months ended September 30, 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 period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at September 30, 2021 and December 31, 2020, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱1,099 million and ₱2,275 million, respectively.

See *Note 19 – Provisions* and *Note 22 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

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

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

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

Revenues and costs from construction contracts of *MIESCOR* are recognized based on the output method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from Contracts with Customers

The *MGen Group* applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- 1) *Identifying Performance Obligations.* The *MGen Group* identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the *MGen Group*'s promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The *MGen Group* assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:

- a. each distinct good or services in the series are transferred over time; and
- b. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

For revenue contracts under *EPPAs*, *ASPA*, and spot market sales to *WESM*, these are combined and considered as one (1) performance obligation since these are not distinct within the context of *PFRS 15* as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

- 2) *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The *MGen Group* includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The *MGen Group* considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the *MGen Group* will be subjected to constraint.

Factors such as the following are considered:

- a. high susceptibility to factors outside the Group's influence;
- b. timing of the resolution of the uncertainty; and
- c. having a large number and broad range of possible outcomes.

Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.

The *MGen* Group determined that the expected value method is the appropriate method to use in estimating the variable consideration given the number of contracts with customers that have similar characteristics and the range of possible outcomes.

- 3) *Allocation of Variable Consideration.* Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under *EPPAs*, *ASPA* and spot market sales to *WESM*, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the *MGen* Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the *MGen* Group.
- 4) *Revenue Recognition.* The *MGen* Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The *MGen* Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the *MGen* Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The *MGen* Group concluded that revenue from sale of electricity from contracts with customers are to be recognized over time, since customers simultaneously receive and consume the benefits as the Group supplies power.

- 5) *Identifying Methods for Measuring Progress of Revenue Recognized Over Time.* The *MGen* Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

The *MGen* Group determined that the output method is the best method in measuring progress as actual electricity is supplied to customers.

6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including revenues and expenses relating to transactions with other business segments within the *MERALCO Group*). The operating results of each of the operating

segments are regularly reviewed by *MERALCO*'s Management Committee to determine how resources are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

For management purposes, the *MERALCO Group*'s operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and/or services, as follows:

- Power

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

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

Shin Clark is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. (“*Kansai*”)], and Chubu Electric Power Co., Inc. (“*Chubu*”), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority (“*BCDA*”). As at October 25, 2021, the documents for the incorporation of the joint venture company with *BCDA* has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

Power generation – The *MERALCO Group*'s re-entry into power generation is through investments in operating companies or participation in the development of power generation projects.

MGen, the power generation arm of the *MERALCO Group*, completed the acquisition of the 86% combined equity of *GBPC* from *BPHI* and *JG Summit*, and paid the first installment of the purchase price. Thereafter, *GBPC* became a wholly owned subsidiary of *MGen*.

GBPC is the largest independent power producer in the Visayas. *GBPC* owns 854 MW (gross) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation (“*ATEC*”), which holds a 75% interest in Sarangani Energy Corporation (“*Sarangani Energy*”). *Sarangani Energy*'s first 105 MW (net) *CFB* plant in Maasim, Sarangani started commercial operations in 2016. The second 105 MW (net) *CFB* plant completed commissioning and started commercial operations in September 2019.

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

Prior to this transaction, *BPHI* holds a 56% ownership interest in *GBPC* while *JG Summit* holds a 30% interest. As a result of the transaction, *MGen* owns 100% of *GBPC*.

The *PCC* confirmed on February 9, 2021, that the proposed transaction qualifies as an internal restructuring and thus, does not require further approval by the *PCC*.

Beginning July 1, 2021, *MGen* owns an effective 58% equity in PacificLight Power Pte Ltd. (“*PacificLight Power*”) in Jurong Island, Singapore. *PacificLight Power* owns and operates a 2 x 400 MW combined cycle turbine power plant mainly fueled by liquefied natural gas (“*LNG*”).

MGen, through *SBPL*, a 51% owned joint venture entity, owns and operates a 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon. The *PSA* with *MERALCO* was approved by the *ERC* on May 19, 2015.

SBPL’s supercritical coal-fired plant in Mauban, Quezon has been in full operations delivering 2,598 GWh of energy from January to September 2021 with an average plant availability of close to 92% except during its 21 days of forced outage in February and March.

MGen is developing a 2 x 600 MW (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *AIE*. It will be the first ultra-supercritical coal-fired facility to be built in the country. Site preparation is in an advanced stage and engineering activities are ongoing to meet the targeted operations date.

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

MGen Renewable Energy, Inc. (“*MGreen*”) is a wholly owned subsidiary of *MGen* engaged in the development, financing, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*. *First Bulacan* has developed a 80 MWdc/50 MWac utility scale solar facility located in San Miguel, Bulacan which is currently the largest single operating solar plant in the country. *First Bulacan* was synchronized to the grid on May 12, 2021 and has since delivered close to 38 GWh of solar energy to *MERALCO* as at September 30, 2021, under an *ERC*-approved *PSA*. The *PSA* is for a period of 20 years from commercial operation date (“*COD*”) of May 12, 2021.

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

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

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

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*; *Solve*, a wholly owned subsidiary of *MGen*; *MeridianX*, a wholly owned subsidiary of *Comstech*, on January 10, 2017, February 9, 2017 and February 9, 2017, respectively. On April 21, 2021, *PPSI*, a wholly owned subsidiary of *MERALCO*, was issued a *RES* license by the *ERC* while *Vantage RES* renewal is on-going. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC*. As at October 25, 2021, the approval of its *RES* licensing is pending with the *ERC*. *GESC*, a wholly owned subsidiary of *GBPC*, was issued a *RES* license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, *GESC*'s *RES* license was renewed for another five (5) years beginning September 13, 2021.

- Other Services

The other services segment is involved principally in electricity-related services, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as “*MIESCOR Group*”), *CIS*, *Bayad*, *CFSI* and *Fieldtech* (collectively referred to as “*CIS Group*”), *e-MVI*, *Paragon* and *Radius* (collectively referred to as “*e-MVI Group*”), *Comstech*, *MRail*, *LOIL*, *Finserve*, *MServ*, *Spectrum* and *eSakay*.

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

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures and provision for income tax.

CCNI for the period is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

Billings between operating segments are done on an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. None of its revenues from transactions with a single external customer accounts for 10% or more of its revenues from external customers.

	Note	Power		Other Services		Inter-segment Transactions		Total	
		For the Nine Months Ended September 30							
		2021	2020	2021	2020	2021	2020	2021	2020
(Amounts in Millions)									
Revenues		₱225,404	₱208,434	₱10,223	₱7,415	(₱3,910)	(₱1,641)	₱231,717	₱214,208
Segment results		₱37,736	₱35,605	₱2,257	₱1,880	₱—	₱—	₱39,993	₱37,485
Provision for probable losses and expenses from claims		(6,437)	(18,348)	(9)	—	—	—	(6,446)	(18,348)
Depreciation and amortization	7, 8 and 10	(8,224)	(5,653)	(418)	(441)	—	—	(8,642)	(6,094)
Interest and other financial income	25	1,656	1,844	30	31	—	—	1,686	1,875
Equity in net earnings (losses) of associates and joint ventures	8	1,948	720	1	(3)	—	—	1,949	717
Interest and other financial charges	25	(2,594)	(1,141)	(71)	(82)	—	—	(2,665)	(1,223)
Provision for income tax - net	28	(8,164)	(2,549)	(568)	(521)	—	—	(8,732)	(3,070)
Net income attributable to non-controlling interests		—	—	—	—	(621)	(90)	(621)	(90)
Net income attributable to equity holders of the Parent		₱15,921	₱10,478	₱1,222	₱864	(₱621)	(₱90)	₱16,522	₱11,252

	Note	Power		Other Services		Inter-segment Transactions		Total	
		For the Three Months Ended September 30							
		2021	2020	2021	2020	2021	2020	2021	2020
(Amounts in Millions)									
Revenues		₱80,564	₱69,803	₱3,990	₱2,786	(₱1,934)	(₱635)	₱82,620	₱71,954
Segment results		₱14,434	₱12,385	₱898	₱611	₱—	₱—	₱15,332	₱12,996
Provision for probable losses and expenses from claims		(3,947)	(5,077)	(8)	—	—	—	(3,955)	(5,077)
Depreciation and amortization	7, 8 and 10	(3,020)	(1,883)	(141)	(166)	—	—	(3,161)	(2,049)
Interest and other financial income	25	537	480	12	7	—	—	549	487
Equity in net earnings of associates and joint ventures	8	926	13	4	2	—	—	930	15
Interest and other financial charges	25	(1,086)	(371)	(25)	(31)	—	—	(1,111)	(402)
Provision for income tax - net	28	(1,410)	(1,315)	(226)	(214)	—	—	(1,636)	(1,529)
Net income attributable to non-controlling interests		—	—	—	—	(375)	(33)	(375)	(33)
Net income attributable to equity holders of the Parent		₱6,434	₱4,232	₱514	₱209	(₱375)	(₱33)	₱6,573	₱4,408

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:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
<i>EBITDA</i>	₱33,853	₱19,698	₱11,014	₱8,303
Add (deduct):				
Depreciation and amortization	(8,642)	(6,094)	(3,161)	(2,049)
Interest and other financial income (charges), net of and foreign exchange gains and losses	(1,285)	91	(199)	(299)
Equity in net earnings of associates and joint ventures	1,949	717	930	15
Income before income tax	25,875	14,412	8,584	5,970
Provision for income tax - net	(8,732)	(3,070)	(1,636)	(1,529)
Net income	₱17,143	₱11,342	₱6,948	₱4,441

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

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
<i>CCNI</i>	₱18,062	₱15,727	₱6,663	₱5,139
Add (deduct) non-core items, net of tax:				
Non-core expenses - net	(1,319)	(4,082)	(369)	(462)
Foreign exchange gains (losses)	(221)	(393)	279	(269)
Net income for the period attributable to equity holders of the Parent	16,522	11,252	6,573	4,408
Net income for the period attributable to non-controlling interests	621	90	375	33
Net income	₱17,143	₱11,342	₱6,948	₱4,441

7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

September 30, 2021 (Unaudited)

	Note	Sub-transmission and Distribution	Boilers and Powerhouse	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
(Amounts in millions)											
Cost:											
Balance at beginning of period		₱196,793	₱–	₱15,752	₱7,401	₱3,339	₱4,079	₱3,973	₱5,755	₱25,822	₱262,914
Additions		1,283	532	1,094	234	1,019	166	253	401	13,154	18,136
Effect of consolidation of GBPC	1	–	68,171	850	–	–	–	–	10	590	69,621
Transfers from construction in progress		13,846	–	–	300	149	31	2	324	(14,652)	–
Disposals/retirements		(1,059)	–	–	(1)	–	(1)	(109)	(9)	–	(1,179)
Reclassifications		(15)	–	–	1	1	2	–	(11)	(39)	(61)
Balance at end of period		210,848	68,703	17,696	7,935	4,508	4,277	4,119	6,470	24,875	349,431
Less accumulated depreciation and amortization:											
Balance at beginning of period		85,913	–	–	3,237	1,896	2,738	2,673	3,448	–	99,905
Depreciation and amortization		5,448	1,187	–	181	287	346	321	272	–	8,042
Effect of consolidation of GBPC	1	–	24,498	–	–	–	–	–	–	–	24,498
Disposals/retirements		(1,058)	–	–	(1)	–	(1)	(63)	(7)	–	(1,130)
Reclassifications		–	–	–	–	(22)	(1)	(1)	53	–	29
Balance at end of period		90,303	25,685	–	3,417	2,161	3,082	2,930	3,766	–	131,344
Net book value		₱120,545	₱43,018	₱17,696	₱4,518	₱2,347	₱1,195	₱1,189	₱2,704	₱24,875	₱218,087

December 31, 2020 (Audited)

		Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
	Note									
<i>(Amounts in millions)</i>										
Cost:										
Balance at beginning of period		₱189,492	₱15,410	₱7,054	₱2,882	₱3,683	₱3,769	₱5,326	₱17,340	₱244,956
Additions		340	342	67	240	172	269	286	18,221	19,937
Transfers from construction in progress		8,506	—	416	269	296	1	122	(9,610)	—
Disposals/retirements		(2,199)	—	(57)	(71)	(3)	(66)	(60)	—	(2,456)
Reclassifications	11	654	—	(79)	19	(69)	—	81	(129)	477
Balance at end of period		196,793	15,752	7,401	3,339	4,079	3,973	5,755	25,822	262,914
Less accumulated depreciation and amortization:										
Balance at beginning of period		80,851	—	3,087	1,541	2,475	2,457	3,104	—	93,515
Depreciation and amortization		6,649	—	189	274	340	268	345	—	8,065
Disposals/retirements		(2,199)	—	(5)	—	(2)	(52)	(23)	—	(2,281)
Reclassifications		612	—	(34)	81	(75)	—	22	—	606
Balance at end of period		85,913	—	3,237	1,896	2,738	2,673	3,448	—	99,905
Net book value		₱110,880	₱15,752	₱4,164	₱1,443	₱1,341	₱1,300	₱2,307	₱25,822	₱163,009

As at September 30, 2021 and December 31, 2020, the net book values of customer-funded assets included in “Utility plant, generation plant and others” account amounted to ₱5,710 million and ₱5,437 million, respectively. The corresponding liabilities to customers in the same amounts as at September 30, 2021 and December 31, 2020 are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

The power plant complex of *TPC* and the generation plant and equipment of *CEDC* and *PEDC*, with aggregate carrying value of ₱26,910 million have been mortgaged/pledged as security for their long-term debt.

See *Note 24 – Revenues and Purchased Power*.

Construction in progress pertains to both electric capital projects (“*ECPs*”) and non-*ECPs*. *ECPs* are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱217 million and ₱209 million based on average capitalization rate of 5% for the nine months ended September 30, 2021 and 2020, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

			September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Associates				
Alsons Thermal Energy Corporation ("ATEC")	Philippines	Power generation	50	—
RP Energy	Philippines	Power generation	47	47
PacificLight Power ⁽¹⁾	Singapore	Power generation	58	28
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
Indra Philippines, Inc. ("Indra Philippines")	Philippines	Management and IT consultancy	25	25
GBPC ⁽²⁾	Philippines	Power generation	—	14
AF Payments	Philippines	Electronic payment clearing and settlement system operator	10	10
Joint Ventures				
SBPL	Philippines	Power generation	51	51
MRail-DESCO Joint Venture ("MDJV")	Philippines	Maintenance of mass transit system	50	50
Pure Meridian Hydropower Corporation ("Pure Meridian")	Philippines	Renewable energy	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

⁽¹⁾ On July 1, 2021, MERALCO acquired Petronas International Power Corporation’s 30% stake in PacificLight Power in the amount of US \$15 million.

⁽²⁾ 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 movements in investments in associates and interests in joint ventures are as follows:

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
(Amounts in millions)			
Acquisition cost:			
Balance at beginning of period		₱21,447	₱21,619
Additions		713	466
Effect of consolidation of GBPC	1	4,525	—
Reclassification ⁽¹⁾	11	(6,021)	(534)
Fair value adjustment on acquisition of GBPC		5,040	—
Disposal		—	(104)
Balance at end of period		25,704	21,447
Accumulated equity in net losses:			
Balance at beginning of period		(5,752)	(7,404)
Equity in net earnings		1,949	1,233
Effect of consolidation of GBPC	1	777	—
Impairment losses		(28)	—
Reclassification ⁽¹⁾		469	895
Dividends received		(1,210)	(476)
Balance at end of period		(3,795)	(5,752)
Share in remeasurement adjustments on retirement liabilities			
Balance at beginning of period		(13)	(12)
Share in actuarial losses		(12)	(1)
Balance at end of the period		(25)	(13)
Share in cumulative translation adjustments:			
Balance at beginning of period		6	762
Reclassification		—	(756)
Balance at end of period		6	6
		₱21,890	₱15,688

⁽¹⁾ In 2020, MERALCO accounted for its 14% investment in GBPC using equity method of accounting and presented as part of investments in associates and interests in joint ventures.

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

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
(Amounts in millions)			
<i>ATEC</i>	1	₱10,065	₱—
<i>SBPL</i>		8,138	7,912
<i>RBC JV</i>		967	1,055
<i>PacificLight Power</i>		1,001	—
<i>RP Energy</i>		711	717
<i>MPioneer</i>		401	390
<i>Indra Philippines</i>		378	353
<i>Pure Meridian</i>		123	131
<i>Aclara Meters</i>		72	63
<i>MDJV</i>		34	33
<i>BPPC</i>		—	2
<i>GBPC</i>	1	—	5,032
		₱21,890	₱15,688

ATEC

ATEC has stake in the following companies: (i) 75% in Sarangani Energy Corporation which owns a 2 x 118.5 MW (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% in San Ramon Power, Inc. which is developing a 120 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation.

SBPL

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

SBPL and *MERALCO* signed a long-term *PSA* covering all the output of the plant. The *PSA* was approved by the *ERC* on May 19, 2015.

RP Energy

On July 22, 2011, *MGen* signed a Shareholders’ Agreement with Therma Power, Inc. (“*TPF*”) and Taiwan Cogeneration International Corporation – Philippine Branch (“*TCIC*”) for the construction and operation of a coal-fired power plant to be located in the Subic Bay Freeport Zone.

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

Pure Meridian

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

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*.

FPM Power/PLP

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.

See Note 15 – *Financial and Other Current Assets* and Note 22 – *Related Party Transactions*.

St. Raphael

On April 27, 2016, *MGen* and Semirara Mining and Power Corporation (“*SMPC*”) entered a joint venture agreement to develop a 2 x 350 MW sub-critical pulverized coal-fired power plant in Calaca, Batangas. The development and operations shall be undertaken by *St. Raphael*, the joint venture entity.

On November 9, 2020, *SMPC*, *MGen* and *St. Raphael* terminated their joint venture agreement to construct a 700 MW coal-fired power plant in Calaca, Batangas. The termination of the joint venture was due to the separate participation in *MERALCO*’s Competitive Selection Process (“*CSP*”) for power supply. Following the termination of the joint venture agreement, *MGen* disposed its shareholding in *St. Raphael* in favor of *SMPC*.

MPioneer

In accordance with the Agreement of Shareholders and Subscription of Shares among *MERALCO*, Pioneer Insurance and Surety Corporation (“*Pioneer Insurance*”) and *MPioneer*, *MPioneer* issued common shares to *Pioneer Insurance* and *MERALCO*. On February 28, 2020, *Pioneer Insurance* and *MERALCO* further subscribed to common shares issued by *MPioneer* resulting in the further dilution of *MERALCO*’s ownership interest in *MPioneer* to 35%. Under the Agreement, *MERALCO* has the right to sell to *Pioneer Insurance*, and *Pioneer Insurance* has the obligation to buy, *MERALCO*’s outstanding stake in *MPioneer* which is exercisable by *MERALCO* at any time during the period from January 1, 2023 to December 31, 2023.

Indra Philippines

Indra Philippines is an IT service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s IT requirements in the area of system development, outsourcing of Information Systems ("IS") and IT operations and management consulting.

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.

MDJV

On June 2, 2014, *MRail* and Desco, Inc. entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways ("PNR"). The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

FBMJV

On October 31, 2018, First Balfour, Inc. and *MRail* entered into a joint venture for the Rehabilitation of the Line 1 Rectifier Substations, a Light Rail Manila Corporation project. The parties agreed an ownership of 51% and 49%, respectively. The project was completed on July 31, 2021 with an additional two (2)-year warranty period.

BPPC

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

In accordance with the Build-Operate-Transfer ("BOT") Agreement signed in 1993, First Private Power Corporation ("FPPC"), then parent company, constructed the 215 MW Bauang Power Plant ("*Bauang Plant*"), and operated the same under a 15-year Cooperation Period up to July 25, 2010. Following the end of the Cooperation Period, *FPPC* turned over the power plant to *NPC* on July 26, 2010 through a Deed of Transfer ("DOT") executed between *FPPC* and *NPC*. *FPPC* transferred to *NPC* all its rights, titles and interests in the power plant, free of liens created by *FPPC*, without compensation. On the same date, all rights, title and interests of *FPPC* in and to the fixtures, fittings, plant and equipment (including test equipment and special tools) and all improvements comprising the power plant were transferred to *NPC* on an "as is" basis. As part of the agreement, *FPPC* also transferred spare parts and lubricating oil inventories. Consequently, *FPPC* declared all organizational positions redundant and separated all employees.

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

On November 24, 2017, *BPPC*'s BOD and stockholders approved a resolution to amend its articles of incorporation shortening the term of its existence from "50 years from the date of incorporation hereof" to "until June 30, 2019". The same was filed to SEC on May 7, 2018 and subsequently approved on May 29, 2018.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* was incorporated in February 2014 primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It shall also supply and issue fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operate and maintain the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment 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.

The condensed statements of financial position of material associates follow:

	September 30, 2021 (Unaudited)	
	<i>ATEC</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>	
Current assets	₱5,345	₱257
Noncurrent assets	37,847	1,191
Current liabilities	(7,930)	(6)
Noncurrent liabilities	(15,132)	(29)
Net assets	₱20,130	₱1,413

	December 31, 2020 (Audited)	
	<i>GBPC</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>	
Current assets	₱18,645	₱272
Noncurrent assets	53,572	1,177
Current liabilities	(15,352)	(6)
Noncurrent liabilities	(23,450)	(23)
Non-controlling interests	(5,265)	—
Net assets	₱28,150	₱1,420

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

For the Nine Months Ended September 30 (Unaudited)				
	2021	2020		
	ATEC	RP Energy	GBPC	RP Energy
	<i>(Amounts in millions)</i>			
Revenues	₱1,801	₱1	₱16,390	₱4
Costs and expenses	(1,390)	(10)	(14,489)	(12)
Net income (loss)	411	(9)	1,901	(8)
Non-controlling interests	—	—	(631)	—
Net income (loss) attributable to equity holders of the parent	411	(9)	1,270	(8)
Other comprehensive income	—	—	—	—
Total comprehensive income (loss)	₱411	(₱9)	₱1,270	(₱8)
Dividends received	₱—	₱—	₱—	₱—

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:

September 30, 2021 (Unaudited)		
	ATEC	RP Energy
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of associates	₱20,130	₱1,413
Proportionate ownership in associates (%)	50	47
	10,065	661
Goodwill	—	50
	₱10,065	₱711
December 31, 2020 (Audited)		
	GBPC	RP Energy
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of associates	₱28,150	₱1,420
Proportionate ownership in associates (%)	14	47
	3,941	667
Goodwill	1,091	50
	₱5,032	₱717

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

For the Nine Months Ended September 30 (Unaudited)		
	2021	2020
	<i>(Amounts in millions)</i>	
Share in net income	₱200	₱46
Share in other comprehensive income (loss)	(12)	—
Share in total comprehensive income	₱188	₱46
Dividends received	₱24	₱—

Joint Ventures

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

September 30, 2021 (Unaudited)		
	RBC JV	SBPL
	<i>(Amounts in millions)</i>	
Current assets	₱1,111	₱10,841
Noncurrent assets	2,541	46,308
Current liabilities	(428)	(5,283)
Noncurrent liabilities	(1)	(35,909)
Net assets	₱3,223	₱15,957

December 31, 2020 (Audited)		
	RBC JV	SBPL
	<i>(Amounts in millions)</i>	
Current assets	₱1,020	₱8,127
Noncurrent assets	2,947	48,273
Current liabilities	(450)	(3,882)
Noncurrent liabilities	—	(37,004)
Net assets	₱3,517	₱15,514

The foregoing condensed statements of financial position include the following:

September 30, 2021 (Unaudited)		
	RBC JV	SBPL
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱790	₱3,811
Current financial liabilities (excluding trade payables)	(22)	(3,828)

December 31, 2020 (Audited)		
	RBC JV	SBPL
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱663	₱2,996
Current financial liabilities (excluding trade payables)	(3)	(3,201)

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

For the Nine Months Ended September 30 (Unaudited)				
	2021		2020	
	RBC JV	SBPL	RBC JV	SBPL
	<i>(Amounts in millions)</i>			
Revenues	₱611	₱12,124	₱587	₱9,238
Costs and expenses	(142)	(7,736)	(120)	(7,958)
Other income (expense) - net	3	(1,860)	14	6
Benefit from (provision for) income tax - net	(72)	12	(114)	11
Net income (loss)	₱400	₱2,540	₱367	₱1,297
Dividends received	₱63	₱1,123	₱—	₱—

The foregoing condensed statements of comprehensive income include the following:

	For the Nine Months Ended September 30 (Unaudited)			
	2021		2020	
	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>			
Depreciation	₱161	₱1,104	₱159	₱1,097
Interest income	(2)	(3)	(11)	(4)
Provision for (benefit from) income tax - net	72	(12)	114	(11)

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:

	September 30, 2021 (Unaudited)	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of joint ventures	₱3,223	₱15,957
Proportionate ownership in joint ventures (%)	30	51
	₱967	₱8,138

	December 31, 2020 (Audited)	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of joint ventures	₱3,517	₱15,514
Proportionate ownership in joint ventures (%)	30	51
	₱1,055	₱7,912

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

	For the Nine Months Ended September 30 (Unaudited)	
	2021	2020
	<i>(Amounts in millions)</i>	
Share in net income (loss)	₱17	(₱105)
Share in other comprehensive income	—	—
Share in total comprehensive income (loss)	₱17	(₱105)
Dividends received	₱—	₱—

9. Investment Properties

The movements in investment properties are as follows:

September 30, 2021 (Unaudited)			
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of period	₱1,427	₱206	₱1,633
Additions	1	–	1
Balance at end of period	1,428	206	1,634
Less accumulated depreciation:			
Balance at beginning of period	–	134	134
Depreciation	–	3	3
Balance at end of period	–	137	137
	₱1,428	₱69	₱1,497
December 31, 2020 (Audited)			
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of period	₱1,427	₱206	₱1,633
Disposal	–	(2)	(2)
Reclassification and others	–	2	2
Balance at end of period	1,427	206	1,633
Less accumulated depreciation:			
Balance at beginning of period	–	131	131
Depreciation	–	4	4
Reclassification and others	–	(1)	(1)
Balance at end of period	–	134	134
	₱1,427	₱72	₱1,499

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at September 30, 2021 and December 31, 2020 are as follows (amounts in millions):

Land	₱4,653
Buildings and improvements	126

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

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

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱164,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Intangible Assets

The movements of intangible assets are as follows:

September 30, 2021 (Unaudited)						
				Land and Leasehold Rights	Customer Contracts	
	Note	Software	Franchise			Total
(Amounts in millions)						
Cost:						
Balance at beginning of period		₱5,969	₱49	₱932	₱—	₱6,950
Additions		342	—	37	9	388
Effect of consolidation of GBPC	1	6	—	—	13,002	13,008
Disposals/retirements		—	—	(11)	—	(11)
Reclassification		42	14	(35)	—	21
Balance at end of period		6,359	63	923	13,011	20,356
Less accumulated amortization:						
Balance at beginning of period		4,343	—	374	—	4,717
Amortization		569	—	28	—	597
Disposals/retirements		—	—	(9)	—	(9)
Reclassification		(6)	—	(2)	—	(8)
Balance at end of period		4,906	—	391	—	5,297
		₱1,453	₱63	₱532	₱13,011	₱15,059

December 31, 2020 (Audited)					
				Land and Leasehold Rights	Total
	Note	Software	Franchise		
(Amounts in millions)					
Cost:					
Balance at beginning of period		₱5,391	₱49	₱537	₱5,977
Additions		449	—	447	896
Retirement		—	—	(52)	(52)
Reclassification	7	129	—	—	129
Balance at end of period		5,969	49	932	6,950
Less accumulated amortization:					
Balance at beginning of period		3,886	—	327	4,213
Amortization		443	—	43	486
Reclassification		14	—	4	18
Balance at end of period		4,343	—	374	4,717
		₱1,626	₱49	₱558	₱2,233

11. Financial and Other Noncurrent Assets

This account consists of:

	Note	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions)</i>			
Financial assets:			
Debt securities at amortized cost	15 and 27	₱26,302	₱24,112
Financial assets at <i>FVOCI</i>	8 and 27	8,153	8,941
Restricted cash	27	4,702	4,734
Advance payments to a supplier	27 and 30	505	694
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	2 and 24	10,290	7,279
Deferred input VAT		1,435	1,475
Rental deposits		583	375
Finance lease		460	779
Receivable from the <i>BIR</i>		181	181
Goodwill		35	35
Others		2,109	1,908
		₱54,755	₱50,513

Debt Securities at Amortized Cost

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

	September 30, 2021 (Unaudited)			December 31, 2020 (Audited)		
	Current Portion (see Note 15)	Noncurrent Portion	Total	Current Portion (see Note 15)	Noncurrent Portion	Total
<i>(Amounts in millions)</i>						
Government securities	₱13,027	₱21,734	₱34,761	₱4,456	₱16,466	₱20,922
Private debt securities	6,213	4,568	10,781	3,563	7,646	11,209
	₱19,240	₱26,302	₱45,542	₱8,019	₱24,112	₱32,131

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

Financial Assets at FVOCI

The details of financial assets at *FVOCI* are as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions)</i>		
Investments in debt securities:		
Corporate bonds and other investments	₱6,361	₱7,626
Government securities	3	—
Investments in shares of stock and club shares	1,789	1,315
	₱8,153	₱8,941

Interest income from debt and equity securities amounted to ₱952 million and ₱1,280 million for the nine months ended September 30, 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:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions)</i>		
Balance at beginning of period	₱324	₱227
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	36	100
Equity securities	48	(3)
Balance at end of period	₱408	₱324

Deferred Input VAT

The amount includes portion of input VAT incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under RA No. 9337 (“*EVAT Law*”), said

portion of input VAT shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output VAT due.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DUs* determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*. The amount of net under-recoveries of pass-through charges that will be collected within 12 months amounted to ₱4,119 million and ₱2,753 million as at September 30, 2021 and December 31, 2020, respectively. This is shown as part of “Trade and other receivables” account in the consolidated statement of financial position.

See *Note 13 - Trade and Other Receivables*.

Allowance for *ECL* on net under-recoveries of pass-through charges amounted to ₱1,652 million as at September 30, 2021 and December 31, 2020.

Finance lease

Spectrum entered into bilateral *PSAs* to lease out solar power generation systems to its customers under a finance lease arrangement for a period of 25 years.

Spectrum recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease arrangements is recognized under “Other income (expense)” account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

12. Cash and Cash Equivalents

This account consists of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱11,348	₱19,146
Cash equivalents	32,272	31,766
	₱43,620	₱50,912

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

Interest income on cash in banks and cash equivalents amounted to ₱466 million and ₱504 million for the nine months ended September 30, 2021 and 2020, respectively.

13. Trade and Other Receivables

This account consists of:

	Note	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
(Amounts in millions)			
Trade:			
Electricity distributed	23, 24 and 27	₱44,086	₱52,631
Energy produced	27	5,413	–
Service contracts		2,667	4,095
Unbilled receivables	24	920	1,499
Nontrade	23 and 27	5,570	4,200
		58,656	62,425
Less allowance for expected credit losses		5,699	4,305
		₱52,957	₱58,120

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

September 30, 2021 (Unaudited)					
	Balance at Beginning of Period	Provisions	Write-offs	Effect of Consolidation of GBPC	Balance at End of Period
(Amounts in millions)					
Trade:					
Electricity distributed	₱3,492	₱393	(₱276)	₱–	₱3,609
Energy produced	–	36	–	1,084	1,120
Other trade receivables	783	5	–	–	788
Nontrade receivables	30	152	–	–	182
	₱4,305	₱586	(₱276)	₱1,084	₱5,699

December 31, 2020 (Audited)				
	Balance at Beginning of Period	Provisions	Write-offs	Balance at End of Period
(Amounts in millions)				
Trade – electricity distributed	₱1,761	₱1,744	(₱13)	₱3,492
Other trade receivables	622	161	–	783
Nontrade receivables	2	28	–	30
	₱2,385	₱1,933	(₱13)	₱4,305

	September 30, 2021 (Unaudited)					December 31, 2020 (Audited)			
	Trade – Electricity distributed	Trade – Energy produced	Other Trade Receivables	Nontrade Receivables	Total	Trade – Electricity distributed	Other Trade Receivables	Nontrade Receivables	Total
	<i>(Amounts in millions)</i>								
Individually impaired	P22	P–	P788	P182	P992	P1,275	P783	P30	P2,088
Collectively impaired	3,587	1,120	–	–	4,707	2,217	–	–	2,217
	P3,609	P1,120	P788	P182	P5,699	P3,492	P783	P30	P4,305

Trade Receivables – Electricity Distributed

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 57%, 9% and 4%, respectively, of the total billed amount in 2021 and 55%, 10% and 4%, respectively, of the total billed amount in 2020. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See Note 27 – *Financial Assets and Financial Liabilities*.

Trade Receivables – Energy Produced

Trade receivables – energy produced represents 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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amounts in millions)	
Materials and supplies:		
At cost	₱8,871	₱5,696
At net realizable value ("NRV")	8,631	5,484
Materials and supplies at NRV	₱8,631	₱5,484

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱206 million as at September 30, 2021 and December 31, 2020. No item of inventory has been written off for the nine months ended September 30, 2021 and 2020.

See Note 25 – Expenses and Income.

15. Financial and Other Current Assets

	Note	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	11 and 27	₱19,240	₱8,019
Short-term investments		749	–
Current portion of advance payments to a supplier	27	182	171
Nonfinancial assets:			
Prepayments		3,100	2,431
Input VAT		2,286	1,179
Prepaid tax		1,441	1,315
Others		1,180	751
		₱28,178	₱13,866

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

16. Equity

Common Stock

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(In millions, except par value)</i>		
Authorized number of shares- ₱10 par value per share	1,250	1,250
Issued and outstanding - number of shares	1,127	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 41,755 and 41,943 shareholders of *MERALCO*'s common shares as at September 30, 2021 and December 31, 2020, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant, generation plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱54,857 million and ₱57,537 million as at September 30, 2021 and December 31, 2020, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting.

The following are the cash dividends declared on common shares for the nine months ended September 30, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
<i>(In millions)</i>				
July 26, 2021	August 23, 2021	September 15, 2021	₱5.06	₱5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the period, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Note		
(Amounts in millions)		
Long-term portion of interest-bearing financial liabilities - long-term debt	P53,700	P14,809
Current portion of interest-bearing financial liabilities:		
Long-term debt	7,369	490
Redeemable preferred stock	1,470	1,472
	8,839	1,962
	P62,539	P16,771

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to P249 million as at September 30, 2021 and December 31, 2020. Interest is no longer accrued from the time such preferred shares were called for redemption.

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Note		
(Amounts in millions)		
MERALCO		
P7.0 Billion 12-year Puttable Bonds	P7,000	P7,000
P7.2 Billion Note Facility Agreement	4,680	5,040
MGen Group		
P18.0 Billion Term Loan Facility Agreement	18,000	—
P11.0 Billion Term Loan Facility Agreement	7,829	—
P16.0 Billion Term Loan Facility Agreement	5,800	—
P14.0 Billion Term Loan Facility Agreement	4,200	—
P4.5 Billion Term Loan Facility Agreement	4,220	—
P7.0 Billion Term Loan Facility Agreement	4,006	—
P2.7 Billion Term Loan Facility Agreement	2,775	2,578
P1.5 Billion Term Loan Facility Agreement	690	—
MEI		
P600 Million Term Loan Facility	480	510
P350 Million Note Facility Agreement	140	210
MIESCOR		
P375 Million Term Loan Facility	375	—
P130 Million Term Loan Facility	—	12
eSakay		
P27 Million Term Loan Facility	24	27
Total long-term debt	60,219	15,377
Less unamortized debt issuance costs	395	78
	59,824	15,299
Redeemable Preferred Stock	1,470	1,472
Fair value adjustment in relation to the purchase of GBPC	1,245	—
	62,539	16,771
Less current portion	8,839	1,962
Long-term portion of interest-bearing financial liabilities	P53,700	P14,809

All of the interest-bearing long-term financial liabilities as at September 30, 2021 and December 31, 2020 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at September 30, 2021 are as follows:

	Amount (In millions)
Less than one (1) year	₱7,446
One (1) year up to two (2) years	3,833
More than two (2) years up to three (3) years	7,453
More than three (3) years up to four (4) years	5,360
More than four (4) years up to five (5) years	12,880
More than five (5) years	23,247
	<u>₱60,219</u>

MERALCO

₱18.5 Billion Fixed Rate Puttable Bonds

In December 2013, *MERALCO* sold and issued by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and ten (10) years, respectively, with principal amount of ₱11.5 billion and ₱7.0 billion, respectively. The 12-year corporate bonds also include a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

The 7-year bonds have been redeemed as at December 31, 2020.

₱7.2 Billion Note Facility Agreement

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

MGen Group

₱18 Billion Term Loan Facility Agreement

GBPC obtained a ₱18,000 million, 15-year term loan with interest repricing on the 5th year. The principal amount is payable over 15 years until May 2036.

₱11.0 Billion Term Loan Facility Agreement

On March 26, 2015, *PEDC* entered into an Amended and Restated Omnibus Agreement (“*AROA*”) with various lenders for an additional aggregate principal amount of up to ₱11,000 million (the Phase II Facility) to partially finance its 1 x 150 MW expansion project. The *AROA* includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility and its related interest are payable semi-annually within 12 years from initial advance with a balloon payment upon final maturity.

₱16.0 Billion Term Loan Facility Agreement

On June 18, 2009, *CEDC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16,000 million to partially finance the construction of the power plant. The agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. The loan facility and its related interest are payable semi-annually within 10 years from June 30, 2011 with a balloon payment upon final maturity.

On June 30, 2021, *CEDC* entered into a restructuring agreement with Metropolitan Bank and Trust Company with a principal amount of ₱5,800 million and was used for the final payment of the ₱16,000 million term loan facility. The principal amount is payable over 10 years until June 2031.

₱14.0 Billion Term Loan Facility Agreement

On February 26, 2010, *PEDC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14,000 million (the Phase I Facility) to partially finance the on-going construction of its power plant. The agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be paid within 12 years from initial advance and *PEDC* shall pay interest semi-annually with a balloon payment upon final maturity.

₱4.5 Billion Term Loan Facility Agreement

On October 5, 2017, *GBPC* entered into a bilateral term loan with various banks in the aggregate principal amount of ₱4,500 million to finance its acquisition of a 50% less one share in *ATEC*. The loan is a fixed rate facility with a 12-year term and quarterly principal repayment commencing three (3) years from the drawdown date.

₱7.0 Billion Term Loan Facility Agreement

On March 7, 2013, *TPC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱7,000 million to partially finance the construction of its expansion project. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, and an Assignment Agreement. The loan facility shall be paid within 12 years from initial advance and *TPC* shall pay interest quarterly with a balloon payment upon final maturity.

₱2.7 Billion Term Loan Facility Agreement

First Bulacan obtained a ₱2,692 million, 30-year term loan with interest repricing on the 21st year. The principal amount is payable over 30 years until November 2034.

₱1.5 Billion Term Loan Facility Agreement

In March 2016, *CEDC* entered into term loan agreements with various lenders for a total credit facility of ₱1,500 million for *CEDC*'s general financing and corporate requirements.

MServ

₱600 Million Term Loan Facility

MServ obtained a ₱600 million, 10-year fixed rate term loan. The principal amount is payable over 10 years until January 2027.

₱350 Million Note Facility Agreement

In July 2018, MServ obtained a ₱350 million, five (5)-year Fixed Rate Note Facility Agreement. The principal amount is payable semi-annually over five (5) years until July 2023.

MIESCOR

₱375 Million Term Loan Facility

On June 17, 2021, MIESCOR obtained a ₱375 million, seven (7)-year fixed rate term loan. The principal is payable semi-annually over seven (7) years until June 2028.

₱130 Million Term Loan Facility

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

eSakay

₱27 Million Term Loan Facility

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

The annual interest rates for the interest-bearing financial liabilities range from 3.75% to 10.81% and 4.50% to 6.22% as at September 30, 2021 and December 31, 2020, respectively.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

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

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

As at September 30, 2021 and December 31, 2020, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱1,534 million and ₱360 million for the nine months ended September 30, 2021 and 2020, respectively.

Unamortized Debt Issuance Costs

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

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>Note</i>		
<i>(Amounts in millions)</i>			
Balance at beginning of period		₱78	₱80
Additions		200	26
Effect of consolidation of GBPC	<i>1</i>	125	–
Amortization charged to interest and other financial charges	<i>24</i>	(8)	(28)
Balance at end of period		₱395	₱78

Redeemable Preferred Stock

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Balance at beginning of period	147,158,808	147,880,772
Redemptions	(136,302)	(721,964)
Balance at end of period	147,022,506	147,158,808

The original “Terms and Conditions” of *MERALCO*’s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. Customers' Deposits

This account consists of:

	September 30, 2021 (Unaudited)			December 31, 2020 (Audited)		
	Current Portion (see Note 22)	Noncurrent Portion	Total	Current Portion (see Note 22)	Noncurrent Portion	Total
(Amounts in millions)						
Bill deposits	₱2,152	₱30,870	₱33,022	₱2,261	₱29,844	₱32,105
Meter deposits	315	–	315	314	–	314
	₱2,467	₱30,870	₱33,337	₱2,575	₱29,844	₱32,419

Bill Deposits

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

As provided in the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU*, equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

On February 22, 2010, the amended *DSOAR*, which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR*, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines (“*Land Bank*”) or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*.

As provided for under *ERC* Resolution No. 1, Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the bill deposits provisions in the *Magna Carta* be declared as illegal and void and that *MERALCO* and other *DUs* be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO*.

MERALCO filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG*.

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by

the OSG and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC*, *MERALCO*, and *COA* dated November 10, 2020.

The following are the movements of the bill deposits account:

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
(Amounts in millions)			
Balance at beginning of period		₱32,105	₱30,804
Additions		2,113	3,347
Refunds		(1,196)	(2,046)
Balance at end of period		33,022	32,105
Less portion maturing within one year	22	2,152	2,261
Noncurrent portion of bill deposits and related interests		₱30,870	₱29,844

Interest expense on bill deposits amounted to ₱14 million and ₱29 million for the nine months ended September 30, 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.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as “Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers” (“*Rules*”) which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, check, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

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

In May 2014, *MERALCO* implemented automatic crediting or offsetting of the remaining unclaimed meter deposit refund (“*MDR*”) as approved by *ERC*, including all accrued interests to the corresponding existing and active service contracts. This was done after releasing a “Final Notice” to advise the customers, particularly those who have not yet claimed their *MDR*, to claim the same prior to *MERALCO*'s implementation of auto-crediting. Thus, all remaining unclaimed *MDR* as reported to the *ERC* as at December 31, 2014 were only for terminated services.

In April 2016, the *ERC* promulgated, which became effective on June 29, 2016, *ERC* Resolution No. 12, Series of 2016 entitled, “Amended Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Consumers,” directing all *DUs* to deposit all unclaimed meter deposits including all accrued interests in a government or commercial bank under a single savings account and in the name of the *DU* strictly intended for the claimants of meter deposits. Further, customers were given until December 31, 2017 within which to claim their *MDR*, to be facilitated by the *DU*; otherwise, all unclaimed meter deposits, including accrued interest will be subject to an escheat proceeding in favor of the government.

In compliance with said *ERC* directive, in July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. In May 2017, *MERALCO* submitted the required Audit Report to the *ERC* in compliance with the *ERC*’s directive to all *DUs* pursuant to *ERC* Resolution No. 13, Series of 2016, entitled, “Guidelines to Govern the Audit Process of Meter Deposit Refund to Residential and Non-Residential Customers,” and *ERC* Resolution No. 03, Series of 2017 which provided the extended deadline for *DUs* submission of the Audit Report on *MDR*.

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at October 25, 2021, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposits.

19. Provisions

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

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
<i>(Amounts in millions)</i>			
Balance at beginning of period		₱38,992	₱34,191
Provisions for the period		4,925	5,853
Settlements		(4,533)	(1,052)
Balance at end of period		39,384	38,992
Less current portion	22	24,263	21,927
Noncurrent portion of provisions		₱15,121	₱17,065

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the SC decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC*, in the implementation of the SC decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

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

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval to continue refunding to eligible accounts or customers under Phases I to IV, for three (3) years from January 1, 2016 or until December 31, 2018. In an Order dated December 19, 2018, the *ERC* authorized *MERALCO* to continue with the implementation of the refund to eligible customers until June 30, 2019. The *ERC* also required *MERALCO* to submit information and documents related to the customers' refund, including a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the SC Refund as of June 30, 2019 in a separate interest-bearing account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of such fact. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the SC Refund. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. As at October 25, 2021, *MERALCO* is still processing the refund claims of eligible customers.

See Note 2 – *Rate Regulations*.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 4.80% and 5.40% as at September 30, 2021 and December 31, 2020, respectively.

Interest expense on notes payable amounted to ₱939 million and ₱771 million for the nine months ended September 30, 2021 and 2020, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
<i>(Amounts in millions)</i>			
Trade accounts payable	23 and 24	₱51,847	₱47,805
Provisions	2, 19 and 29	24,263	21,927
Taxes		13,802	13,303
Accrued expenses:			
Employee benefits		2,407	2,103
Interest	17	305	560
Others		4,253	2,436
Current portions of:			
Bill deposits and related interests	18	2,152	2,261
Deferred income		1,293	1,102
Meter deposits and related interests	18	315	314
Refundable service extension costs		5,555	5,555
Dividends payable on:			
Common stock	16	1,302	1,251
Redeemable preferred stock	17	249	249
Payable to customers		6,570	5,900
Universal charges payable	32	2,407	2,769
FiT-All payable	32	963	689
Regulatory fees payable		209	227
Other current liabilities		1,816	2,810
		₱119,708	₱111,261

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines (“NGCP”) and Independent Electricity Market Operator of the Philippines Inc. (“IEMOP”) for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, 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 September 30, 2021 and December 31, 2020, the noncurrent portion of refundable service extension costs of ₱1,536 million and ₱6,632 million, respectively, is presented as “Refundable service extension costs - net of current portion” account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts paid by customers in advance and which are applied to their current consumption.

Pass-through VAT

Pass-through VAT pertains to VAT on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through VAT to the generation companies is based on collection of billed receivables from the customers.

23. Related Party Transactions

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

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant period. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. (“PLDT”)

MERALCO has a pole attachment contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups within the franchise area such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*’s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to all customers within the franchise area. 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 wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSAs with Joint Ventures

As discussed in Note 30, *MERALCO* signed long-term *PSAs* with *SBPL*.

Following is a summary of related party transactions for the nine months ended September 30, 2021 and 2020 and the outstanding balances as at September 30, 2021 and December 31, 2020:

Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	For the Nine Months Ended September 30		September 30	December 31		
	2021	2020	2021	2020		
(Amounts in millions)						
Sale of electricity: JG Summit Group	₱1,979	₱1,924	₱372	₱455	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	905	897	114	279	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	302	307	124	72	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - Indra Philippines	579	892	(329)	(208)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – Aclara Meters	120	79	(9)	(23)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - Colinas Verdes Hospital Managers	184	113	(14)	(9)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - PLDT	418	381	65	83	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - PLDT Group	69	79	(14)	(17)	30-day; noninterest-bearing	Unsecured
Purchases of insurance premium - MPioneer	298	278	(2)	—	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	72	76	—	—	None	None

Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	For the Nine Months Ended September 30	September 30	September 30	December 31		
	2021	2020	2021	2020		
<i>(Amounts in millions)</i>						
Purchases of power:						
<i>SBPL</i>	11,992	9,202	(1,579)	(1,311)	30-day; noninterest-bearing	Unsecured

Advances to FPM Power

FPM Power has a non-interest-bearing loan from *MPG Asia* amounting to US\$110 million (₱5,776 million) as at September 30, 2021 and December 31, 2020 which is due and demandable. The allowance for expected losses related to the non-interest-bearing loan amounted to ₱5,776 million. The loan remains outstanding as at September 30, 2021.

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 September 30, 2021 and December 31, 2020, the fair value of the total assets being managed by the *Fund* amounted to ₱33.6 billion and ₱33.9 billion, respectively.

See *Note 25 – Long-Term Employee Benefits*.

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
<i>(Amounts in millions)</i>				
Short-term employee benefits	₱405	₱442	₱76	₱82
Long-term employee incentives and retirement benefits	210	137	70	46
Total compensation to key management personnel	₱615	₱579	₱146	₱128

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 September 30, 2021, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Revenues

The *MERALCO Group* disaggregates its revenue information in the same manner as it reports its segment information.

See Note 6 – Segment Information.

Contract Assets and Contract Liabilities

The *MERALCO Group*'s contract balances are as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(Amounts in millions)</i>	
Trade:		
Electricity distributed	₱44,086	₱52,631
Energy produced	5,413	–
Service contracts	2,667	4,095
Contract assets:		
Unbilled receivables	920	1,499
Under-recoveries of pass-through charges - net	10,290	7,279
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	861	841
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	645	333

Income recognized from the nonrefundable liability related to assets funded by customers amounted to ₱85 million and ₱71 million for the nine months ended September 30, 2021 and 2020, respectively.

Purchased Power

The details of purchased power are as follows:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
Generation costs	₱137,893	₱127,858	₱48,906	₱42,546
Transmission costs	25,746	28,264	8,689	9,429
	₱163,639	₱156,122	₱57,595	₱51,975

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

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

The details of purchased power follow:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
First Gas Power Corporation (“FGPC”) and FGP Corp. (“FGP”)	₱36,105	₱34,031	₱13,582	₱9,874
NGCP	25,746	28,242	8,690	9,423
South Premiere Power Corporation (“SPPC”)	19,105	17,173	6,582	6,562
IEMOP	13,813	12,357	4,305	4,410
San Miguel Energy Corporation (“SMEC”)	12,009	13,013	4,041	4,472
QPPL	11,450	10,741	3,910	3,375
SBPL	11,992	9,202	4,709	3,309
AC Energy Philippines, Inc. (“AC Energy”)	8,438	6,244	2,500	2,359
First NatGas Power Corp. (“FNPC”)	7,731	6,760	2,714	1,883
Masinloc Power Partners Co. Ltd. (“MPPCL”)	5,797	6,180	2,146	2,394
Sem-Calaca Power Corporation (“Sem-Calaca”)	3,599	2,805	1,354	702
First Gen Hydro Power Corporation (“FGHPC”)	1,959	257	608	257
PEDC	1,596	1,375	688	513
Therma Luzon, Inc. (“TLI”)	1,496	5,350	602	1,918
Southwest Luzon Power Generation Corporation	1,316	34	674	–
Solar Philippines Tarlac Corporation (“SPTC”)	330	260	101	–
Therma Mobile, Inc. (“TMO”)	–	516	–	–
Millenium Energy, Inc. (“MEI”)	–	307	–	77
Others	1,157	1,275	389	447
	₱163,639	₱156,122	₱57,595	₱51,975

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 September 30, 2021 and December 31, 2020, the total transmission costs and SL charge over-recoveries included in “Other

noncurrent liabilities” account in the consolidated statements of financial position amounted to ₱553 million and ₱241 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	<i>Note</i>	Unaudited			
		For the Nine Months Ended September 30	For the Three Months Ended September 30		
		2021	2020	2021	2020
<i>(Amounts in millions)</i>					
Salaries, wages and related employee benefits		₱10,035	₱8,825	₱3,339	₱2,706
Retirement benefits	26	1,506	1,116	481	363
Other long-term post-employment benefits	26	78	83	26	27
		₱11,619	₱10,024	₱3,846	₱3,096

Depreciation and Amortization

	<i>Note</i>	Unaudited			
		For the Nine Months Ended September 30	For the Three Months Ended September 30		
		2021	2020	2021	2020
<i>(Amounts in millions)</i>					
Utility plant and others	7	₱8,042	₱5,728	₱2,924	₱1,892
Intangible assets	10	597	363	236	156
Investment properties	9	3	3	1	1
		₱8,642	₱6,094	₱3,161	₱2,049

Other Expenses

	<i>Note</i>	Unaudited			
		For the Nine Months Ended September 30	For the Three Months Ended September 30		
		2021	2020	2021	2020
<i>(Amounts in millions)</i>					
Materials used	14	₱1,786	₱1,145	₱661	₱467
Rent and utilities		692	541	253	161
Insurance		351	299	125	94
Transportation and travel		271	181	108	60
Advertising		164	165	80	120
Communication	23	121	106	44	39
Others		1,210	1,929	(271)	160
		₱4,595	₱4,366	₱1,000	₱1,101

26. Long-term Employee Benefits

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions)</i>		
Retirement benefits liability	₱14,316	₱12,013
Other post-employment benefits	2,085	2,007
Long-term incentives	2,232	1,307
	₱18,633	₱15,327

Defined Benefit Retirement Plans

The features of the *MERALCO Group's* defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in “Salaries, wages and employee benefits” account in the consolidated statements of income)

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
<i>(Amounts in millions)</i>				
Current service costs	₱1,110	₱892	₱355	₱288
Net interest costs	356	187	114	61
Net retirement benefits expense	₱1,466	₱1,079	₱469	₱349

Retirement Benefits Liability

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions)</i>		
Defined benefit obligation	₱47,916	₱45,918
Fair value of plan assets	(33,600)	(33,905)
Net retirement benefits liability	₱14,316	₱12,013

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amounts in millions)	
Retirement benefits liability at beginning of period	₱12,013	₱5,627
Net retirement benefits expense	1,466	1,449
Amounts recognized in <i>OCI</i>	396	5,144
Effect of consolidation of <i>GBPC</i>	1,056	–
Contributions by employer	(615)	(207)
Net retirement benefits liability at end of period	₱14,316	₱12,013

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amounts in millions)	
Defined benefit obligation at beginning of period	₱45,918	₱40,674
Interest costs	1,312	1,795
Current service costs	1,110	1,194
Benefits paid	(1,876)	(2,477)
Effect of consolidation of <i>GBPC</i>	1,056	–
Actuarial losses (gains) due to:		
Changes in financial assumptions	396	6,596
Experience adjustments	–	(1,864)
Defined benefit obligation at end of period	₱47,916	₱45,918

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amounts in millions)	
Fair value of plan assets at beginning of period	₱33,905	₱35,047
Interest income	956	1,540
Contributions by employer	615	207
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	–	(412)
Benefits paid	(1,876)	(2,477)
Fair value of plan assets at end of period	₱33,600	₱33,905

The Board of Trustees (“BoT”) of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, all of whom are not beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach by investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *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:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amount in millions)	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	₱2,990	₱3,430
Telecommunication	646	932
Banks	930	1,059
Property	848	877
Food, beverages and tobacco	536	359
Electricity, energy, power and water	493	417
Transportation services	217	267
Retail	176	449
Construction, infrastructure and allied services	19	24
Mining	—	7
Others	2,005	1,761
Quoted debt investments:		
“AAA” rated securities	9,868	11,803
Government securities	9,479	8,211
Cash and cash equivalents	2,701	2,120
Receivables	1,677	1,174
Real property	1,014	1,014
Others	1	1
Fair value of plan assets	₱33,600	₱33,905

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of “Salaries, wages and employee benefits” account in the consolidated statements of income)

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	(Amounts in millions)			
Interest costs	₱57	₱67	₱19	₱23
Current service costs	21	16	7	4
	₱78	₱83	₱26	₱27

Other Long-term Post-employment Benefits Liability

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amounts in millions)	
Balance at beginning of period	₱2,007	₱1,949
Interest costs	57	88
Current service costs	21	26
Benefits paid	—	(99)
Actuarial losses due to change in assumptions	—	43
Balance at end of period	₱2,085	₱2,007

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

Annual discount rate	3.78%
Future range of annual salary increases	5.00%-11.00%

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	₱2,581
One (1) year up to five (5) years	15,599
More than five (5) years up to 10 years	22,645
More than 10 years up to 15 years	17,487
More than 15 years up to 20 years	21,060
More than 20 years	53,747

Risk

The *Retirement Fund* is exposed to the following risks:

Credit Risk

The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.

Share Price Risk

The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The price share risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱40 million and ₱37 million for the nine months ended September 30, 2021 and 2020, respectively.

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

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
Expense recognized for defined benefit plans	₱1,466	₱1,079	₱469	₱349
Expense recognized for defined contribution plan	40	37	12	14
Retirement benefits expense	₱1,506	₱1,116	₱481	₱363

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, advances to an associate, advance payments to a supplier, financial assets at *FVOCI* and debt securities at *amortized cost*. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at September 30, 2021				
Noncurrent				
Financial and other noncurrent assets	₱31,509	₱8,153	₱–	₱39,662
Current				
Cash and cash equivalents	43,620	–	–	43,620
Trade and other receivables	52,053	–	–	52,053
Financial and other current assets	20,171	–	–	20,171
Total Assets	₱147,353	₱8,153	₱–	₱155,506
Liabilities as at September 30, 2021				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱53,700	₱53,700
Customers' deposits - net of current portion	–	–	30,870	30,870
Refundable service extension costs - net of current portion	–	–	1,536	1,536
Current				
Notes payable	–	–	27,968	27,968
Trade payables and other current liabilities	–	–	71,558	71,558
Customers' refund	–	–	2,931	2,931
Current portion of interest-bearing long-term financial liabilities	–	–	8,839	8,839
Total Liabilities	₱–	₱–	₱197,402	₱197,402

	Financial Assets at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2020				
Noncurrent				
Financial and other noncurrent assets	₱29,540	₱8,941	₱–	₱38,481
Current				
Cash and cash equivalents	50,912	–	–	50,912
Trade and other receivables	56,632	–	–	56,632
Financial and other current assets	8,190	–	–	8,190
Total Assets	₱145,274	₱8,941	₱–	₱154,215
Liabilities as at December 31, 2020				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱14,809	₱14,809
Customers' deposits - net of current portion	–	–	29,844	29,844
Refundable service extension costs - net of current portion	–	–	6,632	6,632
Current				
Notes payable	–	–	23,373	23,373
Trade payables and other current liabilities	–	–	68,765	68,765
Customers' refund	–	–	2,949	2,949
Current portion of interest-bearing long-term financial liabilities	–	–	1,962	1,962
Total Liabilities	₱–	₱–	₱148,334	₱148,334

Fair Values

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group's* financial instruments:

	September 30, 2021 (Unaudited)		December 31, 2020 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Debt securities at amortized cost	P45,542	P45,814	P32,131	P33,005
Financial assets at <i>FVOCI</i>	8,153	8,153	8,941	8,941
Financial assets at amortized cost -				
Restricted cash	4,702	4,702	4,734	4,734
Advance payments to a supplier	687	755	865	997
	P59,084	P59,424	P46,671	P47,677
Financial liabilities				
Financial liabilities carried at				
amortized cost -				
Interest-bearing-long-term				
financial liabilities	P61,069	P61,123	P15,299	P17,372

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Advances to an Associate, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 3.36% and 2.53% as at September 30, 2021 and December 31, 2020, respectively.

Financial Assets at FVOCI

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

Debt Securities at Amortized Cost

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

Meter Deposits and Customers' Refund

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

Bill Deposits

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

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.84% to 2.95% and 0.12% to 3.96% as at September 30, 2021 and December 31, 2020, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	September 30, 2021 (Unaudited)				December 31, 2020 (Audited)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(Amounts in millions)							
Financial assets								
Advance payments to a supplier	P–	P755	P–	P755	P–	P997	P–	P997
Restricted cash	–	4,702	–	4,702	–	4,734	–	4,734
Financial assets at FVOCI	6,737	–	1,416	8,153	7,939	–	1,002	8,941
Debt securities at amortized cost	45,814	–	–	45,814	33,005	–	–	33,005
	P52,551	P5,457	P1,416	P59,424	P40,944	P5,731	P1,002	P47,677
Financial liabilities								
Interest-bearing long-term financial liabilities	P–	P61,123	P–	P61,123	P–	P17,372	P–	P17,372

For the nine months ended September 30, 2021 and 2020, 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 September 30, 2021 and December 31, 2020.

The exposure of *GBPC* and subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and subsidiaries' loans bear fixed interest rates subject to repricing after a minimum of five years for *CEDC* and *PEDC* and seven years for *TPC*.

Foreign Currency Risk

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

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at September 30, 2021 and December 31, 2020, translated to Philippine peso at ₱51.00 and ₱48.02 to US\$1, respectively.

	September 30, 2021 (Unaudited)		December 31, 2020 (Audited)	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$46	₱2,329	\$180	₱8,633
Debt securities at amortized cost	24	1,224	24	1,153
Financial assets at <i>FVOCI</i>	21	1,070	22	1,041
Advance payments to a supplier	14	727	18	856
Short-term investments	9	444	—	—
	114	5,794	244	11,683
Financial liabilities -				
Trade payables and other liabilities	(3)	(167)	(3)	(166)
	\$111	₱5,627	\$241	₱11,517

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

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

	September 30, 2021 (Unaudited)		December 31, 2020 (Audited)	
	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 -5	₱283 (283)	+5 -5	₱579 (579)

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

Commodity Price Risk

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

Credit Risk

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

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and

controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Due to the economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the expected deferred payment arrangements and expected default upon resumption of service disconnection activities.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

GBPC and subsidiaries applied the simplified approach under *PFRS 9*, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and subsidiaries has identified the *GDP*, *CPI* and unemployment rate in the locations in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of the *GBPC* and subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

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	
	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	₱11,058	₱19,006
Cash equivalents	32,272	31,766
Trade and other receivables:		
Electricity distributed	40,477	49,139
Energy produced	4,293	—
Service contracts	1,895	3,323
Nontrade receivables	5,388	4,170
Other financial assets - current:		
Debt securities at amortized cost	19,240	8,019
Current portion of advance payments to a supplier	182	171
Short-term investments	749	—
Other financial assets - noncurrent:		
Debt securities at amortized cost	26,302	24,112
Financial assets at <i>FVOCI</i>	8,153	8,941
Restricted cash	4,702	4,734
Advance payment to a supplier	505	694
	₱155,216	₱154,075

The credit quality of financial assets is managed by *MERALCO* using “High Grade”, “Standard Grade” and “Sub-standard Grade” for accounts, which are neither impaired nor past due using internal credit rating policies

The following tables show the credit quality by asset class:

September 30, 2021 (Unaudited)						
	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	₱43,330	₱—	₱—	₱—	₱—	₱43,330
Trade and other receivables:						
Electricity distributed	9,410	2,913	12,868	15,286	3,609	44,086
Energy produced	4,293	—	—	—	1,120	5,413
Service contracts	896	—	178	821	772	2,667
Nontrade receivables	4,752	154	—	482	182	5,570
Financial and other current assets:						
Debt securities at amortized cost	19,240	—	—	—	—	19,240
Current portion of advance payments to a supplier	182	—	—	—	—	182
Short-term investments	749	—	—	—	—	749
Financial and other noncurrent assets:						
Debt securities at amortized cost	26,302	—	—	—	—	26,302
Financial assets at <i>FVOCI</i>	8,153	—	—	—	—	8,153
Restricted cash	4,702	—	—	—	—	4,702
Advance payment to a supplier	505	—	—	—	—	505
	₱122,514	₱3,067	₱13,046	₱16,589	₱5,683	₱160,899
December 31, 2020 (Audited)						
	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	₱50,772	₱—	₱—	₱—	₱—	₱50,772
Trade and other receivables:						
Electricity distributed	10,413	4,675	20,636	13,415	3,492	52,631
Service contracts	910	—	267	2,146	772	4,095
Nontrade receivables	3,487	38	—	645	30	4,200
Financial and other current assets:						
Debt securities at amortized cost	8,019	—	—	—	—	8,019
Current portion of advance payments to a supplier	171	—	—	—	—	171
Financial and other noncurrent assets:						
Debt securities at amortized cost	24,112	—	—	—	—	24,112
Financial assets at <i>FVOCI</i>	8,941	—	—	—	—	8,941
Restricted cash	4,734	—	—	—	—	4,734
Advance payment to a supplier	694	—	—	—	—	694
	₱112,253	₱4,713	₱20,903	₱16,206	₱4,294	₱158,369

Credit ratings are determined as follows:

- High Grade

High grade financial assets include cash in banks, cash equivalents, short-term investments, advances to an associate, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial

institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

September 30, 2021 (Unaudited)					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱537	₱28,537	₱–	₱–	₱29,074
Trade payables and other current liabilities	63,536	–	–	–	63,536
Customers' refund	2,931	–	–	–	2,931
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	1,343	12,711	18,903	32,355	65,312
Redeemable preferred stock	1,470	–	–	–	1,470
Customers' deposits	593	1,874	654	30,216	33,337
Refundable service extension costs	345	5,210	1,536	–	7,091
Nonrefundable liability related to asset funded by customers	127	127	127	480	861
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	–	–	645	–	645
Total undiscounted financial liabilities	₱70,882	₱48,459	₱21,865	₱63,051	₱204,257

December 31, 2020 (Audited)					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱897	₱23,389	₱—	₱—	₱24,286
Trade payables and other current liabilities	56,355	—	—	—	56,355
Customers' refund	2,949	—	—	—	2,949
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	594	1,108	7,314	11,509	20,525
Redeemable preferred stock	1,472	—	—	—	1,472
Customers' deposits	420	2,155	525	29,319	32,419
Refundable service extension costs	345	5,210	4,405	2,227	12,187
Nonrefundable liability related to asset funded by customers	127	127	127	460	841
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	—	—	333	—	333
Total undiscounted financial liabilities	₱63,159	₱31,989	₱12,704	₱43,515	₱151,367

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,152 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 September 30, 2021.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions, except debt to equity ratio)</i>		
Long-term debt	₱61,069	₱15,299
Notes payable	27,968	23,373
Redeemable preferred stock	1,470	1,472
Debt (a)	₱90,507	₱40,144
Equity attributable to the holders of the parent (b)	₱81,037	₱79,237
Debt to equity ratio(a)/(b)	1.12	0.51

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
(Amounts in millions)			
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	19 and 22	₱27,514	₱31,326
Unfunded retirement benefits cost and unamortized past service cost	26	1,850	1,839
Accrued employee benefits	26	1,013	915
Allowance for expected credit losses	13	900	1,046
Actuarial losses	26	1,332	1,598
Allowance for excess of cost over net realizable value of inventories	14	48	58
Others		1,241	237
		33,898	37,019
Deferred income tax liabilities:			
Revaluation increment in utility plant, generation plant and others	16	5,529	6,668
Fair value of net assets from purchase of GBPC	1	5,500	—
Capitalized interest		670	762
Capitalized duties and taxes deducted in advance		416	512
Depreciation method differential		—	2
Others		152	448
		12,267	8,392
		₱21,631	₱28,627

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
(Amounts in millions)		
Deferred income tax assets - net	₱26,247	₱28,943
Deferred income tax liabilities - net	(4,616)	(316)
	₱21,631	₱28,627

Provision for (benefit from) income tax consists of:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
Current	₱6,366	₱8,878	₱2,551	₱3,212
Deferred	2,366	(5,808)	(915)	(1,683)
	₱8,732	₱3,070	₱1,636	₱1,529

The deferred tax assets charged directly to *OCI* amounted to ₱91 million (benefit) and ₱20 million (benefit) for the nine months ended September 30, 2021 and 2020, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25% and 30% for the nine months ended September 30, 2021 and 2020, respectively, and provision for income tax as shown in the consolidated statements of income is as follows:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
Income tax computed at statutory tax rate	₱6,469	₱4,324	₱2,146	₱1,792
Income tax effects of:				
Interest income subjected to lower final tax rate	(355)	(558)	(127)	(145)
Nondeductible interest expense	89	230	32	59
Nontaxable income	(25)	(49)	(16)	(32)
Equity in net earnings of associates and joint ventures	(487)	(215)	(232)	(4)
Difference in calculation of tax deductible costs and expenses	(1,758)	(1,675)	(626)	(276)
Unrecognized deferred tax assets	3,033	—	3,033	—
Others	1,766	1,013	(2,574)	135
	₱8,732	₱3,070	₱1,636	₱1,529

In 2021 and 2020, *MERALCO* elected to adopt the Optional Standard Deductions (“*OSD*”) in lieu of itemized deductions beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

The deferred income tax assets and liabilities expected to be recovered or settled in taxable years 2023 onwards were measured at the tax rate of 25% since *MERALCO* is expecting to adopt itemized deductions in computing its income tax liabilities for the said taxable years.

Accordingly, *MERALCO*'s net deferred tax assets as at September 30, 2021 and December 31, 2020, which were not recognized are as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>(Amounts in millions)</i>		
Deferred tax assets:		
Provisions for various claims	₱928	₱1,284
Others	485	624
	1,413	1,908
Deferred tax liabilities:		
Revaluation increment in utility plant and others	16	30
Capitalized interest	10	20
Capitalized duties and taxes deducted in advance	8	15
Depreciation method differential	—	1
Others	5	7
	39	73
	₱1,374	₱1,835

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of net operating loss carryover (“*NOLCO*”) amounting to ₱2,899 million and ₱1,812 million as at September 30, 2021 and December 31, 2020, respectively. These are not recognized because the *MERALCO Group* does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱2,899 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		<i>(In millions)</i>
December 31, 2018	December 31, 2021	₱862
December 31, 2019	December 31, 2022	375
December 31, 2020	December 31, 2025	575
September 30, 2021	September 30, 2026	1,087
		₱2,899

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of “Bayanihan to Recover As One Act” which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

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

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

- Reduction in current income tax rate effective July 1, 2020
- Proprietary educational institutions and hospitals which are nonprofit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023.

- Regional operating headquarters of multinational companies previously subject to a tax of 10% on their taxable shall be subject to the regular corporate income tax effective December 31, 2020
- Effective July 1, 2020 until June 30, 2023, the *MCIT* rate shall be one percent 1%.

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.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("*IRR*") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCCs*"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at September 30, 2021 and December 31, 2020, the amount of unissued *TCCs* of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

See Note 11 – Financial and other Noncurrent Assets.

MERALCO filed a Petition with the Court of Tax Appeals (“CTA”) assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the SC decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 “Overpayment of Income Tax related to SC Refund”). In a Decision dated December 6, 2010, the CTA’s Second Division granted *MERALCO*’s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the CTA En Banc, *MERALCO*’s petition was dismissed on the ground of prescription in the Decision of the CTA En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the CTA En Banc partly granted *MERALCO*’s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*’s claim was not yet barred by prescription and remanding the case back to the CTA Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the CTA En Banc.

In a Resolution promulgated on May 22, 2013, the CTA denied the said motions of the *BIR* and *MERALCO*, and the CTA Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*’s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the CTA En Banc’s Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the SC. As at October 25, 2021, the case is pending resolution by the SC.

LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code (“*LGC*”), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

RPT Assessments

Several Local Government Units (“*LGUs*”) assessed *MERALCO* for deficiency *RPT* on certain assets. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, one (1) has secured a favorable decision from the CA. Such decision was appealed by *MERALCO* to the SC for the benefit of *MERALCO* customers. On October 22, 2015, *MERALCO* received a copy of the SC Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGC*. *MERALCO* did not appeal the SC Decision. The cases of the other *LGUs* are pending with their respective administrative bodies or government offices.

In 2016, *MERALCO* began the process of settlement with the affected *LGUs*. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGUs* from customers in the relevant areas with the *ERC* and will file for similar recovery for succeeding payments.

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass-through cost in the light of the *SC* Decision. Hearings have been completed and *MERALCO* filed its intervention and submitted its comments. A similar Petition was likewise filed by the Philippine Rural Electric Cooperative Association (“*PHILRECA*”) on April 17, 2019. In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* approved a revised mechanism for the recovery of real property taxes. For *DUs* under *PBR*, the rules shall apply to the recovery of real property taxes of machineries only until the next regulatory reset process when the real property taxes would be excluded from the financial building blocks in the annual revenue requirement. However, the said rules did not cover the recovery of payments of real property taxes for the years before the promulgation of the rules.

MERALCO has filed for recovery of such *RPT* paid in accordance with the rules promulgated by the *ERC*. For recovery of real property taxes for the years before the promulgation of the rules, *MERALCO* intends to recover the same in accordance with the rules as may be promulgated by the *ERC* to address the regulatory reset process for the lapsed period.

On July 6, 2021, *PEPOA* filed a Petition for rule-making proposing to amend certain provisions of *ERC* Resolution No. 02, series of 2021 on the recovery of pass-through local taxes consisting of *RPT*, *LFT*, and business tax. Among the main points raised by *PEPOA* is that: (i) the local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* on years prior to the Resolution’s issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGUs* on assets located outside the *DU*’s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at October 25, 2021, the Petition is pending with the *ERC*.

See Note 19 – Provisions.

Mediation with NPC

The *NPC* embarked on a Power Development Program (“*PDP*”), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the Department of Energy (“*DOE*”) required that *MERALCO* enter into a long-term supply contract with the *NPC*.

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

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

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

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

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

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

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a *MR* which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO*'s Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the SA valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the SA as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at October 25, 2021, *MERALCO* is awaiting further action of the *SC* on the matter.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 kV line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City “the *Plaintiffs*”, filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*’ homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 kV line will result in widespread and rotating brownouts within *MERALCO*’s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the Writ of Preliminary Injunction.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*’ motion and directed the re-affle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at October 25, 2021, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against PEMC, TransCo, NPC and PSALM

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, and the 500 kV 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*’s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use (“*TOU*”) rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

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

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("SGCs") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following SGCs: *MPPCL*, Aboitiz Power Renewables, Inc. ("APRI"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the SGCs.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the SGCs against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the SGCs should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following SGCs: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and (vi) deny the respective *MRs* filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at October 25, 2021, *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 October 25, 2021, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at October 25, 2021, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised its concerns with the *PEMC* with request for the latter to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. On July 1, 2020, *MERALCO* received the *SC* Resolution dated March 11, 2020, affirming the *CA* decision that upheld *ERC*'s order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates. Entry of Judgment has been rendered and the resolution has become final and executory on October 14, 2020.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at October 25, 2021, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO*

filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit (“*IU*”) that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*’s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* (“*PanAsia*”), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

MERALCO and several consumers have elevated the *CA* Decision and Order to the *SC* where the case is pending. In a Resolution dated November 4, 2020, the *SC* consolidated *ERC*’s and *MERALCO*’s petitions and transferred *MERALCO*’s petition to the member-in-charge of *ERC*’s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the *SC*.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*’s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by *Angeles Electric Corporation*, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*’s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at October 25, 2021, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

ERC IU Complaint

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

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

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

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

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

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

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

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

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

In Resolution dated January 28, 2019, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect.

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. As at October 25, 2021, *MERALCO* is awaiting further action by the *SC* on the matter.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at October 25, 2021, *MERALCO* is awaiting further action by the *ERC* on the matter.

SPPC versus PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration (“*IPPA*”) Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* had a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, *PSALM* terminated the said Agreement. *SPPC* filed a complaint at the *RTC-Mandaluyong* to nullify the termination notice for lack of factual and legal basis. On said date, the executive judge of *RTC-Mandaluyong* issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC-Mandaluyong* extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC-Mandaluyong* granted the prayer for preliminary injunction. *PSALM* has filed *MRs* to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC-Mandaluyong* allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC-Mandaluyong* issued an Order dated June 27, 2016 denying the *MRs*. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC-Mandaluyong*.

Ombudsman Cases Against MERALCO Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018 which directed the Commission on Audit to conduct an audit. As at October 25, 2021, there has been no further action by the Ombudsman in this case. There has also been no action by the Commission on Audit on this matter.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. As at October 25, 2021, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

Others

Liabilities for certain local taxes amounting to ₱486 million and ₱1,535 million as at September 30, 2021 and December 31, 2020, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

30. Significant Contracts and Commitments

MERALCO

Independent Power Producers (“IPPs”)

FGPC and FGP

In compliance with the DOE’s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 MW of the 2,700 MW output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPAs* with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electric output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPAs*. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPAs* of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPAs* of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. The *PPA* is for a period of 25 years from the start of commercial operations up to May 31, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US\$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement (“*TLA*”) and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US\$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See Note 11 – Financial and other Noncurrent Assets.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“*MEQ*”) provisions of the contracts. The forecasted fixed payments

include capacity charge and fixed operation and maintenance cost escalated using the U.S. and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2021	15,327	₱26,086
2022	15,327	26,654
2023	15,327	27,167
2024	15,360	27,768
2025-2030	18,239	30,351

PSAs with Privatized Plants and IPPAs

The PSAs signed with MPPCL, TLI, SPPC, Sem-Calaca and SMEC were approved by the ERC on December 17, 2012. However, SPPC, Sem-Calaca and SMEC filed MRs with respect to the ERC decisions on the PSAs. In an Order dated December 16, 2013, the ERC denied the Motion for Partial Reconsideration on the PSA with SMEC. Both MERALCO and SMEC filed separation motions with respect to such order. In an Order dated May 29, 2018, the ERC partially granted the Motion for Partial Reconsideration on the PSA with Sem-Calaca. On July 25, 2018, MERALCO filed a motion for clarification of the said Order which, as at October 25, 2021, remains pending for resolution of the ERC. Meanwhile, the term of the PSA with Sem-Calaca expired on December 25, 2018, while the PSAs with SPPC, TLI and SMEC expired on December 25, 2019.

MERALCO entered into separate Supplemental Agreements with MPPCL and TLI on April 8 and 27, 2016, respectively, for the extension of the term of these PSAs for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the ERC. In its order dated September 11, 2019, the ERC denied the motion filed by MERALCO to extend the TLI PSA.

On December 6, 2019, MERALCO and TLI executed a new short-term PSA for the purchase of 250 MW capacity and energy from TLI's power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the DOE issued a Certificate of Exemption from CSP in favor of MERALCO for the new short-term PSA. On December 23, 2019, MERALCO filed an application with the ERC for the approval of its new short-term PSA with TLI. On August 7, 2020, MERALCO and TLI filed a Joint Manifestation with Motion with the ERC seeking approval of the extension of the PSA for five days or until December 30, 2020. As at October 25, 2021, hearings have been completed. The case, including the motion, is still pending approval of the ERC.

Under the PSAs approved by the ERC, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	<i>(In Megawatt)</i>	<i>(In millions)</i>
2021	2,647	₱61,347
2022	2,577	61,273
2023	2,577	62,182
2024	2,977	64,689
2025-2030	19,031	400,713

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 October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

Bacman Geothermal, Inc. ("BGI")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 MW capacity and energy from the latter's power plant. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. On August 10, 2020, *MERALCO* and *BGI* filed a joint manifestation with the *ERC*, manifesting that the Joint Application for approval of the *PSA* is deemed moot considering the provisions of the *PSA* are rendered inapplicable and unenforceable given the expiration of the *PSA* without an approval from the *ERC*. As at October 25, 2021, the case is still pending decision by the *ERC*.

Montalban Methane Power Corporation ("MMPC")

On May 13, 2009, *MERALCO* filed an Application with the *ERC* for approval of its *CSE* with *MMPC* which the *ERC* approved with modification in its Decision dated December 3, 2012. In a Letter Agreement dated June 6, 2013, the *CSE* was extended until September 11, 2013 and parties agreed to automatically renew the *CSE* for a series of 3-month terms unless *MMPC* informs *MERALCO* in writing no longer than 30 days before the lapse of each 3-month term that it no longer intends to extend the *CSE*. Upon information from *MMPC*, in a Letter Agreement dated January 21, 2015, the parties agreed to terminate the *CSE* effective January 26, 2015. However, despite the termination of the *CSE*, *MMPC* was still able to inject energy to *MERALCO*'s distribution system. In its letter dated June 9, 2015, *MMPC* sought the *ERC*'s assistance to, among other things, recover reasonable charges for the energy that was generated and injected by *MMPC* to *MERALCO*'s distribution system. In a letter dated July 20, 2015, the *ERC* suggested that *MERALCO* and *MMPC* discuss and agree on the

possible mechanism for the compensation of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. Pursuant to the directive of the *ERC*, *MERALCO* and *MMPC* entered into a Memorandum of Agreement ("MOA") covering the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. On July 1, 2020, *MERALCO* received the *ERC* Decision dated November 5, 2019 approving the collection from the customers of the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system in five (5) equal monthly installments and the remittance of the same to *MMPC*, beginning the billing period following *MERALCO*'s receipt of the Decision. As at October 25, 2021, the collection of the payment and remittance of the same to *MMPC* have been completed.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 MW of electric output from the 150 MW coal-fired power generating facility in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *ERC* has provisionally approved the *PSA* between *MERALCO* and *PEDC* in its Order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit the *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 MW from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya outage may bring to end-users. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at October 25, 2021, further *ERC* action is pending.

In the meantime, on May 17, 2019, *MERALCO* received the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the *MERALCO* and *PEDC* *PSA*, following the *DOE* Circular entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market" ("*2018 DOE Circular*"), which was published on February 9, 2018.

Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for a *PSA* with *PEDC* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from August 26, 2019 to August 25, 2020. In several Joint Manifestations filed by *MERALCO* and *PEDC*, the parties manifested that the *PSA* will continue until implementation of the new *PSA* resulting from the *CSP*. As at October 25, 2021, the *ERC* has not issued a directive to stop the continuation of the *PSA* pending the conduct of the *CSP*.

On September 30, 2021, *MERALCO*'s Third Party Bids and Awards Committee ("*TPBAC*") published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the *SC* Decision in G.R. No. 227670, and comply with *CSP* prescribed in the *2018 DOE Circular*. The *TPBAC* conducted pre-bid conferences on October 22 and 29, 2021 and the bid submission and opening of the bids is scheduled on November 19, 2021.

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 October 25, 2021, the parties are awaiting *ERC*'s final decision on the Joint Application.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 MW electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. As at October 25, 2021, hearings have been completed and the case is pending decision by the *ERC*.

Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 MW of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines*

Tarlac was filed on March 18, 2019. As at October 25, 2021, the case is pending decision by the *ERC*.

Interim Power Supply Agreements (“IPSAs”)

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation (“*SPDC*”) for the supply of 100 MW per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 MW per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at October 25, 2021, the contract term has expired and *MERALCO* awaits the *ERC*’s final decision on the *IPSA*.

On April 15, 2019, in view of the *NGCP* forecast that low voltage situations will occur for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 MW, *MERALCO* signed two (2) separate *IPSAs* with: (i) *MEI* for the purchase of 70 MW of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI*’s Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 kW contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*’s 242 MW-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSAs*, *MERALCO* also received the *DOE*’s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSAs* were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSAs*, with the filing of the joint applications and *DOE*’s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the Luzon Grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE*’s grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*’s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at October 25, 2021, 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. As at October 25, 2021, the parties are finalizing the application with the *ERC* for the approval of the *CSEE* and expects to complete the filing process with the *ERC* in the middle of November 2021.

Clark Electric

SMEC

On March 20, 2013, *Clark Electric* and *SMEC*, as the *IPP* Administrator of the Sual coal-fired thermal power plant, entered into a *PSA* through December 25, 2019, unless terminated earlier in accordance with the terms of the Agreement. The initial contracted capacity from the plant was pegged at 55 *MW* which may be increased up to 70 *MW*.

On July 09, 2015, *Clark Electric* and *SMEC* filed a joint application for the amendment of the *PSA*, which prayed that *Clark Electric* be allowed to get additional supply from *SMEC* as replacement power during scheduled maintenance shutdown of the Sual Power Plant Unit 1 at rate lower than that of the *WESM* rate. Although a decision has yet to be granted by the *ERC* with respect to the said application, it has, nonetheless, granted *Clark Electric*'s application for Interim Power Supply Agreements for the replacement power during the outage of Sual Power Plant Unit 1 in 2016 and in 2017 through the *ERC* orders dated September 20, 2016 and September 13, 2017, respectively.

With the effectivity of *RCOA*, the various contestable customers shifted their power supply sourcing from *Clark Electric* to their respective *RES*. In line with the switching, *Clark Electric* and *SMEC* agreed to gradually lower the *PSA* contracted capacity by an aggregate of 40 *MW* in 2017 to manage the electric retail rates of its captive customers.

On October 10, 2019, *Clark Electric* and *SMEC* jointly filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension in which the *ERC* resolved to grant an interim relief to extend the implementation of the *PSA* from December 26, 2019 to December 25, 2020. As at October 25, 2021, the parties are awaiting decisions of the *ERC*.

SPDC

On February 20, 2017, *Clark Electric* executed a *PSA* with *SPDC*, the *IPP* Administrator of the 345 *MW* San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *Clark Electric* and *SPDC* agreed that the latter shall supply a total of 25 *MW*, consisting of 20 *MW* (firm) and 5 *MW* (non-firm) capacities during Mondays to Saturdays, excluding national holidays from trading intervals 0901H to 2100H. On May 29, 2019 and May 30, 2019, *Clark Electric* and *SPDC* received, respectively, the *ERC*'s Order dated December 19, 2019, which granted interim relief to implement the *PSA*. In view of this, the parties immediately implemented the *PSA* beginning July 2019 billing period.

On December 10, 2019, *Clark Electric* and *SPDC* filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension praying for the confirmation of the extension of the *PSA* effective December 26, 2019 to December 25, 2020. On December 19, 2019, the *ERC* issued an order which granted an interim relief to implement the said extension.

On June 17, 2020, *Clark Electric* and *SPDC* filed a Joint Ex-Parte Manifestation to the *ERC* to address the significant reduction in electric demand across the *Clark Electric* franchise area and to spare *Clark Electric*'s customers from high generation charges during the implementation of *ECQ*. Under the Supplemental Agreement, the parties agreed that for the periods affected by the *ECQ*

commencing from April 07, 2020 until June 30, 2020 or earlier upon resumption of *Clark Electric*'s normal demand, *Clark Electric* will only pay *SPDC* the energy actually taken and consumed from its take or pay 20 MW (firm) power requirement under the *SPDC PSA* and the unpaid amount shall be banked and consumed by *Clark Electric* after the *ECQ* billing periods, in a least cost manner. Relative thereto, the unpaid amounts during the *ECQ* billing periods may be consumed by *Clark Electric* through replacement power consumed during scheduled maintenance outage of Sual Power Plant Unit 1. Accordingly, since the maintenance outage of Sual Power Plant Unit 1, which was initially scheduled on October 13, 2020, was deferred to a later date, the banked energy will not be fully utilized by *Clark Electric* on or before the expiration date. In line with this and in view of the expiration of the *SPDC PSA* on December 25, 2020, *Clark Electric* proposed to utilize the remaining balance of the banked energy under the Supplemental Agreement after the expiration date through the extension of the term of the *SPDC PSA* from December 26, 2020 until the banked energy is fully consumed. On December 23, 2020, *Clark Electric* and *SPDC* filed a Joint Ex-Parte Manifestation to the *ERC* to allow the implementation of the 2017 *PSA* beyond the contract expiration date until the banked energy is consumed. As at October 25, 2021, the parties are awaiting decision of the *ERC*.

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*. As at October 25, 2021, the parties are awaiting decision of the *ERC*.

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*.

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

PPC has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply PPC's total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at PPC's premises the equipment and facilities for the storage and servicing of products purchased at no cost to PPC. The agreement is effective for 15 years and ended until 2013, subject to pricing review every five years. As PPC has not utilized the contracted quantity, the PPC's bid committee approved the renewal of the agreement for another five years or until the contracted quantity is fully utilized. Under the new contract, pricing is subject to review every year.

Long-term Coal Supply Agreements ("CSA")

In order to ensure that there is an adequate supply of coal to operate the power plants, the respective operating plants entered into several long-term contracts with local and foreign coal suppliers. The long-term supply agreements are as follows:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Sakti Nusantara Bakti	Indonesia	2017 - 2026	New C Index	150,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	100,000 MT
Galaxy Resources and Trading Corp. ("Galaxy")	Indonesia	2020 - 2025	GNewC Index	200,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Adaro	Indonesia	2020 - 2024	GNewC Index	165,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2024	GNewC	275,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	110,000 MT
Kideco	Indonesia	2021 - 2025	GNewC	110,000 MT
Galaxy	Indonesia	2021 - 2025	GNewC	55,000 MT
RWood Resources	Indonesia	2021 - 2025	GNewC	55,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	-2021	GNewC Index with Forex	157,000 MT
Kideco	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	55,000 MT
Galaxy	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources	Indonesia	2021 - 2025	GNewC	110,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project (“Cagbalete Microgrid Project”)

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 kW PV system, 150 kWh battery energy storage system and two (2) units of 30 kW diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic (“PV”) panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemental Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at October 25, 2021, *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*.

TSA between PDS Ghana and MPV Limited

On March 1, 2019, *PDS Ghana* and *MPV Limited* entered into a *TSA* to provide expertise and credentials in the technical, commercial, and regulatory areas of the distribution utility operations.

In October 2019, *ECG* issued a notice to terminate the concession agreement for the operation and maintenance of its assets principally due to alleged material breaches in the provision of the Demand Guarantees by *PDS Ghana*. Consequently, the *TSA* between *MPV Limited* and *PDS Ghana* was also terminated.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO 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.

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, the consortium between *MERALCO*, Marubeni Corporation, The Kansai Electric Power Co., Inc. and Chubu Electric Power Co., Inc. signed a Joint Venture Agreement with the Bases Conversion and Development Authority (“*BCDA*”) for the construction, operation and maintenance of the electric distribution system in New Clark City.

MERALCO completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 MVA, 69 kV-13.8 kV interim substation; (ii) 2.2 kilometers of 13.8 kV overhead lines; and (iii) 1.5 kilometers of 13.8 kV underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of the joint venture company. As at October 25, 2021, the remaining documents for the incorporation are being completed for filing with the *SEC*.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	Unaudited			
	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2021	2020	2021	2020
	<i>(Amounts in millions)</i>			
Net income attributable to equity holders of the Parent (a)	P16,522	P11,252	P6,573	P4,408
Weighted average common shares outstanding (b)	1,127	1,127	1,127	1,127
Per Share Amounts:				
Basic and diluted earnings per share (a/b)	P14.66	P9.98	P5.83	P3.91

Basic and diluted earnings per share amounts are calculated by dividing net income for the period attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the period. There are no potential dilutive common shares in 2021 and 2020.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

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

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

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

On July 1, 2015, the *DOE* published a Department Circular “Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry”. The Circular essentially provided for mandatory contestability.

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

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

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

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

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

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

On November 2, 2016, in relation to the Petition filed by the *ERC*, the *SC* issued a Resolution dated September 26, 2016, which partially granted the Petition of the *ERC*. While the *SC* allowed the *RTC-Pasig* to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction (“*PMI*”) against *RTC-Pasig* to vacate the preliminary injunction it previously issued, and Preliminary Injunction (“*PI*”) ordering the *RTC-Pasig* to refrain issuing further orders and

resolutions tending to enjoin the implementation of *EPIRA*. On November 14, 2016, *MERALCO* filed a Motion for Partial Reconsideration with Very Urgent Motion to lift *PMI/PI*.

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

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

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

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at October 25, 2021, the *ERC* has yet to respond to *MERALCO*'s letter.

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

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

Pre-Emptive Mitigating Measure in the WESM

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold (“*CPT*”) amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association (“*PIPPA*”) in the *RTC-Pasig* through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*’s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC-Pasig* denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC-Pasig* in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*’s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC-Pasig* rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC-Pasig* Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at October 25, 2021, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, “A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*”. They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5)-day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling

average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued “Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones” and “Guidelines for the Supply of Electric Power in Ecozones” (“*Guidelines*”). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.

On February 4, 2015, the *RTC-Pasig* issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC-Pasig*. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC-Pasig*. In a Decision dated July 3, 2015, the *RTC-Pasig* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC-Pasig* dismissed the petition upon motion by *PEZA*. The *ERC* filed a *MR* which is pending resolution by the *RTC-Pasig*.

Purchase of Subtransmission Assets (“STAs”)

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*’s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*’s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*’s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*’s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*’s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 kV line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for “Interpleader with Consignation and Specific Performance” against *TransCo* and the Municipality of Labrador, Pangasinan (“*Labrador*”) with the *RTC-Pasig*, praying for the *RTC-Pasig* to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*’s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015,

Labrador and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC-Pasig* granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC-Pasig*. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale (“*DOAS*”) on December 10, 2020, covering the Batch 2 and Batch 4 *STAs*. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated October 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges (“*CC/RSTC*”) of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to RA No. 9513, or the Renewable Energy Act of 2008 (“*RE Act*”), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines (“*FiT Guidelines*”) to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

Starting 2014, *TransCo* applied for the following *FiT-All* rates with the *ERC*, and *ERC* rendered a Decision approving the following *FiT-All* rates for the respective years:

Year	Applied Rate per kWh	Approved Rate per kWh	Date Approved
2014-2015	₱0.0406	₱0.0406	December 10, 2015
2016	0.1025	0.1830	May 9, 2017
2017	0.2291	0.2563	February 27, 2018
2018	0.2932	0.2226	March 12, 2019
2019	0.2780	0.0495	October 28, 2019
2020	0.2278	0.0983	November 23, 2020
2021	0.1881	–	Pending final decision
2022	0.3320 or 0.3165 (alternative rate in consideration of Covid 19)	–	Hearings are ongoing

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. As at October 25, 2021, 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 October 25, 2021, 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 October 25, 2021, the said petition is ongoing and remains pending with the *ERC*.

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the consumer price index ("*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.

Renewable Portfolio Standards (RPS)

In accordance with the *RE Act*, the *DOE* issued Department Circular No. DC2017-12-0015 "Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas" or the *RPS* Rules on December 22, 2017. On June 30, 2020, *MERALCO* submitted its *RPS* Form for 2020 to the *DOE* as part of its compliance with the *RPS*

Rules. The *RPS* form contains *MERALCO*'s computation of its requirements, as well as plans to comply with the requirements. *MERALCO* intends to fully comply with its *RPS* obligations while minimizing the rate impact to its customers.

MERALCO is also preparing to register with the Renewable Energy Market or "*REM*". On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at October 25, 2021, the *REM* is not yet operational.

Green Energy Option Program (GEOP)

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 "Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008" or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, "Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the *GEOP*" as a supplement to the *GEOP* Rules.

On November 24, 2020, the *ERC* released a draft "Resolution Adopting the *GEOP* Rules". This is in accordance with Section 15(e) of the *DOE*'s *GEOP* Rules stating that "The *ERC* shall issue the necessary regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to effect and achieve the objectives of the *GEOP*." On December 7 and 8, 2020, the *ERC* conducted public consultations on the draft. On August 17, 2021, the *ERC* released its *ERC* Resolution No. 8, Series of 2021 (dated April 22, 2021) and put into effect its regulatory framework to govern the *GEOP*. The rules became effective on September 3, 2021.

Recovery of National Power Corporation's ("NPC") Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*'s petition for the recovery of *NPC*'s stranded contract costs portion of the universal charge ("*UC-SCC*"). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to

the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the collection of *UC-SCC* and stranded debts portion of the universal charge ("*UC-SD*") from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM*'s petition for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

In separate Orders dated May 28, 2020, the *ERC* dismissed *PSALM*'s petitions for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar years 2015 to 2018 due to the promulgation of the Murang Kuryente Act.

Net Metering Program

The *RE* Act mandates the *DUs* to provide the mechanism for the "physical connection and commercial arrangements necessary to ensure the success of the *RE* programs", specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs*' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at September 30, 2021, *MERALCO* has already installed 4,478 meters and energized 4,257 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 September 30, 2021, there are 133 companies with a total committed de-loading capacity of 584.56 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 October 25, 2021, the *ERC* has yet to resolve *MERALCO*’s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. As at October 25, 2021, *MERALCO* is awaiting final approval of the *ERC*.

CSP Requirement for PSAs

On February 9, 2018, the *DOE* published the *2018 DOE Circular*. Upon effectivity of the Circular, all prospective *PSAs* in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

- i. Generation project owned by the *DU* funded by grant or donations
- ii. Negotiated procurement of emergency supply
- iii. Generation project embedded in the *DU*, utilizing indigenous energy resources in the franchise area of the *DU* and subject to a maximum capacity of 10 MW per Luzon *DU* and 5 MW per Visayas and Mindanao *DU* (introduced by the *2021 Revised CSP Circular*, see discussion below)
- iv. Provision of supply in off-grid areas prior to the entry of new power providers
- v. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*.

PSAs that were granted exemption from *CSP* by reason of need for emergency supply shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). The *DU*'s *TPBAC* shall be composed of the following (a) one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU*; (b) One (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU*'s *TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO*'s *TPBAC* captive customer representatives.

Direct negotiations may be made by the *DUs* after at least two (2) failed *CSPs* and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

- i. No proposal was received by the *DU*
- ii. Only one (1) generator submitted an offer
- iii. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

On October 14, 2021, the *DOE* published a *DOE Circular* entitled "Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market" ("*2021 Revised CSP Circular*"). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced a new alternative mode of *CSP* – a competitive challenge for unsolicited proposals ("*USP*"), if the *USP* offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility's peak demand for the year of the *USP*'s required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

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

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

Meanwhile, following the *2018 DOE Circular*, *MERALCO* constituted its *TPBAC* to conduct *CSP* in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan.

On September 13, 2019, *MERALCO* signed three (3) *PSAs* for baseload capacity with *AC Energy* for 200 MW, *SMEC* for 330 MW, and *SPPC* for 670 MW. On September 16, 2019, *MERALCO* signed three (3) *PSAs* for mid-merit capacity with First Gen Hydro Power Corporation ("*First Gen Hydro*") for 100 MW, *AC Energy* for 110 MW, and *SPPC* for 290 MW. On October 22, 2019, the joint applications for approval of these six (6) *PSAs* were filed before the *ERC*. In its letters to *MERALCO*, all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSAs* for baseload capacity with *AC Energy*, *SPPC* and *SMEC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s two (2)

PSAs for baseload and 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 four (4) PSAs for baseload capacity with *SPPC* and *SMEC*, and mid-merit capacity with *FGHPC* and *SPPC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the PSAs with *AC Energy*, *SPPC* and *SMEC* for baseload capacity and PSA with *FGHPC* for mid-merit capacity, until revoked or until the issuance of a final decision by the *ERC*. As at October 25, 2021, the six (6) PSA applications are pending final decision by the *ERC*.

On March 2, 2021, after a CSP for 1,800 MW baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) PSAs with Excellent Energy Resources, Inc. ("*EERI*") with commercial operations date in December 2024 for 1,200 MW, and with Masinloc Power Partners Co. Ltd. ("*MPPCL*") with commercial operations date in May 2025 for 600 MW. The joint applications for approval of *MERALCO*'s PSAs with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at October 25, 2021, the two (2) PSA applications are awaiting final resolution by the *ERC*.

On September 30, 2021, the *TPBAC* published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the SC Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) directing PSAs entered into on and after June 30, 2015, which includes the *MERALCO* and *PEDC* PSA, to comply with CSP prescribed in the 2018 DOE Circular. The *TPBAC* conducted pre-bid conferences on October 22 and 29, 2021 and the bid submission and opening of the bids is scheduled on November 19, 2021.

SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the SC claiming that the 2018 DOE Circular, which repealed portions of the 2015 CSP Circular, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the "*Bayan Muna Petition*"). The *Bayan Muna Petition* also sought for the issuance of TRO and/or writ of preliminary injunction to prevent continuation of the on-going CSPs of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the SC by representatives of various consumer groups led by the Power for People (P4P) Coalition (the "*P4P Petition*") against the DOE and *MERALCO*'s *TPBAC*. The petition claims that the terms of reference for the 1,800 MW baseload CSP completed in March 2021 are unfavorable to the consumers and non-compliant with the 2018 DOE Circular and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of TRO and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 MW baseload CSP of *MERALCO*. In a Resolution dated March 18, 2021, the SC dismissed the *P4P Petition*. The SC held that the issues raised by *P4P* are factual in nature, which require the SC to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that DOE has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the CSP.

True-up Adjustments of Fuel and Purchased Power Costs ("TAFPPC") and Foreign Exchange-Related Costs ("TAFxA")

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of

₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at October 25, 2021, the *ERC* has yet to act on the Motion.

ECQ/MECQ due to COVID-19 Pandemic

In March 2020, President Rodrigo Duterte issued Proclamation Nos. 922 and 929, series of 2020, which declared a State of Public Health Emergency throughout the Philippines due to *COVID-19* and imposed *ECQ* on the entire Luzon island, beginning March 16, 2020 until April 12, 2020. All citizens, residents, tourists and establishment owners were urged to act within the bounds of law and to comply with the lawful directives and advisories to be issued by appropriate government agencies to prevent further transmission of *COVID-19* and to ensure the safety and well-being of all. On April 7, 2020, the Office of the President of the Republic of the Philippines through the Office of Executive Secretary issued a Memorandum extending the *ECQ* until April 30, 2020. Under Executive Order No. 112, Series of 2020, President Duterte extended the *ECQ* in high risk areas, including National Capital Region (“*NCR*”) from May 1, 2020 to May 15, 2020. Thereafter, *Modified ECQ* (“*MECQ*”) was declared in high risk areas, including *NCR*, from May 15, 2020 until May 30, 2020.

In line with the foregoing Government pronouncements, the *DOE* and *ERC* issued several advisories and guidelines to electric power industry stakeholders.

Meanwhile, on various dates beginning as early as March 16, 2020, *MERALCO* sent out notices of event of force majeure to power suppliers for its *ERC*-approved *PSAs* currently being implemented. These notices explained that based on the respective *PSAs* entered into by *MERALCO* and its power suppliers, *MERALCO* is entitled to claim relief by reason of an event of force majeure given the prevailing circumstances.

On September 11, 2020, President Duterte signed into law Republic Act No. 11494, the *Bayanihan to Recover as One Act* (“*Bayanihan 2*”) which serves as the government’s second coronavirus pandemic relief measure. In an Advisory dated September 23, 2020, the *DOE* directed power sector entities to observe the grace period and staggered payment for unpaid bills provided under the *Bayanihan 2*. The *DOE* also requested the *ERC* to issue necessary procedures and guidelines for the implementation of the Advisory in line with the policies and purpose of the *Bayanihan 2*. On October 29, 2020, the *ERC* issued an Advisory regarding *Bayanihan 2* with directives on non-disconnection of service due to non-payment of bills; implementation of a minimum 30-day grace period and a 3-month installment plan for the payment of *ECQ/MECQ* bills. *MERALCO* complied with these directives.

In an Advisory dated February 5, 2021, the *DOE* directed all distribution utilities to implement a non-disconnection policy due to non-payment of bills for all electricity consumer whose consumption levels are within the lifeline rate set by the *ERC*. The policy shall apply to all unpaid regular bills and installment payments relative to various advisories of *DOE* and *ERC*. As clarified with the *DOE*, with respect to *MERALCO*’s customers, the non-disconnection policy shall apply to *MERALCO*’s residential customers with an average consumption of 100 *kWh* and below in their November 2020, December 2020 and January 2021 bills. *MERALCO* extended the no disconnection policy until May 14, 2021.

The latest advisory issued by the *ERC* was on September 16, 2021. In this Advisory, the *ERC* made the following directives:

- a. *DUs* are directed to cause the conduct of actual meter reading of their customers' electricity consumption;
- b. *DUs* should provide their meter readers and other frontline personnel with complete Personal Protective Equipment ("*PPE*") and other logistical requirements, such as transportation, in order to ensure the safety and smooth performance of their duties; and
- c. *DUs* are directed to submit a report to the *ERC* on their compliance to the above directives on a monthly basis.

Clean Air Act

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* ("the Operating Subsidiaries of *GBPC*") in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*'s existing facilities, the Operating Subsidiaries of *GBPC* believe that they comply with the provisions of the Clean Air Act and the related *IRR*.

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position) prospectively from the date of effectivity of *ER 1-94*. Such amount accrued is remitted to the trust account of the *DOE* upon their audit.