COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

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
P	A	S	I	G		C	I	T	Y																				

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
N/A	6312222/ 16220	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
42,687	Last Tuesday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. William Pamintuan	wspamintuan@meralco.com.ph	632-8014	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.

TABLE OF CONTENTS

		Page No.
PART I – BUSINESS AND GENERAL INFORMATION		**1**
Item 1.	Business	1
Item 2.	Properties	11
Item 3.	Legal Proceedings	12
Item 4.	Submission of Matters to a Vote of Security Holders	32
PART II – OPERATIONAL AND FINANCIAL INFORMATION		**33**
Item 5.	Market for Issuer's Common Equity and Related Stockholders Matters	33
Item 6.	Management's Discussion and Analysis or Plan of Operation	35
Item 7.	Financial Statements	124
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	125
PART III – CONTROL AND COMPENSATION INFORMATION		**126**
Item 9.	Directors and Executive Officers of the Issuer	126
Item 10.	Executive Compensation	150
Item 11.	Security Ownership of Certain Beneficial Owners and Management	152
Item 12.	Certain Relationships and Related Transactions	155
PART IV – CORPORATE GOVERNANCE		**155**
Item 13.	Corporate Governance	155
PART V – EXHIBITS AND SCHEDULES		**158**
Item 14.	Exhibits and Reports	158
SIGNATURES		**162**
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES		**163**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **DECEMBER 31, 2018**

2. SEC Identification Number **PW-102** 3. BIR Tax Identification No. **000-101-528-000**

4. Exact name of issuer as specified in its charter **MANILA ELECTRIC COMPANY**

5. **REPUBLIC OF THE PHILIPPINES**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **LOPEZ BUILDING, ORTIGAS AVENUE, BRGY. UGONG, PASIG CITY** **1605**
Address of principal office Postal Code

8. **(+632) 631-5567**
Issuer's telephone number, including area code

9. **NOT APPLICABLE**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	1,127,098,705
	Amount of Debt Outstanding
Debt Securities - bonds	₱18,500 million Fixed Rate Notes • ₱11,500 million - 7Y Note due 2020 • 7,000 million - 12Y Note due 2025

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

Yes [/] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

PHILIPPINE STOCK EXCHANGE

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

The aggregate market value of voting stock held by non-affiliates of the registrant as of December 31, 2018:

Shares: 236,536,478

Closing Price: ₱380.00

Aggregate: ₱89,883 Million

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

1) Business Development

The name of the issuer is Manila Electric Company, also known as *MERALCO* or "the *Company*", and was duly organized on May 7, 1919 under the laws of the Republic of the Philippines. *MERALCO,* is a private distribution utility ("*DU*"), which holds a congressional franchise under Republic Act ("*RA*") No. 9209 effective June 28, 2003. *RA* No. 9209 grants *MERALCO* a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the end of *MERALCO*'s congressional franchise.

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

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

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

Meralco Industrial Engineering Services Corporation ("*MIESCOR"*) is 99%-owned by *MERALCO* and 1% held by the *MIESCOR* Provident Fund. Incorporated on December 5, 1973, *MIESCOR* boasts of 45 years of experience in engineering, procurement, construction and maintenance projects related to power generation, transmission and distribution, as well as industrial plants, water resources and telecommunications. *MIESCOR* holds a Quad A category license from the Philippine Contractors Accreditation Board.

MIESCOR's services are complemented by its two (2) wholly owned subsidiaries – Miescor Builders, Inc. ("*MBI"*) and Miescor Logistics, Inc. ("*MLI"*). While *MIESCOR* focuses on engineering and construction, industrial facility construction, and electro-mechanical works, MBI serves as the general construction and distribution facilities operation and maintenance business unit. *MLI*, on the other hand, handles architectural and fit-out construction works as well as facilities and logistics management services in the areas of warehousing, fleet, tools and equipment, buildings and grounds, and air-conditioning.

With safety and quality at its core, internal processes and management systems meet international qualifications with the following certifications: ISO 9001:2015, ISO 14001:2018, and ISO 45001:2018 standards. *MIESCOR*'s outstanding safety performance was recognized by the Safety Organization of the Philippines ("*SOPI"*) and the Safety and Health Association of the Philippine Energy Sector ("*SHAPES"*), receiving 23 awards in 2018.

MIESCOR continues to be a dominant player in transmission, distribution and substation with the National Grid Corporation of the Philippines ("*NGCP"*), *MERALCO*, major power generating companies and distribution utilities as repeat clients. Its 2018 roster of projects for the national grid, power, and distribution utilities include the Cebu-Negros-Panay Transmission Backbone Project, Bataan Substation Reinforcement, Upgrading of Naga Colon Substation, Mindanao Backbone Project, and Hedcor Manolo Fortich Switchyard and Transmission Line.

MIESCOR's expertise in engineering and construction, backed up by its years of experience, continues to deliver the competitive advantage to do business in high-growth domestic and international markets.

Corporate Information Solutions, Inc. ("*CIS*") is a wholly-owned subsidiary of *MERALCO*. CIS, through CIS Bayad Center, Inc. ("*Bayad Center*"), is the pioneer in outsourced payment collection service. With more than 30,000 over-the-counter payment locations and customer touchpoints, as well as powering the bills payment feature of leading online and mobile payment applications, *Bayad Center* has evolved from a pioneer in over-the-counter payment collection service to what is now the biggest and widest multi-channel payment platform to date, servicing the most number of private and government biller merchants in the Philippines.

To complement its suite of products and services, Bayad Center established Customer Frontline Solutions ("*CFS")* and invested in Fieldtech Specialist, Inc. ("*FSI")*, providing outsourced tellering to top corporations, and operating the largest "read-and-bill" or spot-billing field service in the country, catering to electric cooperatives and water districts nationwide.

In 2018, *Bayad Center* acquired an e-payment platform that will be actively participating in the various government agencies' e-payment solutions initiatives. This e-payment platform shall effectively reinforce *Bayad Center*'s current payment facilities such as the Bayad Center Online, Bayad Center Mobile App, and Bayad Center Payment Machines that will service government billers and major institutions alike.

Meralco Energy, Inc. ("*MServ")* is an electro-mechanical contractor and a wholly-owned subsidiary of *MERALCO*. It is engaged in end-to-end energy solutions, providing strategic load side outsourcing and energy efficiency services. It offers expert advice on power concerns and ensures that businesses have the right-sized facilities to optimize energy consumption costs. *MServ* services include engineering design, procurement, construction, operations and maintenance of electrical facilities and equipment, preventive maintenance and safety audits, equipment repairs, power quality and energy audits. *MSERV* also has low voltage/load side distribution services capitalizing on its capability to value-engineer electrical designs. Its energy efficiency services include lighting efficiency programs, *HVAC* services, and building energy management systems. *MSERV* handles warehouse operations and maintenance for

MERALCO. It also offers services to companies in various industries - from manufacturing to universities to government agencies - for their emergency electrical concerns.

Through its expertise and services, *MSERV* aims to provide their customers with the most cost-efficient, effective, and reliable energy solutions.

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

Radius delivers services on an end-to-end fiber optic platform in the Mega Manila area, enabling service providers and companies to transmit digital information and business applications over highly reliable, secure, and cost-effective communication superhighways. It provides world-class data connectivity solutions over its dense fiber optic network, with access nodes strategically located within business districts, industrial and IT parks, data centers, and main thoroughfares.

Radius is one of the first telecommunications companies in the Philippines certified by the Metro Ethernet Forum, a consortium certifying carrier ethernet services globally. With more than 4,000 kilometers of fiber optic cable deployed and a presence in all major telco nodes and data centers, Radius currently serves the requirements of both local and international carriers, internet service providers, and the biggest names in the banking, Business Process Outsourcing ("*BPO*"), manufacturing, and retail companies in the Philippines.

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

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

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

Clark Electric Distribution Corporation (*"CEDC"*), organized on February 19, 1997, is 65%-owned by *MERALCO*. *CEDC* is the registered distribution utility with a franchise granted by the Clark Development Corporation to distribute power exclusively within the Clark Special Economic Zone and the sub-

zone. *Cogent Energy*, *CEDC*'s local retail electricity supplier ("*LRES*") is an active participant in the Retail Competition and Open Access market within its franchise area.

In 2018, *Cogent Energy* was able to acquire contracts from six (6) contestable customers which generated 36.6 MWh energy sales.

CEDC has 100 *MVA* capacity for 230 *kV* – 69 *kV* Delivery Point Substation and 166 *MVA* aggregate capacity for 69 *kV* – 13.8 *kV* Substation. In 2018, *CEDC* implemented various projects such as the construction of the Roxas – IE-5 69 *kV* line started to strengthen its 69 *kV* sub-transmission backbone.

MERALCO PowerGen Corporation ("*MGen*") is a wholly owned subsidiary of *MERALCO*. *MGen* aims to develop, build, own and bring into commercial operation a diversified power portfolio in the next five (5) years and significantly contribute to meeting the country's growing demand for power. Its mission is to pursue the development and construction of cost-competitive, environmentally compliant and reliable power plants to ensure the provision of adequate, reliable and affordable power to customers in the *MERALCO* franchise area and other areas.

Construction activities for San Buenaventura Power Ltd. Co.'s ("*SBPL*") 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon are ongoing and on schedule to meet its targeted commercial operations in the third quarter of 2019. Once completed, *SBPL* will sell the electricity generated by the plant to *MERALCO* under a power supply agreement ("*PSA*") that was approved by the *ERC* in May 2015.

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

SBPL is a joint venture between *MGen* and New Growth, B.V. of Thailand's *EGCO* Group.

Through Atimonan One Energy, Inc. ("*A1E*"), *MGen* is also developing a 2 x 600 *MW* (net) ultra-supercritical pulverized coal-fired power plant in Atimonan, Quezon.

The project has been awarded an Environmental Compliance Certificate ("*ECC*") by the Department of Environmental and Natural Resources ("*DENR*") in October 2015. In March 2016, *A1E* received a Land Use Conversion for the project site and gained full control of the project area.

In April 2016, *A1E* signed a *PSA* with *MERALCO* for the full output of the plant, which is among those pending approval by the *ERC*. The regulatory hearing process at the *ERC* had long been completed and *A1E* has filed its Formal Offer of Evidence on March 8, 2017.

In November 2017, the project has been granted a Foreshore Lease Agreement by the *DENR*. In December 2017, *A1E* also received its Certificate of Registration from the *BOI* as a pioneer project – being the first ultra-supercritical coal-fired power plant project in the country.

On September 11, 2018, the *DOE* signed and issued *A1E* a Certificate of Energy Project of National Significance ("*CEPNS*") for commerciality-a key recognition of the project's importance to the

country's future energy supply. On September 14, 2018, *A1E* jointly filed with *MERALCO* an Extremely Urgent Motion to Resolve the *PSA*s, citing the *CEPNS* received from the *DOE*.

The selected *EPC* contractor for the project is awaiting the issuance of a Notice to Proceed and is engaged in early site preparation works in the interim. Financing has been arranged by the Mandate Lead Arrangers with a Mandate Letter signed with a consortium of eight (8) local banks.

Transmission right-of-way ("*ROW*") acquisition continues to progress well and is almost fully secured.

The expected completion of the first 600 *MW* is targeted by the third quarter of 2023, and the second unit by first quarter of 2024.

MGen is also developing (i) a 2 x 300 *MW* (net) circulating fluidized bed, coal-fired power plant in the Subic Freeport Zone through Redondo Peninsula Energy, Inc. ("*RP Energy*"), and (ii) a 2 x 350 *MW* (net) sub-critical pulverized coal-fired power plant in Calaca, Batangas through St. Raphael Power Generation Corporation ("*St. Raphael*"), among others.

MGen has 49% equity interest in Mariveles Power Generation Corporation ("*Mariveles Power*") which is developing a 4 x 132 *MW* (net) coal-fired power plant in Bataan.

MGen also owns 14% of Global Business Power Corporation ("*GBPC*"), the largest independent power producer in the Visayas. *GBPC* owns 854 *MW* of operating coal and diesel-fired power plants power plants in the Visayas and Mindoro. *GBPC* also has a 50% interest in Alsons Thermal Energy, which holds a 75% interest in a 105 *MW*- net *CFB* plant in Maasim, Sarangani that started operations in 2016. A second 105 *MW CFB* unit is currently under construction and targeted to be completed by 2019.

MGen also has a 28% effective equity interest in PacificLight Power Pte. Ltd. ("*PacificLight*") that has been operating since February 2014. Its 2 x 400 *MW* combined cycle turbine power plant is mainly fueled by liquefied natural gas ("*LNG*") in Jurong Island, Singapore.

In 2016, Solvre, Inc. ("*Solvre*"), a wholly owned subsidiary of *MGen*, was incorporated to engage as a retail electricity supplier. On February 9, 2017, the *ERC* granted *Solvre* a *RES* license to operate as retail electricity supplier.

MGen is increasingly focused on development of renewable energy projects, where they can be constructed on a basis that assists in reducing the cost of energy to *MERALCO* customers. At this stage the primary focus is on utility scale (50 *MW* or larger) solar projects with numerous activities underway to secure its own prospective sites, as well as partnering with established developers on their sites. In parallel MGen continues to progress a number of large scale wind energy projects that can also deliver competitively priced energy for consumers.

MSpectrum Inc. ("*Spectrum*") is a renewable energy subsidiary of *MERALCO*. *Spectrum* boasts of end-to-end technical capabilities and its synergy with the *MERALCO* Group, and support of world-class vendors and suppliers. *Spectrum* is committed to bringing market-leading energy solutions to its

customers, giving them the maximum returns for their investments. *Spectrum* tailor-fits solutions for industrial, commercial, and residential customers through our in-depth understanding of energy consumption behaviors, and our strategic partnerships with world-class technology partners. *Spectrum* strives for continuous innovation and to be at the cutting edge of renewable technology. *Spectrum* advocates corporate governance and social responsibility as it cuts across boundaries to contribute to nation-building.

Vantage Energy Solutions and Management Inc. ("*Vantage*") is a wholly owned subsidiary of *MERALCO* with the primary purpose of providing retail energy services which involve energy sourcing, trading and solutions, wholesale contracting and aggregating of electricity. *Vantage* is the first affiliate *RES* of *MERALCO* and was officially licensed by the *ERC* on January 10, 2017. As a licensed *RES*, *Vantage* is allowed to operate and offer its services to all contestable customers nationwide where Retail Competition and Open Access is implemented. Its mission is to provide not just electricity to its customers but also new, relevant, and customized solutions delivered with the highest level of service. *Vantage* offers competitive energy products and service innovations to help its customers manage their electricity requirements better. It provides stable and reliable power supply, customized products offered at competitive prices, value-added services and technical collaborations with its expert engineers to maximize efficiency and profitability of its customers' operations.

eSakay, Inc. ("e*Sakay")* was established to focus on propagating green and sustainable mobility-from the supply of electric vehicles ("*EV*") and charging infrastructure to the provision of *EV* operatorship services.

Incorporated in 2018, *eSakay* aims to be an end-to-end *EV* transport solutions provider, modernizing and electrifying transport systems for private and public sector customers throughout the country.

With *eSakay*, *MERALCO* aims to build on the momentum of *MERALCO*'s previous initiatives in the *EV* space. In January 2019, *eSakay* launched its first electric Public Utility Vehicle ("*ePUV*") project with its Makati-Manadaluyong eJeep route, servicing commuters in the two (2) cities through 15 zero-emission, zero-noise, and 100% electric jeeps. This is in full support of the Department of Transportation's Public Utility Vehicle Modernization Program.

Key initiatives such as this are all part of *eSakay*'s thrust to help build 'greener' roads and 'bluer' skies for our customers, community, and country.

2) Business of Issuer

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

	2018	2017	2016
Residential	30.59%	31.02%	31.00%
Commercial	39.41%	39.42%	39.53%
Industrial	29.69%	29.24%	29.14%
Streetlights	0.31%	0.32%	0.33%
TOTAL	**100.00%**	**100.00%**	**100.00%**

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

	2018	2017	2016
First Gas Power Corporation ("*FGPC*") – *Sta. Rita Power Plant* and FGP Corp. ("*FGP*") – *San Lorenzo Power Plant*	27.87%	27.15%	26.26%
South Premier Power Corporation ("*SPPC*") – *Ilijan Power Plant*	16.13%	18.02%	19.41%
Philippine Electricity Market Corporation ("*PEMC*") - Wholesale Electricity Spot Market or *WESM*	16.64%	14.95%	11.26%
Masinloc Power Partners Co., Ltd. ("*Masinloc*")	5.74%	6.78%	8.31%
San Miguel Energy Corporation ("*SMEC*") –*Sual Coal-fired Plant*	7.03%	7.38%	8.22%
Quezon Power (Philippines.) Limited	6.20%	7.47%	8.12%
Sem-Calaca Power Corporation ("*Sem – Calaca*")	7.80%	7.79%	7.70%
Therma Luzon, Inc. ("*TLI*") – *Pagbilao Coal Plant*	5.46%	6.04%	7.00%
Others	7.13%	4.42%	3.72%
TOTAL	**100.00%**	**100.00%**	**100.00%**

Franchise and Concession Agreements

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

area of *MERALCO* over specified areas in Luzon is approximately 9,685 square kilometers, covering 36 cities and 75 municipalities.

CEDC is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and Meralco Industrial Engineering Services Corporation ("*MIESCOR*") dated February 19, 1997. The franchise of *CEDC* covers 320 square kilometers in Clark Special Economic Zone.

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. ("*Vantage*"), a wholly owned subsidiary of *MERALCO*; Solvre, Inc., a wholly owned subsidiary of MERALCO PowerGen Corporation ("*MGen*"); and MeridianX Inc. ("*MeridianX*"), a wholly owned subsidiary of Comstech Integration Alliance, Inc. ("*Comstech*", 60% owned by *MERALCO*), on January 10, 2017, February 9, 2017 and February 9, 2017, respectively.

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

Retail Competition and Open Access (*"RCOA*")

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

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

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

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

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

Government Approval of Principal Products or Services

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

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

The adjustment of each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: (i) the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities", which govern the recovery of pass-through costs, including over- or under-recoveries in the following bill components: generation charge, transmission charge, system loss charge, lifeline subsidies, local franchise, and business taxes; and (ii) the "Rules for the Setting of Distribution Wheeling Rates" ("*RDWR*"), as modified by *ERC* Resolution No. 20, Series of 2008, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

Costs and Effects of Compliance with Environmental Laws

Organizational Safety

MERALCO continuously strengthens its safety culture with the pilot implementation of a First Working Day Safety Campaign in 2018 with the intention of instilling a "Safety First" mindset among the employees to start the year. The event included a review of the previous year's safety performance and sharing of valuable learnings, recognition of excellent safety performers, audit of line crew *PPE*s/*TWE*s and solicitation of employees' commitment to the aspiration of an "incident-free" workplace.

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

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

Environment

In 2018, the "Trash to Cash for a Cause" activity yielded more than 14,000 kgs. of recyclable materials while the "Balik Baterya" program was able to turn-over 36,000 kgs. of used lead acid batteries for its proper treatment and disposal.

MERALCO has collaborated and supported *DENR*'s corporate arm, Natural Resources Development Corporation ("*NRDC"*), through the proper disposal of our hazardous wastes through their local treatment plant in Bataan. *MERALCO* likewise continues to honor its commitment to the *DENR* by protecting and managing the 927 hectare *MERALCO* Tree Farms located at Rodriguez, Rizal.

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

Disaster Resiliency

MERALCO has successfully submitted its Resiliency Compliance Plan ("*RCP"*) to the *DOE* last August 2018 in compliance with the Department Circular 2018-01-0001 also known as the Adoption of Energy Resiliency in the Planning and Programming of the Energy Sector to Mitigate Potential Impacts of Disasters. The business continuity plan of *MERALCO* is being continuously improved with consideration on the severe impacts of "The Big One" as well as the customer requirements for a secure and reliable supply of electric service. A total of 131 earthquake/emergency drills were conducted for all the Company operating sites within the franchise area.

The Bureau of Fire Protection ("*BFP"*) has granted Certificate of Competencies ("*COC"*) on Fire Safety Practitioner and Fire Volunteers/Fire Brigade Member to 33 employees and 31 employees, respectively.

Government Approval and Regulation

Energy Regulatory Agency

MERALCO is subject to regulation by the *ERC* and recognizes the rate-making policies of the *ERC*.

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

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

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

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

Number of Employees

As at December 31, 2018, *MERALCO* has a total of 5,602 regular employees covered by two (2) unions, namely, First Line Association of Meralco Supervisory Employees ("*FLAMES*") and Meralco Employees and Workers Association ("*MEWA*"). The Company has existing Collective Bargaining Agreements with these unions expiring on November 30, 2021 (*FLAMES*) and November 30, 2019 (*MEWA*). The Company does not have an estimated number of employees to be hired in the next 12 months since hiring decisions are dependent on operational requirements.

Item 2. Properties

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

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

As at December 31, 2018, in addition to the head office, *MERALCO* has 10 networks sector offices, 38 business centers and 19 customer centers or extension offices. Its network facilities consist of 121 substations (total capacity of 18,010 *MVA*), 938 circuits (total of 38,673 circuit-kms.) and 188,901 distribution transformers in service (total capacity of 15,496 *MVA*).

Separately, *CEDC* facilities consist of subtransmission and distribution assets and buildings and improvements located in *CSEZ*. *CEDC* distribution facilities include four (4) substations with a capacity of 100 *MVA* at 230 *kV* – 69 *kV* level and 166 *MVA* at 69 *kV* – 13.8 *kV* level (energize). Its present distribution network consists of 1,768 distribution transformers, 33 circuit-km. linear length of sub-transmission lines, 146 circuit-km. linear length of primary lines, and 30.21 circuit-km. linear length (90.63 conductor length) of secondary lines.

MGen, through its subsidiaries, Atimonan Land Ventures Development Corporation ("*ALVDC*") and Calamba Aero Power Corporation ("*CAPC*"), owns several parcels of land for the development and

construction of power plant projects. The land of *ALVDC*, located in Atimonan, Quezon, is intended to be used by *A1E* for its 2 x 600 *MW* (net), ultra super-critical coal-fired plant project while the land of *CAPC* is held for future power plant project in Calamba, Laguna. *A1E* is also a subsidiary of *MGen*.

Radius, *MERALCO*'s telecommunications subsidiary, owns 4,169 kilometers of fiber optic cables and telecommunications infrastructure in certain parts of Metro Manila.

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

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

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

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

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

Item 3. Legal Proceedings

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

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

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

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

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

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

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

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

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

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

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

its appeal brief. Both parties have submitted their respective appeal briefs. In a Decision dated April 15, 2014, the *CA* affirmed the validity of the *RTC* Pasig Decision.

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

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

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

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

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

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

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

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

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

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

The parties are awaiting further action of the *SC* on the matter.

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

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

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

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

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

This is *MERALCO*'s application for the verification of its *MAP* for *RY* 2013 and its translation into tariffs by customer category.

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

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

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

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

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

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

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

9. PSALM v. PEMC and *MERALCO*
(PEMC Resolution Issued Directing the Adjustment of Settlement Prices in the Wholesale Electricity Spot Market)
G.R. No. 190199
Supreme Court
(Petition dated November 25, 2009; Received by the Company on December 4, 2009)

This is a petition filed by *PSALM* with the *SC* appealing the Decision dated August 28, 2009 of the *CA* in C.A. G.R. SP No. 106322, which affirmed the Decision dated January 30, 2008 of the *ERC* in *ERC* Case No. 2006-080 RC, setting the Wholesale Electricity Spot Market "(*WESM*") settlement prices for the third and fourth billing periods at the *ERC*-approved *NPC-TOU* rates. With filing of *MERALCO*'s comment, the petition is now ripe for decision by the *SC*.

In a Decision dated August 14, 2007, the *ERC* confirmed its December 13, 2006 Order and declared as invalid the action of the *PEM* Board in adjusting the *WESM* settlement prices for having been carried out beyond the scope of its authority and in violation of the *EPIRA* and the *WESM* Rules. The *ERC* further directed the implementation and adjustment of the *WESM* settlement prices for the 3rd and 4th billing periods and allowed *PEMC* to institute adjustments in its billing and settlement process to mitigate

the impact of said Decision upon the WESM members. *MERALCO*, however, moved for a reconsideration of the Decision due to its impact on customers. It argued that the use of *WESM* settlement prices would result in additional imposition of ₱6.00 per *kWh* and translate to an increase in the generation charge by about ₱0.90 and ₱2.05 per *kWh*, for the supply months of September 2006 and October 2006, respectively. On January 30, 2008, the *ERC* rendered its Decision granting *MERALCO*'s motion and set the *WESM* settlement prices for the subject billing periods at the *ERC*-approved *NPC-TOU* rates.

ERC's decision directing the *WESM* settlement price for the 3rd and 4th billing months to be *NPC-TOU* rates prompted *PSALM* to file a Petition with the *CA*, which was denied on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC* where the petition is pending resolution.

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

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

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

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

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

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to *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 the computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions.

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 ₱73.944 million per month until the over-recoveries are fully refunded. In said Order, the *ERC* likewise determined that the amount to be collected from the Successor Generating Companies ("*SGC*s") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *MPPCL APRI*, *TLI*, *SMEC* and *SCPC*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGC*s.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGC*s against whom a petition for dispute resolution should be filed by *MERALCO*; 2) Amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates and Petition to be filed by *MERALCO* against the *SGC*s should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates. ; 3) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; 4) Grant the "Motion for Extension" filed by *MERALCO* and directed *MERALCO* to file a petition against the following *SGC*s: *MPPCL*, *APRI*, TLI, *SMEC*, *SCPC* and *SPPC,* otherwise, it shall be the one liable to refund the subject amount to its customers; and 5) deny the respective "Motions for Reconsideration" filed by *NPC* and *PSALM*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for Temporary Restraining Order or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a

Comment and Opposition Re: Petition for Certiorari with Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014.On June 4, 2014, the *CA* issued a Resolution directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* of the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM's MR*. On October 27, 2015, *MERALCO* received *PSALM's* Petition for Review with the *SC*. On December 5, 2015, *MERALCO* filed its Comment on the Petition. The petition has been given due course and the parties have filed their respective memoranda. *MERALCO* is still awaiting further action of the *SC* on the Petition.

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

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

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

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

On December 19, 2013, several party-list representatives in Congress filed a Petition docketed as G.R. 210245 before the *SC* questioning the *ERC*'s approval of *MERALCO*'s proposed staggered recovery of the increase in generation charge for the November 2013 supply month, allegedly for lack of due process. The increase in the generation charge was from ₱5.6673 per *kWh* in the November 2013 billing to

₱9.1070 per *kWh* for the December 2013 billing which *MERALCO* proposed to recover in three (3) tranches. A similar Petition was filed on December 20, 2013 challenging *MERALCO*'s automatic rate adjustments and increases, also allegedly for lack of due process. This Petition was docketed as G.R. 210255. Both Petitions prayed for the issuance of Temporary Restraining Order ("*TRO*") and Writ of Preliminary Injunction pending resolution of the case.

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

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

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

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

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

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

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

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

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

In the meantime, on January 30, 2014, *MERALCO* filed an Urgent Motion with Manifestation with the *ERC*. *MERALCO* manifested that certain statements were made that there have been gross violations of *WESM* rules and regulations as well as protocols on generation offers and plant dispatch by certain *WESM* participants which affected the market clearing prices. *MERALCO* prayed for the issuance of an Order: (a) directing *PEMC* to conduct market re-runs or re-calculations of *WESM* transactions and dispatches, or determine substituted prices or undertake any other appropriate measures to determine and recalculate the true cost of electricity in the *WESM*, during the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) under such rules or guidelines as the *ERC* may deem appropriate and (b) directing *MERALCO* to subsequently recalculate its pass-through generation charges for the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) based on the proper applicable prices for transactions in the *WESM* during the aforementioned months as so determined by the *ERC* based on the results of the market re-runs and/or re-calculations. This re-run is without prejudice to such action or decision the *ERC* may take following compliance of its investigation on whether or not there were acts committed by electric industry participants during the subject period which constitute anti-competitive practices, market power abuse, violation of any law or rules and regulations, or any failure of market competition. *MERALCO* then filed an Urgent Ex-Parte Motion (to Set for Hearing and/or Resolve the Omnibus Motion) on February 5, 2014 praying that its Urgent Motion with Manifestation be immediately set for hearing and resolved. Both pleadings were noted by the *ERC* in its Order dated February 12, 2014.

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

On December 26, 2013, the *ERC* constituted the Investigating Unit ("*IU*") under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that

transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

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

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

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

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

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

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

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-

judicial tribune that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

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

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

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

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

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

The regulated prices shall be calculated based on the load weighted average of the ex-post nodal energy prices and meter quantity of the same trading interval that have not been administered covering the period December 26, 2012 to September 25, 2013, subject to the payment to the oil-based plants of additional compensation to cover their full fuel and variable operating and maintenance costs, if

warranted, following the manner and procedure for computing additional compensation under the Administered Price Determination Methodology.

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

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

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

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

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

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

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

13. **SMEC, SPPC, SPDC, SMC Powergen and Petron v. ERC and PEMC,**
SNAP-Magat and SNAP-Benguet v. ERC and PEMC
1590 v. ERC and PEMC
APRI v. ERC, Team Energy v. ERC and PEMC
Sem Calaca v. ERC and PEMC
MPPCL v. ERC
TLI v. ERC
TMO v. ERC
Northwind v. ERC
CA-GR SP No. 133506, 138056, 138105, 138120, 138121, 138151, 138188, 138223, 138272, 138470
Court of Appeals

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

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

The *ERC* and *MERALCO* filed their respective motions for reconsideration. Several consumers likewise filed their own motions to intervene and motions for reconsideration. The *CA* has directed the generation companies to comment on the motions.

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

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

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

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

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

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

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

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

In a Manifestation dated February 2, 2016, *MERALCO* informed the *ERC* that it was constrained to implement four (4) of its proposed major *CAPEX* projects subject of this Application. On June 15, 2016, *MERALCO* received a copy of the *ERC* Decision dated April 12, 2016 which partially approved *MERALCO*'s *CAPEX* program for *RY* 2016 amounting to ₱15.5 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration of the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* has filed its opposition to the Motion for Reconsideration. The *ERC* has yet to rule on the Motion for Reconsideration.

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

On March 8, 2016, *MERALCO* filed an application for approval of authority to implement its *CAPEX* program for *RY* 2017 (July 1, 2016 to June 30, 2017) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. On July 26 2016, *MERALCO*

received the Order dated May 5, 2016, granting *MERALCO* provisional authority to implement the nine (9) major projects and 37 residual projects, subject to certain conditions. On August 16, 2016, *MERALCO* filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, *MERALCO* filed a Motion for Resolution. Subsequently, on April 25, 2017, *MERALCO* filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, *MERALCO* filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, *MERALCO* filed a Manifestation with Third Urgent Motion to Resolve the Application. *MERALCO* is awaiting the final decision of the *ERC*.

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

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

On August 15, 2016, *MERALCO* refiled several projects that were deferred in the *RY* 2016 *CAPEX* Application. Hearings on the case are ongoing.

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

On April 3, 2017, *MERALCO* filed an application for approval of authority to implement its *CAPEX* program for *RY* 2018 (July 1, 2017 to June 30, 2018) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. Hearings have been completed and *MERALCO* is awaiting the final decision of the *ERC*. In the meantime, *MERALCO* filed several manifestations regarding its need to implement certain urgent *CAPEX* projects pending final decision of the *ERC.*

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

On April 30, 2018, *MERALCO* filed an application for approval of authority to implement its ₱21.0 billion *CAPEX* program for *RY* 2019 (July 1, 2018 to June 30, 2019) pursuant to the Public Service

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

19. *South Premiere Power Corporation v. PSALM*
Civil Case No. MC15-9629
RTC Mandaluyong, Branch 208
(Filed on September 10, 2015)

SPPC and *PSALM* are parties to an Independent Power Producer Administration (*IPPA)* Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint at *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, *RTC* Mandaluyong granted the prayer for preliminary injunction. *PSALM* has filed motions for reconsideration to question each of 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 an *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. In an Order dated June 27, 2016, the *RTC* Mandaluyong denied *PSALM*'s motions for reconsideration. *PSALM* filed a Petition for Certiorari with the *CA* to question the orders. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the orders of the *RTC*.

In the meantime, in an Order dated December 18, 2017, the presiding judge at the *RTC* inhibited himself from the case. Hearings have resumed under the new presiding judge.

20. *ABP v. ERC, DOE, MERALCO,CLPPC, SRPGC, PEDC, MPGC, GLEDC, A1E, RPE and Philippine Commission*
G.R. No. 227670

On November 18, 2016, *MERALCO* received a copy of the Petition dated April 28, 2016 filed by consumer group *Alyansa Para sa Bagong Pilipinas, Inc.* ("*ABP*") in the *SC* against *ERC*, *DOE, MERALCO, CLPPC, SRPGC, PEDC, MPGC, GLEDC, A1E, RPE* and the *PCC* which sought to declare as void Resolution No. 1, Series of 2016 and to mandate the *ERC* to disapprove all *PSA* applications for failing to comply with the *CSP* requirement. In a Resolution dated November 16, 2016, the *SC* directed all parties to comment on the Petition. *MERALCO* has filed its comment to the Petition.

The case was originally consolidated with G.R. Nos. 237586, 239168, 240288. In a Resolution dated January 15, 2019, the *SC* deconsolidated the cases and returned the case to their original Members-in-charge.

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

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

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

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

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

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

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

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

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

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

Under the Department Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW* to 749 *kW* for the preceding 12 months and demand aggregation for electricity end-users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by 26 June 2018 and 26 December 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*. The *DOE* responded on January 17, 2018 that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. The *ERC* has yet to respond to *MERALCO's* letter.

22. ***In the Matter of Petition for Rules Change in Rate Setting Methodology for Distribution Wheeling Rate - Repeal of the Performance-Based Rate Making (PBR) Regulation and Return to Previous Return-On-Rate-Base (RORB) with Modification***
ERC Case No. 2015-008 RM

On December 2, 2016, the *ERC* released a Notice of Proposed Rule-Making setting the petition filed by Matuwid na Singil sa Kuryente Consumer Alliance, Inc. ("*MSK*") for initial hearing on January 9, 2017. All interested parties were given until December 26, 2016 to file their comments on said Petition.

In the Petition, *MSK* seeks a repeal of the *PBR* rate-setting methodology for setting distribution wheeling rates. In a subsequent Order and Notice of Public Hearing, the *ERC* reset the hearing to January 23, 2017 and gave interested parties until January 9, 2017 to file their respective comments to the Petition. *MERALCO* filed its Comment to the Petition on January 9, 2017. Hearings were conducted on January 23, May 15, and June 21, 2017, respectively, where *MSK* presented its position on *PBR*. On the other hand, *MERALCO* asked initial questions regarding MSK's petition but reserved the right to ask more questions. *MERALCO* also made its own presentation. *The ERC has yet to issue an Order on the date of next public consultation.*

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

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

24. ***In the Matter of the Petition for the Adoption of the Proposed Issues Paper and Revised Rules for Setting Distribution Wheeling Rates for the 5th Regulatory Period of the First Entry Group under Performance Based Regulation, Manila Electric Company, Petitioner***
ERC Case No. 2018-008 RM
Filed on December 21, 2018

Considering the approaching end of *MERALCO*'s 4th *RP* on June 30, 2019, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised Rules for Setting Distribution Wheeling Rates for the 5th *RP* of the First Entry Group Under Performance Based Regulation on 21 December 2018.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholders Matters

(1) Market Information

The principal market where *MERALCO*'s common equity is traded in the Philippine Stock Exchange. The quarterly high and low sales prices for the fiscal year 2018 are as follows:

MER

FROM	TO	HIGH	LOW
01/01/18	03/31/18	₱ 338.60	₱ 318.00
04/01/18	06/30/18	355.60	295.80
07/01/18	09/30/18	395.00	340.00
10/01/18	12/31/18	394.80	331.80

As of March 29, 2019, the price for *MERALCO* Stocks is ₱380.00.

(2) Holders

The total number of stockholders as of March 29, 2019 is 42,581.

Top 20 Stockholders as of March 29, 2019

Rank	Stockholder Name	Number of Shares	Percent
1	BEACON ELECTRIC ASSET HOLDINGS, INC.	394,059,235.00	34.96 %
2	JG SUMMIT HOLDINGS, INC.	333,189,397.00	26.56 %
3	PCD NOMINEE CORP	139,468,054.00	12.37 %
4	METRO PACIFIC INVESTMENTS CORPORATION	118,364,807.00	10.50 %
5	PCD NOMINEE CORP	85,444,677.00	7.58 %
6	FIRST PHILIPPINE HOLDINGS CORPORATION	44,382,436.00	3.94 %
7	MANTES CORPORATION	2,486,427.00	0.22 %
8	LUCIO W. YAN	403,208.00	0.04 %
9	CHARLOTTE CUA CHENG	314,534.00	0.03 %
10	ALBERT FERREROS DEL ROSARIO &/OR MARGARET GRETCHEN DE VENECIA DEL ROSARIO	291,140.00	0.03 %
11	AVESCO MARKETING CORPORATION	284,427.00	0.03 %
12	B. P. INSURANCE AGENCY, INC.	281,079.00	0.02 %
13	MAKATI SUPERMARKET CORPORATION	240,308.00	0.02 %
14	ALBERT FERREROS DEL ROSARIO AND/OR MARGARET GRETCHEN DE VENECIA DEL ROSARIO	182,500.00	0.02 %
15	SIMEON Y. TAN	162,800.00	0.01 %
16	JOSE IGNACIO A. CARLOS	161,687.00	0.01 %

Rank	Stockholder Name	Number of Shares	Percent
17	ANTONINO T. AQUINO &/OR EVELINA S. AQUINO	133,855.00	0.01 %
18	BP INSURANCE AGENCY, INC.	116,730.00	0.01 %
19	RAUL JOSEPH CONCEPCION	112,431.00	0.01 %
20	JIMMY D. TAN	110,000.00	0.01 %

(3) Dividends

Following are the cash dividends declared by *MERALCO*'s *BOD* in favor of *MERALCO* common shares for the two (2) most recent years ended December 31, 2017 and 2018:

YEAR	RATE PER SHARE	RECORD DATE	PAYMENT DATE
2017	₱9.300	03/27/2017	04/21/2017
	8.925	08/30/2017	09/22/2017
2018	₱8.065	03/28/2018	04/25/2018
	5.311	08/29/2018	09/24/2018

MERALCO's loan agreements contain restrictions on payments of cash dividends to common Stockholders subject to meeting certain financial measures, which *MERALCO* complied with.

MERALCO strictly implements its dividend policy, approved by the *BOD*, in 2010, which prescribes the regular payment of dividends equivalent to fifty percent (50%) of consolidated core net income for the year, which may be supplemented by a special dividend determined on a "look-back" basis. In 2018, *MERALCO* paid cash dividend of ₱13.376 per share to all its shareholders.

(4) Recent Issuance of Securities Constituting an Exempt Transaction

None.

Item 6. Management's Discussion and Analysis or Plan of Operation

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 consolidated financial statements as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018. 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 consolidated financial statements are 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. dollar to Philippine peso in this report and in the accompanying consolidated financial statements is US$1.00 to ₱52.58, the closing rate as at December 28, 2018 (the last trading day in December 2018) quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

(Amounts in millions, except earnings per share and operational data)

	As at December 31		Increase (Decrease)	
	2018	2017	Amount	%
Condensed Statements of Financial Position				
Total assets	₱336,251	₱303,355	₱32,896	11
Current assets	115,344	98,432	16,912	17
Cash and cash equivalents	36,471	45,937	(9,466)	(21)
Equity attributable to equity holders of the parent	82,042	73,610	8,432	11
Total debt	40,016	40,256	(240)	(1)
Current liabilities	115,517	105,839	9,678	9

	For the Years Ended December 31			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Condensed Statements of Income					
Revenues	₱304,454	₱282,556	₱257,181	8	10
Costs and expenses	276,012	256,178	231,473	8	11
Other income, net of expenses	2,103	1,484	985	42	51
Income before income tax	30,545	27,862	26,693	10	4
Net income	23,102	20,499	19,340	13	6
Net income attributable to equity holders of the parent	23,017	20,384	19,176	13	6
Earnings per share attributable to equity holders of the parent	20.42	18.09	17.01	13	6

	For the Years Ended December 31			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Condensed Statements of Cash Flows					
Net cash provided by operating activities	40,146	28,385	35,351	41	(20)
Net cash used in investing activities	(35,754)	(10,558)	(22,961)	239	(54)
Net cash used in financing activities	(13,858)	(18,546)	(16,574)	(25)	12
Operational Data					
Number of customers (in thousands):					
Residential	6,086	5,812	5,537	5	5
Commercial	514	500	486	3	3
Industrial	10	10	10	–	–
Streetlight	5	5	5	–	–
Electricity sales volume (in *GWh*)	44,313	42,102	40,142	5	5
System loss [1]:					
MERALCO	5.67%	5.91%	6.35%	(4)	(7)
Clark Electric Distribution Corporation ("*CEDC*")	2.77%	2.14%	3.59%	29	(40)

[1] Based on 12-month moving average

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

		For the Years Ended December 31		
Financial KPI	**Definition**	**2018**	**2017**	**2016**
Debt to Equity	Total debt / Equity attributable to equity holders of the parent	0.49	0.55	0.54
Current Ratio	Current assets / Current liabilities	1.00	0.93	0.84
Profit Margin	Net income attributable to equity holders of the parent / Revenues	8%	7%	7%
Return on Equity	Net income attributable to equity holders of the parent / Equity attributable to equity holders of the parent	28%	28%	26%
Asset Turnover	Revenues / Average total assets	0.95	0.94	0.89

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to more than 6.5 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")*.

CEDC, a 65%-owned subsidiary of *MERALCO*, holds the power distribution franchise for the Clark Special Economic Zone (*"CSEZ")* in Clark, Pampanga. The *CEDC* franchise area covers 320 square kilometers and serves 2,200 customer accounts as at December 31, 2018. *CEDC* is a registered private distribution utility with the franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and Meralco Industrial Engineering Services Corporation ("*MIESCOR*") dated February 19, 1997.

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) 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 *CEDC* franchise areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country.

  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*, has a 14% equity interest in Global Business Power Corporation ("*GBPC*"). *GBPC* owns a total of 854 MegaWatt ("*MW*") (gross) of coal and diesel-fired power plants.

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

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

MGen is developing a 2 x 600 *MW* (net) ultra-supercritical pulverized coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *A1E*. A *PSA* has been executed between *A1E* and *MERALCO* for the full capacity. The regulatory hearing process at the Energy Regulatory Commission ("*ERC*") for the *PSA* had long been completed and *A1E* has filed its Formal Offer of Evidence ("*FOE*") on March 8, 2017. The selected Engineering, Procurement and Construction ("*EPC*") contractors for the project is awaiting the issuance of a "Notice to Proceed" and is engaged in early site preparation works in the interim. Financing has been arranged by the Mandate Lead Arrangers with a mandate letter signed with a consortium of eight (8) local banks. *A1E* has also secured an Environmental Compliance Certificate ("*ECC*") and has been issued a Certificate of Registration as a preferred enterprise by the Board of Investments ("*BOI*"). The expected completion of the first unit is third quarter of 2023 and the second 600 *MW* by first quarter of 2024.

MGen is also developing a 2 x 300 *MW* (net) Circulating Fluidized Bed ("*CFB*"), coal-fired power plant in the Subic Freeport Zone through Redondo Peninsula Energy, Inc. ("*RP Energy*"). The development of the 2 x 300 *MW* project shall be implemented in two (2) phases. On October 13, 2016, the *EPC* for the first 300 *MW* was signed.

In April 2016, *RP Energy* signed separate *PSA*s with *MERALCO* and Aboitiz Energy Solutions, Inc. ("*Aboitiz Energy*"). *RP Energy* is awaiting the approval of its *PSA* with *MERALCO* by the *ERC*.

On December 22, 2016, *RP Energy* signed a loan agreement with three (3) local banks for the ₱31.5 billion project financing. The approval of the *PSA* between *RP Energy* and *Aboitiz Energy* by the *ERC* is a condition precedent to the first loan drawdown. As at February 26, 2019, the *PSA* was not yet approved by the *ERC* which restricted *RP Energy* to issue a notice to proceed to the *EPC* contractor and led to *RP Energy*'s inability to achieve financial close.

Site preparation of the first 300 *MW* unit has been completed, with expected commercial operations in the second half of 2021. The second phase shall follow within 12 months, subject to progress of *NGCP*'s Right of Way ("*RoW*") acquisition for the new transmission line that will connect the second phase to the grid.

On April 27, 2016, *MGen* and Semirara Mining and Power Corporation entered a joint venture agreement to develop a 2 x 350 *MW* sub-critical pulverized coal-fired power plant in Calaca, Batangas. The development and operations shall be undertaken by St. Raphael Power Generation Corporation ("*St. Raphael*"), the joint venture entity. A *PSA* was signed by *St. Raphael* and *MERALCO* in April 2016 for the 400 *MW* of the plant's capacity. The *PSA* is pending approval by the *ERC*. Development activities for the project are ongoing and target commercial operations of the power plant is in June 2024.

MGen has 49% equity interest in Mariveles Power Generation Corporation ("*Mariveles Power*") which is developing a 4 x 132 *MW* coal-fired power plant in Bataan.

MERALCO has 50% equity interest in Pure Meridian Hydropower Corporation ("*Pure Meridian*"), which is primarily engaged in the development of various mini-hydroelectric power projects.

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: Vantage 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. Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *CEDC*, has submitted the requirements for its *RES* licensing to *ERC*. As at February 26, 2019, the approval of its *RES* licensing is pending with the *ERC*.

- Other Services

The other services segment is involved principally in electricity-related services, such as: electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy, 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 Center"),* 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")*, Meridian Power Ventures Limited ("*MPV Limited*"), Meralco Energy, Inc. ("*MServ"),* and MSpectrum, Inc. ("*Spectrum*").

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

BUSINESS SEGMENTS	
Power	**Other Services**
Electricity distribution ● *MERALCO* ● *CEDC* Power generation ● *MGen* and its subsidiaries *RES* ● *MERALCO* through *MPower* business unit ● *CEDC* through *Cogent Energy* business unit ● *Vantage* ● *Solvre* ● *MeridianX* ● *Clarion*	● *CIS Group* ● *Comstech* ● *e-MVI Group* ● *eSakay* ● *Finserve* ● *LOIL* ● *MIESCOR Group* ● *MPV Limited* ● *MRail* ● *MServ* ● *Spectrum*

RESULTS OF OPERATIONS

The tables below summarize the consolidated results of operations and the contribution of each business segment to *MERALCO Group*'s revenues, costs and expenses, other income, and net income for the years ended December 31, 2018, 2017 and 2016.

	For the Year Ended December 31, 2018			
	Power[2]	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱295,389	₱11,373	(₱2,308)	₱304,454
Costs and expenses	268,962	9,405	(2,355)	276,012
Other income (expense) - net	2,199	(48)	(48)	2,103
Net income attributable to equity holders of the parent	21,701	1,401	(85)	23,017

	For the Year Ended December 31, 2017			
	Power[3]	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱275,172	₱9,547	(₱2,163)	₱282,556
Costs and expenses	250,412	7,929	(2,163)	256,178
Other income - net	1,701	(217)	–	1,484
Net income attributable to equity holders of the parent	19,648	851	(115)	20,384

	For the Year Ended December 31, 2016			
	Power[4]	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱249,206	₱9,866	(₱1,891)	₱257,181
Costs and expenses	225,392	7,972	(1,891)	231,473
Other income - net	897	88	–	985
Net income attributable to equity holders of the parent	17,965	1,375	(164)	19,176

[2] *Principally electricity distribution*
[3] *Ibid.*
[4] *Ibid.*
[5] *Ibid.*

2018 compared with 2017

REVENUES

The following table shows the composition of *MERALCO Group*'s consolidated revenues for the years ended December 31, 2018 and 2017 by business segment.

	2018		2017		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[5]	₱295,389	97	₱275,172	98	₱20,217	7
Other services	11,373	4	9,547	3	1,826	19
Inter-segment transactions	(2,308)	(1)	(2,163)	(1)	(145)	7
Total	**₱304,454**	**100**	**₱282,556**	**100**	**₱21,898**	**8**

Consolidated electric revenues, which accounted for 97% of total revenues in 2018, increased by 7% as a result of the combined effects of (a) higher sales volume as compared with the same period last year, (b) higher pass-through generation charges resulting from increase in average fuel prices, a weaker peso and higher spot prices at the Wholesale Electricity Spot Market ("*WESM*").

Non-electric revenues, which accounted for 4% of consolidated revenues in 2018, increased by 19% compared with last year. Non-electric revenues consist largely of revenues from subsidiaries operations.

Power

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

MERALCO's average generation charge in 2018 was ₱5.12 per *kWh*, up by 16% compared with the ₱4.41 per *kWh* in 2017. The higher generation charge was driven by the rise in fuel costs of both gas- and coal-fired generating companies as global price indices moved upwards, the weaker peso, higher *WESM* prices.

Distribution revenues, which accounted for 21% of total electric revenues, increased by 4% mainly due to growth in energy sales volume. This was partially offset by the lower average distribution charge of ₱1.40 per *kWh* in 2018 from ₱1.42 per *kWh* in 2017.

MERALCO's 12-month moving average system loss ("*SL*") rate was 5.67% as at December 31, 2018. This is 0.83 percentage points below the revised *SL* regulatory cap of 6.50% promulgated under Resolution 20, Series of 2017 of the *ERC*, resulting in cumulative savings to *MERALCO* consumers of ₱6.1 billion in 2018. *CEDC*'s 12-month moving average *SL* rate was at 2.77%, 4.26 percentage points below the regulatory cap and 0.63 percentage point higher than last year.

The following table summarizes the customer count as at December 31, 2018 and 2017 and the corresponding electric consumption per customer class for the years ended December 31, 2018 and 2017:

	No. of Customers		Electricity Sales		% Change	
	(in thousands)		*(in GWh)*		No. of	Electricity
Customer Class	**2018**	**2017**	**2018**	**2017**	**Customers**	**Sales**
Residential	6,086	5,812	13,555	13,060	5	4
Commercial	514	500	17,463	16,597	3	5
Industrial	10	10	13,156	12,309	–	7
Streetlights	5	5	139	136	–	–
Total	**6,615**	**6,327**	**44,313**	**42,102**	**5**	**5**

Consolidated energy sales volume grew by 2,211 *GWh* or over 5% to 44,313 *GWh*. *CEDC*'s sales volume declined by 8%, with the assumption of the electric distribution services of a major Freeport Zone locator by *CDC*. Normalizing for the effect of excluding this customer account, *CEDC*'s volume growth would have been 10%.

Residential volumes grew by 4%, or an additional 495 *GWh*, while the residential customer count increased by almost 274,000. Similar to the Commercial sales volume growth, the Central and South sectors accounted for most of the volume increases. The share of Residential remained at 31% of total sales.

Commercial volumes, which stood at 39% of total energy sales, grew by over 5%, adding 866 *GWh* in 2018. Real estate, hotels and restaurants, and retail trade volumes were the main drivers, growing at 15%, 7% and 5%, respectively. Demand for office space remains robust with most of the major business districts fully developed during the year. Take-up of office spaces continues to be from Business Process Outsourcing ("*BPO*") segment and Philippine Offshore Gaming Operators ("*POGO*"), with the latter accounting for 72% of the total. With airlines offering affordable travel fares, the year also saw growth in the hotel industry brought about by the steady inflow of tourists from the United States, China and South Korea. Growth is also notable from domestic tourism as "staycations" have become popular with locals for extended weekends or holidays. New township developments and technology for online services contributed to the growth of retail trade, with the ramp-up of existing mixed-use malls catering particularly to millennials who want to live, work and be entertained in the same location.

Industrial sales volumes in 2018 were 30% of total sales, growing by close to 7% driven by the semiconductor, rubber and plastics, and food and beverage industries, which were up by 7%, 11% and 6%, respectively. The electronics industry continues to be the country's top exporter, accounting for over 50% of Philippine export volumes.

As at December 31, 2018, there were 55 *RES* players to provide electricity to voluntary contestable customers with demand of at least 750 *kW* in Luzon and Visayas. As at December 31, 2018, there were a total of 1,876 qualified contestable customers in Luzon and Visayas, of which 926 have opted for contestability and are being served by 24 suppliers.

MPower and *Vantage* served 294 customers with aggregate sales of 5,120 *GWh* in 2018. Certain regulatory policy and industry issues remain misaligned and are challenged administratively or judicially.

However, the *RCOA* market continues to adequately serve and remains intensely price-competitive with corresponding benefit to contestable customers.

Other Services

Non-electric revenues consist mainly of businesses generated by (i) foreign attachments to the *MERALCO* poles; and (ii) revenues from subsidiaries, which include (a) *MIESCOR Group* from its *EPC*, and operations and maintenance works involving various substations and transmission/telecommunications lines, which would have generated higher revenues, save for the delayed award of certain projects; (b) *MServ* for the supply and installation of powerhouse, load side and substation equipment, and energy efficiency services; (c) *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* with higher recurring revenues as a result of an expanding customer base and high service reliability.

Bayad Center remained aggressive with its biller acquisition, increasing its biller base from 269 in 2017 to 290 in 2018. Other than utilities, *Bayad Center* counts Government agencies, credit companies and lending institutions among its biller partners. As at December 31, 2018, it had a total of 33,280 customer payment touchpoints consisting of over 600 co-owned and branded stores, 678 Automated Payment Machines, over 2,000 retail machines deployed in neighborhood establishments, and over 29,000 corporate partners.

Radius has also heightened its customer acquisition initiatives for enterprise-, channel-, and carrier- clients and has grown its customer base significantly in 2018. Revenues reached ₱1.3 billion, 20% higher than in 2017, mainly due to an expanded customer base with the completed bandwidth upgrade and installation of additional fiber circuits.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2018 amounted to ₱276,012 million, higher by ₱19,834 million compared with ₱256,178 million in 2017. The following table shows the breakdown of consolidated costs and expenses for the years ended December 31, 2018 and 2017 by business segment:

	2018		2017		Increase	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[6]	₱268,962	98	₱250,412	98	₱18,550	7
Other services	9,405	3	7,929	3	1,476	19
Inter-segment transactions	(2,355)	(1)	(2,163)	(1)	(192)	9
Total	**₱276,012**	**100**	**₱256,178**	**100**	**₱19,834**	**8**

[6] *Ibid.*

Power

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

	2018		2017		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Purchased power	₱232,102	86	₱214,558	86	₱17,544	8
Salaries, wages and employee benefits	10,187	4	10,221	4	(34)	–
Depreciation and amortization	7,334	3	7,135	3	199	3
Contracted services	6,071	2	5,807	2	264	5
Others	13,268	5	12,691	5	577	4
Total	**₱268,962**	**100**	**₱250,412**	**100**	**₱18,550**	**7**

Purchased power accounted for 86% of the total costs and expenses for the year ended December 31, 2018 and 2017. All of the electricity distributed by *MERALCO* and *CEDC* are contracted through *PSAs* with generators and long-term Power Purchase Agreements *("PPA")* with Independent Power Producers ("*IPP*"). The remaining balance is purchased from the *WESM*.

The purchased power cost in 2018 increased by 8% compared with 2017 due to (i) higher volume, (ii) increased prices of coal, oil and gas; (iii) depreciation of Philippine peso versus U.S. dollar; and (iv) higher *WESM* prices due to outages of a number of baseload plants and the strong demand particularly during peak hours. The average purchased power cost of *MERALCO* for the year ended December 31, 2018 was ₱5.93 per *kWh*, ₱0.51 per *kWh* higher than the same period in 2017.

Coal prices were at an average of US$106.82 per *MT* in 2018 (US$87.98 per *MT* in 2017) while natural gas, which is indexed against crude oil, was at US$7.71 per *GJ* in 2018 (US$6.87 per *GJ* in 2017).

Contracted services amounted to ₱6,071 million, higher by ₱264 million compared with last year. Contracted services include information system/information technology 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.

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2018 amounted to ₱9,405 million, 19% higher compared with ₱7,929 million in 2017.

	2018		2017		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Salaries, wages and employee benefits	₱3,047	32	₱2,939	37	₱108	4
Contracted services	2,066	22	1,643	21	423	26
Depreciation and amortization	493	5	385	5	108	28
Others	3,799	41	2,962	37	837	28
Total	**₱9,405**	**100**	**₱7,929**	**100**	₱1,476	19

Costs and expenses of other services were mainly driven by higher manpower count and increased transaction and customer volume of certain subsidiaries.

OTHER INCOME (EXPENSE)

The following table shows the breakdown of other income, net of expenses, for the years ended December 31, 2018 and 2017 by business segment:

			Increase/Decrease	
	2018	2017	Amount	%
	(Amounts in millions)			
Power[7]	₱2,199	₱1,701	₱498	29
Other services	(48)	(217)	121	(56)
Intersegment transaction	(48)	–	–	–
Total	**₱2,103**	**₱1,484**	**₱619**	**42**

Other income for the year ended December 31, 2018 is higher by ₱619 million compared with last year due to foreign exchange gains as a result of the devaluation of peso against US dollars and higher interest yield from placements.

[7] *Ibid.*

Power

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

			Increase/Decrease	
	2018	**2017**	**Amount**	**%**
		(Amounts in millions)		
Interest and other financial income	₱2,786	₱2,153	₱633	29
Interest and other financial charges	(1,934)	(1,450)	(484)	33
Equity in net earnings (losses) of associates and joint ventures	(678)	293	(971)	(331)
Foreign exchange gains	1,103	17	1,086	6,388
Others	922	688	234	34
Total	**₱2,199**	**₱1,701**	**₱498**	**29**

Interest and other financial income increased by ₱633 million due to higher yields of investments compared with last year.

Interest and other financial charges increased by ₱484 million in 2018 compared with the same period last year as a result of (i) higher cost of borrowing; and (ii) accounting adjustments to recognize accretion of deemed interest.

Foreign exchange gains is higher this year compared with last year due to depreciation of peso against the US dollar. The exchange rate of US dollar into is ₱52.58 peso as at December 31, 2018 and ₱49.93 as at December 31, 2017.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2018 and 2017 by business segment:

	2018		**2017**		**Increase/Decrease**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
			(Amounts in millions)			
Power[8]	₱21,701	94	₱19,648	96	₱2,053	10
Other services	1,401	6	851	5	550	65
Inter-segment transactions	(85)	–	(115)	(1)	30	(26)
Total	**₱23,017**	**100**	**₱20,384**	**100**	**₱2,633**	13

Net income attributable to equity holders of the parent in 2018 increased by 13% driven by the 5% increase in volume of energy distributed, higher financing income from funds deployed to improved yields, adjustment of provisions with the continuing resolution of legacy and local government fiscal matters and foreign exchange gains to reflect the effect of peso devaluation against US dollar.

[8] *Ibid.*

CHANGES IN FINANCIAL POSITION

Utility Plant and Others

The ₱5,972 million increase in utility plant and others was due to completion of construction of new electric distribution facilities and upgrade in major rehabilitation of existing electrical facilities, offset by the depreciation and amortization for the year.

Investments in Associates and Interests in Joint Ventures

The decrease in this account was due to the combined effects of the recognized equity in net losses for the year ended December 31, 2018 amounting to ₱725 million, dividends received from associates and joint ventures amounting to ₱476 million, and decrease in cumulative translation adjustment by ₱599 million. This was offset by the additional investments in associates and joint ventures amounting to ₱1,667 million.

Deferred Tax Assets

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

Other Noncurrent Assets

The increase in other noncurrent assets was due to the combined effects of (i) additional investments in debt securities at amortized cost (ii) higher net under-recoveries of generation charge by ₱3,531 million and (iii) recognition of net retirement benefit asset of ₱356 million as at December 31, 2018.

Cash and Cash Equivalents

The net decrease in cash and cash equivalents was mainly as a result of investing funds in short-term investments.

Trade and Other Receivables

Trade and other receivables increased mainly due to the higher sales volume and average customer retail rate in December 2018 compared with the average retail rate in December 2017.

Other Current Assets

The increase in other current assets was due to funds placed in short-term investments during the year.

Provisions

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

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to estimated liabilities for regulatory and tax matters, among others. Additional obligations were recognized during the year.

2017 compared with 2016

REVENUES

The following table shows the composition of *MERALCO Group*'s consolidated revenues for the years ended December 31, 2017 and 2016 by business segment.

	2017		2016		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[9]	₱275,172	98	₱249,206	97	₱25,966	10
Other services	9,547	3	9,866	4	(319)	(3)
Inter-segment transactions	(2,163)	(1)	(1,891)	(1)	(272)	14
Total	**₱282,556**	**100**	**₱257,181**	**100**	**₱25,375**	**10**

Consolidated electric revenues, which accounted for 98% of total revenues, increased by 10% mainly as a result of the 5% growth in sales volume across all customer classes and higher pass-through generation charges resulting from the rising fuel prices and depreciation of the peso.

Non-electric revenues, which accounted for 3% of consolidated revenues, decreased by 3% as volume of transactions from *MServ*, Republic Surety and Insurance Corporation ("*RSIC*"), and *Comstech* were lower compared with 2016.

The decrease was partially offset by (i) increased bills payment volumes of *Bayad Center* and collection partners supplemented by spot billing volumes; and (ii) higher recurring revenues of *Radius* as a result of expanded customer base with the completed bandwidth upgrade and installation of additional fiber circuits.

Power

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

Generation charge in 2017, although averaging higher at ₱4.40 per *kWh* compared with ₱3.86 per *kWh* in 2016, remained to be the second lowest since 2010 and at an affordable level for all customer classes. *MERALCO* had tightly negotiated its *PSA*s with several coal-fired and natural gas-fired power generators in 2012 and 2013, with the phase-out of the Transition Supply Contracts ("*TSC*s") with National Power Corporation ("*NPC*"). Average generation charge is higher in 2017 compared with 2016, largely due to the depreciation of the peso and higher fuel costs. Coal price was at an average of US$87.41 per metric ton ("*MT*") (US$63.10 per *MT* in 2016) while natural gas, which is indexed against crude oil was at US$7.07 per gigajoule ("*GJ*") (US$6.34 per *GJ* in 2016). These higher dollar prices were exacerbated by the depreciation of the peso during the year. ₱4.72 per *kWh* or 59% of the average retail price represented

[9] *Ibid.*

generation charge, including system loss ("*SL*") charge. Transmission charge was at ₱0.78 per *kWh* accounting for 10% of the average retail price.

MERALCO's distribution charge was stable at ₱1.42 per *kWh*. Distribution revenues, which accounted for 22% of the total electricity revenues, increased by 5% in 2017 versus 2016, reflecting the effect of higher volume sold.

MERALCO's 12-month moving average *SL* rate was at 5.91% as at December 31, 2017. This is 2.59 percentage points below the *SL* regulatory cap of 8.50%, and 0.44 percentage point lower than the *SL* rate in 2016. *CEDC*'s 12-month moving average *SL* rate was at 2.14%, 6.36 percentage points below the regulatory cap and 1.45 percentage points lower than last year.

The following table summarizes the customer count as at December 31, 2017 and 2016 and the corresponding electric consumption per customer class for the years ended December 31, 2017 and 2016:

	No. of Customers		**Electricity Sales**		**% Change**	
	(in thousands)		*(in GWh)*		**No. of**	**Electricity**
Customer Class	**2017**	**2016**	**2017**	**2016**	**Customers**	**Sales**
Residential	5,812	5,537	13,060	12,444	5	5
Commercial	500	486	16,597	15,867	3	5
Industrial	10	10	12,309	11,697	–	5
Streetlights	5	5	136	134	–	1
Total	**6,327**	**6,038**	**42,102**	**40,142**	**5**	**5**

Notwithstanding cooler temperatures during the first four (4) months of 2017, consolidated energy sales volumes for 2017 grew by 5% to 42,102 *GWh*, with *MERALCO* breaching the 41,000-mark at 41,528 *GWh* and *CEDC* at 574 *GWh*. This translates to a five (5)-year compounded annual growth rate of 5%. The total customer base grew the most in terms of count, ending at more than 6.3 million in 2017.

Commercial volumes, which accounted for 39% of total sales, added 730 *GWh* in 2017, with real estate, hotels and restaurants, and retail trade volumes growing at 8%, 11% and 5%, respectively. The largest demand for office space within the franchise area remains to be from Business Process Outsourcing ("*BPO*") segment, which has 48% of total space demand, albeit much lower than the 80% in 2016. The Philippine Offshore Gaming Operators ("*POGO*") is a fast emerging market with a 5% to 7% growth in demand for building spaces in 2017. *BPO*s and *POGO*s supported the quick-service restaurants ("*QSR*s") business. Additionally, real estate developments and multinational technology services contributed to the growth. Consumer confidence was also reflected in the arrival statistics of foreign travelers, notwithstanding a few concerns on safety and security in selected areas. In 2017, a total of 6.5 million tourist arrivals were recorded, a significant number of which was registered within the Entertainment City. Airline budget fares, the growing number of boutique hotels and condominium units joining the transient hotel networks like AirBnB, provided travelers with more affordable options.

Residential volumes continued to grow at 5%, or an additional 616 *GWh*, buoyed by (i) almost 275 thousand net new accounts contributing 134 *GWh*; (ii) ramp-up of accounts energized in 2016, which contributed 269 *GWh*; and (ii) 212 *GWh* of organic sales volumes. The share of residential customers was

at 31% of total sales, same as in 2016. Despite moderate increases in inflation during 2017, consumer confidence and spending remained high throughout the year.

Industrial sales volumes in 2017 were 29% of the total sales, with more than 5% growth, driven by the semiconductor, food and beverage, and basic metals industries, which were up by 6%, 4% and 19%, respectively. The electronics industry continues to be the country's top exporter, accounting for around 50% of Philippine export volumes. Highly competitive electricity supply cost and the high reliability of the *MERALCO* network have turned the semiconductor companies away from self-generation to increasing grid reliance. Continued development of high-rise facilities and ongoing housing and reconstruction activities across horizontal developments have pushed up the demand for flat products, semi-finished steel products and billets, and consequently, the demand for electricity from the basic metals sector.

There are now 55 *RES* players to provide electricity to voluntary contestable customers with demand of at least 750 *kW* in Luzon and Visayas. Furthermore, there were a total of 1,876 qualified contestable customers in Luzon and Visayas, of which 1,203 had retail supply contracts. *MPower* and *Vantage* served 369 customers with aggregate sales of 5,250 *GWh* in 2018.

Other Services

Revenues from other services pertain mainly to revenues of non-electric subsidiaries. Revenues generated from other services decreased to ₱9,547 million for the year ended December 31, 2017 from ₱9,866 million in the same period last year. The 3% decrease in revenues from other services is the net effect of (i) delayed award of projects and slow validation of work accomplishments of *MServ*; partly offset by (ii) increased bills payment volumes of *Bayad Center* from more than 7,000 sites and collection partners supplemented by spot billings volumes; and (iii) increased recurring revenues of *Radius* as a result of an expanding customer base and better service reliability following the bandwidth upgrade.

Bayad Center formalized a capital alliance with a Japanese technology company, Densan System Limited Co. ("*DSK*") in May 2017, which enables technology transfer and partnership in the payment space. During 2017, *Bayad Center* established a multichannel payment platform which allows customers to be served via all available channels and devices, providing *MERALCO* customers and the paying public convenience with the availability of more payment options. *Bayad Center* saw bills payment transactions handled grow to over 91 million in 2017 with over 255 billers served consisting of utilities, airlines, government, and financial institutions, among others. *Bayad Center* has close to 500 co-owned and branded stores, 571 Automated Payment Machines and over 1,000 retail machines for sari-sari stores, online payment services, spot billing and ambulant tellering within *Bayad Center* and the biller offices. *Bayad Center* has over 10,000 corporate partners. Consolidated revenues of *Bayad Center* in 2017 broke the ₱1.5 billion-mark or a 16% increase over 2016.

Radius whose fiber-based data connectivity, internet and managed telecommunication services are offered to enterprise-, channel-, and carrier-clients grew significantly in 2017. Revenues reached ₱1.1 billion, 20% higher than in 2016, mainly due to an expanded customer base with the completed bandwidth upgrade and installation of additional fiber circuits. *Radius* counts among its customers, telecommunications companies across the region, local financial institutions and universities.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2017 amounted to ₱256,178 million, higher by ₱24,705 million compared with ₱231,473 million in 2016. The following table shows the breakdown of consolidated costs and expenses for the years ended December 31, 2017 and 2016 by business segment:

	2017		2016		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[10]	₱250,412	98	₱225,392	97	₱25,020	11
Other services	7,929	3	7,972	4	(43)	(1)
Inter-segment transactions	(2,163)	(1)	(1,891)	(1)	(272)	14
Total	**₱256,178**	**100**	**₱231,473**	**100**	**₱24,705**	**11**

Power

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

	2017		2016		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Purchased power	₱214,558	86	₱189,853	84	₱24,705	13
Salaries, wages and employee benefits	10,221	4	10,719	5	(498)	(5)
Depreciation and amortization	7,135	3	6,949	3	186	3
Contracted services	5,807	2	5,188	2	619	12
Others	12,691	5	12,683	6	8	-
Total	**₱250,412**	**100**	**₱225,392**	**100**	**₱25,020**	**11**

Purchased power accounted for 86% of the total costs and expenses for the year ended December 31, 2017. *MERALCO* and *CEDC* do not operate their own generation capacity. All of the electricity distributed are contracted through *PSA*s with generators and long-term Power Purchase Agreements *("PPA")* with Independent Power Producers ("*IPP*"). The remaining power requirement is purchased from the *WESM*.

The purchased power cost for the year ended December 31, 2017 increased by 13% due to (i) increased prices of coal, oil and gas; and (ii) depreciation of Philippine peso versus U.S. dollar.

The increase was offset by lower volume purchased from 39,147 *GWh* in 2016 to 38,403 *GWh* in 2017. The volume of energy purchased under long-term *PPA*s with *IPPs*, namely, First Gas Corporation *("*the *Sta. Rita Power Plant"*), *FGP* Corp. *("*the *San Lorenzo Power Plant"*) and *QPPL*, represents 35% of

[10] *Ibid.*

MERALCO's Net System Input ("*NSI*"). Purchases from power generators under *PSA*s, and other special programs accounted for 50%, while purchases from *WESM* accounted for 15% of *NSI*.

Salaries, wages and employee benefits decreased by 5% compared with last year due to lower amount of actuarially determined employee retirement benefits expense this year. This is mitigated by the annual merit increase given to employees.

Contracted services increased by 12% from ₱5,188 million in 2016 to ₱5,807 million in 2017 on account of higher spending for information system/information technology services, cloud subscriptions and consultancy for various system enhancements and customer-centric projects. Customer-related expenses such as collection services and meter reading services also increased due to growth in number of customer accounts.

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

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2017 amounted to ₱7,929 million, 1% lower compared with ₱7,972 million in 2016.

	2017		2016		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Salaries, wages and employee benefits	₱2,939	37	₱2,534	32	₱405	16
Contracted services	1,643	21	1,842	23	(199)	(11)
Depreciation and amortization	385	5	364	4	21	6
Others	2,962	37	3,232	41	(270)	(8)
Total	**₱7,929**	**100**	**₱7,972**	**100**	**(₱43)**	**(1)**

Salaries, wages and employee benefits increased by ₱405 million due to increase in manpower count as a result of business expansion activities of subsidiaries and annual merit increase given to their employees.

Contracted services decreased by ₱199 million as a result of lesser completed projects of *MServ*.

Other expenses, which consisted mainly of materials, transportation and travel, rental and utility expenses, decreased by ₱270 million in 2017 due to lesser projects completed by *MServ*.

OTHER INCOME

The following table shows the breakdown of other income, net of expenses, for the years ended December 31, 2017 and 2016 by business segment:

			Increase/Decrease	
	2017	**2016**	**Amount**	**%**
	(Amounts in millions)			
Power[11]	₱1,701	₱897	₱804	90
Other services	(217)	88	(305)	(347)
Total	**₱1,484**	**₱985**	**₱499**	**51**

Power

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

			Increase/Decrease	
	2017	**2016**	**Amount**	**%**
	(Amounts in millions)			
Interest and other financial income	₱2,153	₱2,027	₱126	6
Interest and other financial charges	(1,450)	(1,293)	(157)	12
Equity in net earnings (losses) of associates and joint ventures	293	(1,567)	1,860	(119)
Foreign exchange gains	17	850	(833)	(98)
Others	688	880	(192)	(22)
Total	**₱1,701**	**₱897**	**₱804**	**90**

Interest and other financial income increased by ₱126 million due to higher yields compared with last year.

Interest and other financial charges increased by ₱157 million in 2017 compared with last year due to the ₱10,000 million notes payable availed in June 2016 resulting in recognition of interest charges for seven (7) months in 2016 as compared with 12 months in 2017.

Equity in net losses of associates and joint ventures in 2016 includes ₱1,200 million impairment charge of *FPM* Power with respect to its investment in *PacificLight Power*.

Foreign exchange gains amount is lower this year compared with last year due to minimal fluctuation of foreign exchange rate of peso against U.S. dollar at beginning and end of 2017. In 2016, the exchange rate of U.S. dollar at the beginning of the year was ₱47.12 and increased to ₱49.82 at the end of the year.

Other income decreased by ₱192 million as a result of lower volume of *AFS* and *HTM* transactions during the year.

[11] *Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2017 and 2016 by business segment:

	2017		2016		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power[12]	₱19,648	96	₱17,965	94	₱ 1,683	9
Other services	851	5	1,375	7	(524)	(38)
Inter-segment transactions	(115)	(1)	(164)	(1)	49	(30)
Total	**₱20,384**	**100**	**₱19,176**	**100**	**₱1,208**	**6**

Net income attributable to equity holders of the parent for the year ended December 31, 2017 increased by 6% as compared with last year as a result of (i) 5% increase in energy distributed, (ii) higher financial income from funds deployed to improve yields and (iii) adjustment on provisions following the continuing resolution of legal fiscal matters.

CHANGES IN FINANCIAL POSITION

Utility Plant and Others

The ₱5,060 million increase in utility plant and others was due to completed construction of new electric distribution-related facilities and upgrade in major rehabilitation of existing electrical facilities totalling to about ₱11,969 million, offset by depreciation and amortization of ₱6,929 million for the year.

Investments in Associates and Interests in Joint Ventures

The net increase of ₱522 million in investments in associates and interests in joint ventures was primarily due to infusion of additional capital into *RP Energy*, AF Payments, Inc. ("*AFPI*") and *Pure Meridian* and new equity investment in Powersource First Bulacan Solar, Inc. ("*First Bulacan*"), the solar power entity of *MERALCO*, offset by dividends received during the year.

In December 2017, *RSIC* issued new common shares to Pioneer Insurance and Surety Corporation resulting in dilution of *MERALCO*'s ownership interest to 49%.

Deferred Tax Assets

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

Other Noncurrent Assets

Other noncurrent assets decreased as a result of a) sale of *AFS* investments and b) reclassification of *HTM* investments maturing within one year as part of other current assets account. Also, in 2016, retirement surplus was recognized as a result of higher fair value of the plan assets compared with the defined benefit obligation, while in 2017, defined benefit obligation was higher than fair value of the plan assets.

[12] *Ibid.*

Cash and Cash Equivalents

The decrease in cash and cash equivalents was mainly due to payments of cash dividends and capital expenditures during the year, offset by cash generated from operations and net proceeds in the sale of *AFS* and *HTM* investments.

Trade and Other Receivables

Trade and other receivables increased mainly due to the higher average customer retail rate in December 2017 compared with the average retail rate in December 2016, and higher billed accounts.

Other Current Assets

The increase in other current assets was due to reclassification of maturing *HTM* investments from noncurrent assets account.

Provisions

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

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to estimated liabilities for regulatory and tax matters, among others. Additional obligations were recognized during the year.

Interest-bearing long-term financial liabilities

Interest-bearing long-term financial liabilities decreased by ₱2,202 million mainly due to pre-termination of floating rate term loan and partial payment of fixed rate loan.

Notes Payable

Notes payable increased by ₱2,110 million mainly due to availment of short-term loan by *MERALCO.*

2016 compared with 2015

REVENUES

The following table shows the composition of *MERALCO Group's* consolidated revenues for the years ended December 31, 2016 and 2015 by business segment.

	2016		2015		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[13]	₱249,206	97	₱249,773	97	(₱567)	–
Other services	9,866	4	10,422	4	(556)	(5)
Inter-segment transactions	(1,891)	(1)	(1,796)	(1)	(95)	(5)
Total	**₱257,181**	**100**	**₱258,399**	**100**	**(₱1,218)**	**(1)**

[13] *Ibid.*

Total revenues for the year ended December 31, 2016 of ₱257,181 million were lower by 1% or ₱1,218 million compared with ₱258,399 million in 2015 due to continuing decline of pass through fuel prices throughout the year, which muted the impact of the increase in volume of energy distributed.

Non-electric revenues, which accounted for 4% of consolidated revenues, decreased by 5% as a result of the completion of major projects of *MIESCOR* and *MRail*.

Power

Generation charge, which is the single largest component, represents 59% of electricity revenues in 2016. The average generation charge to captive customers was at ₱3.85 per *kWh* for the year ended December 31, 2016 against ₱4.49 per *kWh* in 2015. Transmission charge represents 14% of the electricity revenues or equivalent to ₱0.85 per *kWh* in 2016, 2% lower compared with ₱0.87 per *kWh* in 2015.

The lower generation charges are attributable to the significantly lower fuel costs and higher availability of contracted plants. In addition, *PSA* negotiated by *MERALCO*, which no longer have energy "take-on-pay" provisions and consist of purely peso-denominated capacity fee, and largely peso-denominated fixed and variable fees, except for the fuel components, contributed to the lower cost.

Distribution revenues comprise 23% of the total electricity revenues. *MERALCO* implemented an interim rate duly approved by the *ERC* of ₱1.3810 per *kWh* beginning July 1, 2015 following the completion of its Third Regulatory Period *("3rd RP"*) on June 30, 2015. This resulted in a lower average distribution rate of ₱1.42 per *kWh* for the year ended December 31, 2016 compared with ₱1.48 per *kWh* in 2015.

The *MERALCO*'s 12-month moving average *SL* rate as at December 31, 2016 was at 6.35%, 0.12-percentage point lower compared with the 6.47% rate as at December 31, 2015. *CEDC*'s 12-month moving average *SL* rate as at December 31, 2016 also improved by 0.57 percentage points to 3.59% in 2016.

The following table summarizes the customer count as at December 31, 2016 and 2015 and the corresponding electric consumption per customer class for the years ended December 31, 2016 and 2015:

	No. of Customers		Electricity Sales		% Change	
	(in thousands)		*(in GWh)*		No. of	Electricity
Customer Class	**2016**	**2015**	**2016**	**2015**	**Customers**	**Sales**
Residential	5,537	5,296	12,444	11,121	5	12
Commercial	486	474	15,867	14,654	3	8
Industrial	10	10	11,697	11,216	–	4
Streetlights	5	4	134	133	25	1
Total	**6,038**	**5,784**	**40,142**	**37,124**	**3**	**8**

Residential volumes propelled *MERALCO* to new heights growing at 12%, buoyed by (a) new customer accounts; (b) warmer temperatures as "*El Niño"*, which began in August 2015 was felt through July 2016; (c) seven (7) year-low electricity retail rates; (d) low inflation at 1.8%; and (e) significantly less power interruptions within the franchise area due to a lower number of plant outages and weather disturbances.

Commercial volumes grew by 8% in 2016. The real estate, retail trade, hotel and restaurant industries continued to be the key growth sectors. Increased consumer confidence and spending boosted by inflow of overseas Filipino remittances and business process outsourcing revenues, coupled with the expansion of the services sector, supported the growing real estate and retail trade sectors.

Industrial volumes were up 4% with the cement, food and beverage, rubber and plastic manufacturing industries leading the growth. Public-Private Partnerships ("*PPP*") and private construction and development projects supported the higher power demand from the cement sector. Increased consumer spending and consumption underpinned the healthy growth of food and beverage, and rubber and plastic packaging manufacturers.

MERALCO and *CEDC*'s own initiatives to fully serve customers such as (a) early customer prospecting and planning; (b) early energization through faster and better processing, design and facilitation; (c) new customer programs, and (d) a more robust and reliable sub-transmission and distribution system contributed to boosting customer count and energy sales.

The positive impact of these conditions is reflected in the consolidated sales volume of 40,142 gigawatt hours *GWh* for the year ended December 31, 2016, an 8% growth compared with 37,124 *GWh* in 2015.

Since the start of the *RCOA*, *MPower* serves an increasing number of contestable customers with a suite of competitive product offerings for the benefit of its customers, which total to 237 customers out of the 431 customers who have switched to contestability as of December 31, 2016. The semiconductor industry continues to occupy the largest share in the contestable space, followed by the food and beverage and the non-metallic industries.

Other Services

Revenues from other services pertain mainly to revenues of subsidiaries, excluding *CEDC*. Revenues generated from other services decreased to ₱9,866 million for the year ended December 31, 2016 from ₱10,422 million in previous year. The 5% decrease in revenues from other services was mainly due to the following operating subsidiaries (i) *MIESCOR,* whose major transmission line and substation projects were completed during the year; (ii) *MRail*, whose rail maintenance agreement was completed during the year; and (iii) *RSIC*, whose gross revenues decreased due to higher cost of reinsurance.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2016 amounted to ₱231,473 million, lower by ₱3,518 million compared with ₱234,991 million in 2015. The following table shows the breakdown of consolidated costs and expenses for the years ended December 31, 2016 and 2015 by business segment:

	2016		2015		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[14]	₱225,392	97	₱228,206	97	(₱2,814)	(1)
Other services	7,972	4	8,581	4	(609)	(7)
Inter-segment transactions	(1,891)	(1)	(1,796)	(1)	(95)	5
Total	**₱231,473**	**100**	**₱234,991**	**100**	**(₱3,518)**	**(2)**

Power

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

	2016		2015		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Purchased power	₱189,853	84	₱192,117	84	(₱2,264)	(1)
Salaries, wages and employee benefits	10,719	5	9,774	4	945	10
Depreciation and amortization	6,949	3	6,607	3	342	5
Contracted services	5,188	2	4,659	2	529	11
Others	12,683	6	15,049	7	(2,366)	(16)
Total	**₱225,392**	**100**	**₱228,206**	**100**	**(₱2,814)**	**(1)**

The lower purchased power cost in 2016 was due to (a) lower generation cost as a result of global decline in fuel and natural gas prices and tightly negotiated *PSA* entered into with generating companies, (b) lower *WESM* prices and, (c) lower forced outage days of contracted plants. The decrease was partially offset by higher volume purchased.

The volume of energy purchased under long-term *PPA*s with *IPPs* represents 32% of *MERALCO*'s Net System Input. Purchases from power generators under *PSA*s, and other special programs accounted for 39%. Purchases by *RES* accounted for 18% and the balance of 11% sourced from the *WESM*.

Salaries, wages and employee benefits increased from ₱9,774 million in 2015 to ₱10,719 million in 2016 due to annual adjustments based on the terms of the collective bargaining agreements and merit adjustments.

[14] *Ibid.*

Depreciation and amortization increased by 5% from ₱6,607 million in 2015 from ₱6,949 million in 2016. This is mainly due to completed capital expenditure projects such as development of the Banawe 115 *kV*-34.5 *kV* substation and expansion of Bagbaguin 115 *kV*-34.5 *kV* substation.

Contracted services increased by 11% from ₱4,659 million in 2015 to ₱5,188 million in 2016. This was mainly due to the increase in cost of information system/information technology services and consultancy for various system enhancements. Customer-related expenses such as collection services and meter reading services also increased due to growth in number of customer accounts.

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

Other Services

The costs and expenses of other services business segment for the year ended December 31, 2016 amounted to ₱7,972 million, 7% lower compared with ₱8,581 million in 2015.

	2016		2015		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Salaries, wages and employee benefits	₱2,534	32	₱3,039	35	(₱505)	(17)
Contracted services	1,842	23	1,354	16	488	36
Depreciation and amortization	364	5	303	4	61	20
Others	3,232	40	3,885	45	(653)	(17)
Total	**₱7,972**	**100**	**₱8,581**	**100**	**(₱609)**	**(7)**

Salaries, wages and employee benefits decreased by ₱505 million mainly due to the termination of project-hired personnel of *MIESCOR* and *MRail*, which coincides with project completion.

Contracted services increased by ₱488 million due to (i) higher spending for engineering services for on-going projects of *MServ*; and (ii) growth in the bill payment transactions of *Bayad Center*.

Other expenses which mainly consist of materials, transportation and travel, rental and utility expenses decreased by ₱653 million in 2016.

OTHER INCOME

The following table shows the breakdown of other income, net of expenses, for the years ended December 31, 2016 and 2015 by business segment:

			Increase/Decrease	
	2016	**2015**	**Amount**	**%**
		(Amounts in millions)		
Power[15]	₱897	₱1,420	(₱523)	(37)
Other services	88	48	40	83
Total	**₱985**	**₱1,468**	**(₱483)**	**(33)**

Power

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

			Increase/Decrease	
	2016	**2015**	**Amount**	**%**
		(Amounts in millions)		
Interest and other financial income	₱2,027	₱1,506	₱521	35
Equity in net losses of associates and joint ventures	(1,567)	(27)	(1,540)	5,704
Interest and other financial charges	(1,293)	(1,187)	(106)	9
Foreign exchange gains	850	321	529	165
Others	880	807	73	9
Total	**₱897**	**₱1,420**	**(₱523)**	**(37)**

Interest and other financial income increased to ₱2,027 million in 2016 compared with ₱1,506 million in 2015 as a result of higher yields from investments in government securities.

In 2016, equity in net losses of associates and joint ventures includes ₱1,200 million impairment charge of *FPM* Power with respect to its investment in *PacificLight Power*.

Other income includes the gain of ₱93 million from the partial divestment of *MGen*'s interest in *GBPC* in 2016.

[15] *Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2016 and 2015 by business segment:

	2016		2015		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power[16]	₱17,965	94	₱17,843	94	₱122	1
Other services	1,375	7	1,346	7	29	2
Inter-segment transactions	(164)	(1)	(91)	(1)	(73)	80
Total	**₱19,176**	**100**	**₱19,098**	**100**	**₱78**	–

Net income attributable to equity holders of the parent for the year ended December 31, 2016 is higher by ₱78 million compared with last year due to increase in electricity sales volume, and significantly higher yields from temporary investments. The increase was mitigated by lower average distribution rate as a result of the reduction in the interim distribution tariff beginning July 1, 2015 and lower contribution from certain subsidiaries.

CHANGES IN FINANCIAL POSITION

Utility Plant and Others

Utility plant and others increased by ₱3,901 million compared with last year mainly due to construction of new electric distribution-related facilities and upgrade in major rehabilitation of existing electrical facilities totalling ₱10,997 million, offset by depreciation and amortization of ₱6,828 million and retirement/disposals during the year.

Investments in Associates and Interests in Joint Ventures

The net decrease of ₱2,679 million in this account was due to the partial disposal of equity interest in *GBPC*, recognition of impairment charge with respect to the investment in *PacificLight* of *FPM* which was included as part of equity in net losses, and dividends received from *GBPC* and Rockwell Business Center joint venture, offset by additional investments of ₱1,023 million in *MPGC* and *SRPGC*.

Deferred Tax Assets

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

Other Noncurrent Assets

Other noncurrent assets increased by ₱18,165 million as a result of additional investments in *HTM* of ₱17,830 million and recognition of retirement surplus amounted to ₱1,860 million representing the excess of the fair value of plan assets over the defined benefit obligation.

[16] *Ibid.*

Cash and Cash Equivalents

The decrease in cash and cash equivalents of ₱4,184 million was due to additional investments in *HTM* and *AFS*, payments of dividends and capital expenditures, partially offset by the cash generated from operations, proceeds from the partial divestment of *GBPC* and availment of short-term loan.

Trade and Other Receivables

Trade and other receivables decreased by ₱1,420 million due to the lower customer retail rates mainly because of decrease in generation charges compared with last year, and improvement in collection efforts. Also, the *ERC*-approved under recoveries in prior years were billed and collected in full this year.

Other Current Assets

The decrease of ₱2,202 million was mainly due to lower amount of *HTM* classified as current asset.

Unrealized Fair Value Gains (Losses) on AFS Financial Assets

Due to the decline in the fair market value of *AFS* investments, *MERALCO* recognized unrealized fair value losses of ₱373 million, net of income tax effect.

Remeasurement Adjustments on Retirement and Other Post-employment Liabilities

The increase in this account was due to changes in actuarial assumptions and adjustments used in the actuarial valuation of employee retirement and other post-employment liabilities.

Cumulative Translation Adjustments of Subsidiaries and Associates

The increase was due to the impact of the appreciation of the U.S. dollar, which resulted in cumulative translation gain in the consolidation of a foreign subsidiary and equity accounting of an associate. Both the subsidiary and associates' functional currency is the U.S. dollar.

Retained Earnings

The decrease was mainly due to the declaration of dividends to stockholders, which was offset by the net income for the year.

Long-term Employee Benefits

The decrease was attributed to the payment of long-term incentive plan to its qualified employees in 2016.

Provisions

Provisions decreased as a result of the settlements made during the year and reclassification of amounts estimated to be settled next year as part of trade and other current liabilities.

Other Noncurrent Liabilities

Other noncurrent liabilities mainly represent estimated costs and claims related to regulatory and tax assessments. Additional obligations were recognized during the year.

Notes Payable

The increase was mainly due to the availment of short-term loan of ₱10,000 million in 2016.

Trade and Other Current Liabilities

The increase in trade and other current liabilities was due to additional provisions reclassified as current and higher purchased power payable due to increased *kWh* purchased in December 2016.

LIQUIDITY AND CAPITAL RESOURCES

The following tables show the cash flows for the years ended December 31, 2018, 2017 and 2016 as well as the capitalization and other selected consolidated financial data as at December 31, 2018 and 2017:

	For the Years Ended December 31		
	2018	**2017**	**2016**
		(Amounts in millions)	
Cash Flows			
Net cash provided by operating activities	₱40,146	₱28,385	₱35,351
Net cash used in investing activities	35,754	10,558	22,961
Net cash used in financing activities	13,858	18,546	16,574
Net decrease in cash and cash equivalents	9,466	719	4,184
Capital Expenditures	13,432	11,966	11,394

	2018	2017
	(Amounts in millions)	
Capitalization		
Interest-bearing long-term financial liabilities		
Current	₱1,843	₱1,884
Noncurrent	24,745	24,786
Notes payable	13,428	13,586
Equity attributable to equity holders of the parent	82,042	73,610
Other Selected Financial Data		
Total assets	336,251	303,355
Utility plant and others	139,846	133,874
Cash and cash equivalents	36,471	45,937

As at December 31, 2018, cash and cash equivalents amounted to ₱36,471 million, ₱9,466 million lower compared with ₱45,937 million as at December 31, 2017. Following are the significant cash flow activities for the year ended December 31, 2018: (i) cash generated from operations amounting to ₱40,146 million; (ii) payment of cash dividends of ₱14,557 million; (iii) payment for capital expenditures of ₱13,432 million; and (iv) availment of short term investments of ₱19,337 million.

Debt Financing

On December 12, 2013, *MERALCO* issued ₱11.5 billion and ₱7.0 billion of 7-year (puttable in 2018) and 12-year (puttable in 2023) corporate bonds ("*Bonds*"), respectively. The 12-year corporate bonds also include a call option, whereby *MERALCO* may redeem (in whole but not in part) the outstanding bonds beginning on the 7th year from issue date at an early redemption price of 101%. The put and call options are clearly and closely related to the host instruments, thus, were not recognized separately.

The Bonds are listed on and traded through the Philippine Dealing and Exchange Corporation.

The net proceeds from the bond issuance were used to refinance certain loans, which included principal, interest, prepayment penalties and other financing costs.

MERALCO's loan agreements require compliance with debt service coverage of 1.2 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.

As at December 31, 2018, *MERALCO* is in compliance with all of the covenants of its loan agreements.

Equity Financing

MERALCO's preferred shares are presented as debt with the dividends declared recorded as interest expense. Accumulated and unpaid dividends were accrued and classified as accrued interest payable. Coupon rate on such preferred share is fixed at 10%. The preferred shares were issued related to service applications, which required extension or new distribution facilities beyond a specific distance or standard provisions. Beginning April 8, 2005, such requirement was discontinued. Instead, as provided in the "Implementing Guidelines of the Magna Carta for Residential Electricity Consumers", customers were required to advance the costs of extension of lines and installation of additional facilities. All of the outstanding preferred shares have been called for redemption as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Total unclaimed dividends amounted to ₱250 million as at December 31, 2018 and 2017. Interest is no longer accrued when the preferred shares have been called.

As at December 31, 2018 and 2017, *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)

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

The following are the cash dividends declared on common shares in 2018, 2017 and 2016:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 30, 2018	August 29, 2018	September 24, 2018	₱5.31	₱5,985
February 26, 2018	March 28, 2018	April 25, 2018	8.07	9,090
August 3, 2017	August 30, 2017	September 22, 2017	8.93	10,059
February 27, 2017	March 27, 2017	April 21, 2017	9.30	10,482
July 25, 2016	August 24, 2016	September 19, 2016	13.48	15,193
April 25, 2016	May 25, 2016	June 17, 2016	1.68	1,894
February 26, 2016	March 23, 2016	April 15, 2016	9.92	11,181

On February 26, 2019, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.59 a share to all shareholders of record as at March 22, 2019, payable on April 15, 2019.

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of consolidated core net income (*"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 Securities and Exchange Commission ("*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

Regulated Rates and Cost Recoveries

The most significant determinants of *MERALCO*'s and *CEDC*'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 *CEDC* are approved by the *ERC* and are set at rates that allow a reasonable rate of return on investments. *MERALCO* and *CEDC*'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 ("*DU*s").

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 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 ("*RY*s"). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The 4th *RP* for the Group A *DU*s began on July 1, 2015 and shall end on June 30, 2019.

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

Pass-through of Allowable Costs

The pass-through of allowable costs or costs that do not entail a revision of the rate base and/or rate of return of *MERALCO* is governed by various adjustment mechanisms promulgated by the *ERC*.

In approving *MERALCO*'s unbundled rate in May 2003, the *ERC* prescribed a generation charge that will be adjusted under the Generation Rate Adjustment Mechanism ("*GRAM*"). This has since been superseded by the Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities. The monthly automatic adjustment under the Automatic Generation Rate Adjustment ("*AGRA*") mechanism provides timely price signals to consumers. While the *GRAM* only provided for changes in the generation charge, the new mechanism also allows the monthly adjustment of the *SL* charge. Implementation of the guidelines started with the November 2004 billing cycle.

The *ERC*'s approval of *MERALCO*'s *2nd GRAM* filing was questioned before the Supreme Court ("*SC*") for failure by *MERALCO* and the *ERC* to comply with Section 4 (e) Rule 3 of the Electric Power Industry Reform Act ("*EPIRA*") Implementing Rules and Regulations ("*IRR*") which required publication, notice, and hearing of an application prior to issuance of an Order. On August 16, 2006, the *SC* ruled with finality that strict compliance with the requirements under the *IRR* of the *EPIRA* is jurisdictional and applies to any adjustment to the retail rate, including those for pass-through costs. Beginning September 2006, the *AGRA* was suspended and *MERALCO* could adjust generation and other pass-through charges only after the filing and approval by the *ERC* of an appropriate application.

On June 7, 2007, the Joint Congressional Power Commission approved amendments to Section 4 (e), Rule 3 of the *EPIRA*'s *IRR* that exempt the adjustments of pass-through electric rate components from the jurisdictional and hearing requirements of the *IRR*. The amendments were subsequently promulgated by the *DOE* on June 21, 2007. Thereafter, the *ERC* lifted the suspension of the *AGRA*, which allowed *MERALCO* to resume the monthly updating of generation and *SL* charges beginning July 2007.

On July 13, 2009, the *ERC* issued its 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 over- or under-recoveries in the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, local franchise tax *("LFT*") and business tax.

The rules will also synchronize the various confirmation processes for the foregoing charges, in which the *ERC* will verify whether the *DU* incurred over- or under-recoveries in the implementation of the said charges. Luzon *DU*s, such as *MERALCO*, were required to file not later than October 30, 2009, their consolidated applications to resolve over- or under-recoveries accumulated from the start of their rate unbundling until December 2008. Subsequent filings will be every three (3) years thereafter.

On October 8, 2009, *MERALCO* filed a petition at the *ERC* seeking an amendment to *ERC*'s Resolution No. 16, Series of 2009. In particular, *MERALCO* proposed a modification to the formula used in confirming the *SL* charges of *DU*s, shifting the reckoning of the *SL* cap from monthly to annual, which fairly reflects the actual *SL* performance of *DU*s.

On October 18, 2010, the *ERC* ruled on *MERALCO*'s Petition and agreed that there is a need to address the mismatch between the billing periods of the *DU*s and of their suppliers in the confirmation of the *SL*. However, the *ERC* did not adopt *MERALCO*'s proposed modification to the formula and instead prescribed a new formula. *ERC* Resolution No. 21, Series of 2010 adopted the new formula and correspondingly amended a prescribed in Resolution No. 16, Series of 2009. The Resolution also prescribed the period of filing for a *DU*'s consolidated applications, which for Luzon *DU*s shall be by March 31, 2011. Further, March 31, 2011 (covering adjustments implemented from the rate unbundling until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) were set as the new deadlines for *DU*s in Luzon to file their respective applications. Subsequent filings shall likewise be every three (3) years thereafter.

Revised SL Caps

On December 8, 2008, the *ERC* promulgated Resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a *DU* can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting with the January 2010 billing. The said cap is one (1) percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is recognized as operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme *("PIS")* under the *PBR*.

On October 4, 2016, a legislator proposed a bill to lower the current cap of *SL* rate from 8.5% to 5% for private *DU*s and from 13% to 10% for electric cooperatives and to exclude non-technical *SL* and electricity used by the private *DU*s and electrical cooperatives from what may be passed on to consumers as *SL* charges. As at February 26, 2019, this proposed bill is still subject for deliberation of the Senate.

On May 9, 2017, the *ERC* posted on its website the draft rules on the *Proposed Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency*. The *ERC* engaged a third party to conduct the study on the *SL* of *DU*s and propose new caps. Said rules proposed different *SL* caps according to four (4) clusters. Electric cooperatives ("*EC*") were grouped in Clusters 1 to 3 and private *DU*s in Cluster 4. *DU*s in clusters 1 to 4 have proposed *SL* caps of 11.5%, 10%, 7.75%, and 4%, respectively. These caps, which include feeder technical loss and nontechnical loss but exclude sub-transmission and substation technical losses, are proposed to be implemented based on the *DU*'s next regulatory reset schedule. For *MERALCO*, the proposed implementation date is July 2019. A series of public consultations and focus group discussions followed, the latest of which was a public consultation for Mindanao stakeholders held in Pasig City on August 9, 2017. In said public consultation, the third party consultant proposed a graduated reduction in *SL* caps per cluster. Beginning 2018, *DU*s in clusters 1 to 3 shall have a cap of 12% and *DU*s in cluster 4 shall have a cap of 8%, all of which exclude sub-transmission and substation *SL*. The caps of cluster 1 to 3 will remain or be lowered to 12%, 10.25%, 8.25% by 2022, respectively. For private *DU*s, the cap will be reviewed based on their submission of annual feeder data to the *ERC*. If private *DU*s fail to submit one (1) year data (from 2018-2020), its cap in 2022, shall be set at 4.75% excluding subtransmission and substation *SL*. The latest proposal of the third party consultant also includes a 1% cap on subtransmission and substation *SL* which was not previously capped in the original draft rules.

On February 23, 2018, the *ERC* posted in its website its Rules for Setting the Distribution System Loss ("*DSL*") Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The Rules allow for a gradual reduction of Feeder System (Primary and Secondary Distribution System) Loss caps as follows:

Year of Implementation	*EC* Cluster 1	*EC* Cluster 2	*EC* Cluster 3	Cluster 4 (Private *DU*s)
			(in percentage)	
2018	12.00	12.00	12.00	6.50
2019	12.00	11.00	11.00	6.25
2020	12.00	10.25	10.00	6.00
2021	12.00	10.25	9.00	5.50
2022 and onwards	12.00	10.25	8.25	4.75*

*if no annual submission of feeder data.

On May 7, 2018, the *ERC* posted on its website Resolution No. 10, Series of 2018, or "A Resolution Clarifiying the System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap". The Resolution was issued in response to the request for clarification of *EC*s on certain issues regarding the Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency was published on the same day. Accordingly, the prescribed system loss cap shall be effective on the next billing cycle of the *DU*s customers.

Subtransmission and substation loss is fully recoverable. However, if *DU*s do not submit monthly metered subtransmission and substation distribution loss data, such losses, as well as distribution feeder losses, will be set to zero in the computation of the recoverable system loss charge. The *DU* may also elect for an individualized *DSL* cap.

Sales Volume and Philippine Economic Conditions

The Philippine economy expanded by 6.2% in 2018 while the energy distributed within the *MERALCO* franchise area grew by 5%. Except for the first three (3) months of 2018, monthly energy sales exceeded 3,500 *GWh* with total volume reaching 44,313 *GWh* as at December 31, 2018. The growth is largely attributable to the rapid urbanization of the North and South areas of the *MERALCO* franchise area, increasing activities of *POGO*s and the sustained demand for *BPO* services, among others.

MERALCO continued to set new records as it outperformed previous year's levels as it continued to focus on serving the needs of customers across all classes. Faster energization of Commercial and Industrial accounts enabled by operational excellence and by *CAPEX* for customer and load growth, along with the resilience of the local and global economies, have reflected positively as the Commercial and Industrial sectors grew at a faster pace in 2018. The Tax Reform for Acceleration and Inclusion Act ("*TRAIN*") Law, which was enacted towards the end of 2017 and imposed an additional value-added tax and excise taxes on the energy industry, is expected to contribute to Government revenues for its many "Build Build, Build" projects aimed at spurring economic expansion across all industries.

Average temperature for the year ended December 31, 2018 is lower by 0.3°C from 28.2°C in 2017 to 27.9°C in 2018.

Electricity Supply

The electricity distributed by *MERALCO* and *CEDC* are contracted through *PSA*s with generators and long-term *PPA* with *IPP*s. The remaining balance is purchased from the *WESM*. *WESM* is a venue where suppliers and buyers trade electricity as a commodity.

IPPs

MERALCO

First Gas Power Corporation ("FGPC") and FGP

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

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

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

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

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. Under the terms of the amended *PPA*, *MERALCO* is committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 2025.

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

Committed Energy Volume to be Purchased

The following are forecasted *Committed Energy Volume* 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 *US* and Philippine Consumer Price Index.

Year	***MEQ***	**Equivalent Amount**
	(In million kWh)	*(In Millions)*
2019	14,195	₱25,684
2020	14,195	25,835
2021	14,195	25,990
2022	14,195	26,148
2023	14,195	26,310
2024-2030	35,661	57,585

Power Supply Generators Under PSAs

The table below summarizes the salient features of the signed *PSA*s/Contract to Sell of Electricity ("*CSE")* of *MERALCO* with power supply generators, some of which are still pending approval by the *ERC*:

Date	**Power Supplier**	**Plant/Contracted Capacity**	**Terms of *PSA/CSE***
December 13, 2017	First NatGas Power Corp. ("*FNPC*")	414 *MW* generation by San Gabriel Gas Plant	Contract term for *ERC* approval date (June 5, 2018) until February 23, 2024.
October 6, 2017	Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")	Solar power plant for contracted capacity of 85 *MW*	Term of 20 years

Date	Power Supplier	Plant/Contracted Capacity	Terms of *PSA/CSE*
September 16, 2016	*First Bulacan*	Solar power plant for contracted capacity of 50 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
September 16, 2016	Solar Philippine Tanauan Corporation ("*Solar Philippines Tanauan*")	Solar power plant for contracted capacity of 50 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
April 27, 2016	Global Luzon Energy Development Corporation ("*GLEDC*")	Coal-fired power plant for contracted capacity of 600 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
April 26, 2016	*A1E*	Supercritical coal-fired power plant for contracted capacity of 2 x 600 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
April 26, 2016	Central Luzon Premiere Power Corporation ("*Central Luzon Power*")	*CFB* coal-fired power generating facility for contracted capacity of 528 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
April 26, 2016	*Mariveles Power*	*CFB* coal-fired power generating facility for contracted capacity of 528 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
April 26, 2016	Panay Energy Development Corporation ("*PEDC*")	Coal-fired power generating facility for contracted capacity of 70 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.

Date	Power Supplier	Plant/Contracted Capacity	Terms of *PSA/CSE*
April 26, 2016	*St. Raphael*	Coal-fired power plant for contracted capacity of 400 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
April 20, 2016	*RP Energy*	Coal-fired power plant for contracted capacity of 225 *MW*	Term of 20 years, extendible for another five (5) years upon mutual agreement of the parties.
November 25, 2014	Bacman Geothermal, Inc. *("BGI")*	Geothermal power plant for contracted capacity of 50 *MW*	Term of five (5) years, until December 25, 2019, pending extension approval for another two (2) years upon mutual agreement of the parties.
May 30, 2014	*SBPL*	Supercritical coal-fired power plant for 455 *MW* (net) capacity and electric output	Term of 20 years, extendible for another five (5) years at the option of *MERALCO*.
May 15, 2014	Philippine Power and Development Corporation *("Philpodeco")*	1 *MW* hydro power plants	Term of five (5) years which may be extended upon mutual agreement of parties.
September 27, 2013	Therma Mobile, Inc. *("TMO")*	Output of the barged-mounted, bunker oil-fired diesel engines moored at the Fishport Complex in Navotas, Manila.	The contract term expired on June 25, 2018.
June 26, 2012	San Miguel Energy Corporation *("SMEC")*	Sual coal-fired power plant with initial contracted capacity of 200 *MW* to increase to 500 *MW* by December 26, 2012	Term of seven (7) years, which may be extended up to three (3) years upon agreement of parties.

Date	Power Supplier	Plant/Contracted Capacity	Terms of *PSA/CSE*
May 31, 2012	Pangea Green Energy Philippines, Inc. *("PGEP")*	Biogas power plant using methane gas with a total nominal generating capacity of 1.2 *MW*.	Term of two (2) years from the delivery period commencement date, unless amended by the parties. The contract has expired.
December 20, 2011	*Sem-Calaca*	The initial contracted capacity is 210 *MW* and will be increased to 420 *MW* upon the commercial operation of the plant's Unit 1.	Term of seven (7) years, which may be extended by the parties for another three (3) years. The contract term expired on December 25, 2018.
November 12, 2010	Bacavalley Energy, Inc. *("BEI")*	4 *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna.	Term of two (2) years from the delivery period commencement date. On March 12, 2015, *MERALCO* and *BEI* executed a letter of Agreement extending the *CSE* until March 16, 2016. On March 1, 2016, *BEI* requested for another extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*.

PSAs with Privatized Plants and Independent Power Producer Administration ("IPPA")

In a separate Decisions dated December 17, 2012, the *ERC* approved with modifications, the *PSA*s of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

Motions for Reconsideration (*"MR"*) were filed regarding the *ERC* decisions on the *PSA*s with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca* *MR*s.

In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order. In an Order dated May 29, 2018, the *ERC* partially granted the Motion for Partial Reconsideration on the *PSA* with
Sem-Calaca. On July 25, 2018, *MERALCO* filed a motion for clarification of the said Order, which as at February 26, 2019, remains pending for resolution by the *ERC*. Meanwhile, the terms of the *PSA* with *Sem-Calaca* expired on December 25, 2018.

MERALCO entered into separate Supplemental Agreements with *MPPCL* and *TLI* on April 8 and 27, 2016, respectively, for the extension of the term of these *PSA*s for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the *ERC*.

Under the *PSA*s approved by the *ERC*, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projections for these payments are shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	(In Megawatt)	*(In Million)*
2019	2,894	₱35,695
2020	1,624	24,706
2021	1,114	14,984
2022	1,114	15,073
2023	1,714	27,090
2024-2030	13,774	243,296

On January 1, 2018, the *Tax Reform for Acceleration and Inclusion* ("*TRAIN*") Law became effective. Among other things, the *TRAIN* Law increased the excise tax on coal from ₱10.00 per metric ton to ₱50.00 per metric ton, effective January 1, 2018. This tax is to increase year on year, up to ₱150.00 per metric ton for coal, effective January 1, 2020. Under *MERALCO*'s *PSA* with *TLI,* should there be any increase in existing charges, fees, taxes, duties assessments, or other similar amounts, a party to the *PSA* may claim the same as a charge due to change in law, upon *ERC* approval thereof. On July 19, 2018, *MERALCO* and *TLI* filed a joint application for approval of recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law. On November 9, 2018, the parties filed their joint *FOE.* As at February 26, 2019, the parties await decision of the *ERC*.

Mariveles Power

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Mariveles Power* for the purchase of up to 528 *MW* of electric output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Mariveles Power* intends to construct, own and operate in Mariveles, Bataan. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On September 30, 2016, *Mariveles Power* filed a *MR* of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On

July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Mariveles Power* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC. Mariveles Power* filed a pleading explaining status of the *ECC* application. As at February 26, 2019, further *ERC* action is pending.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility that *PEDC* owns and operates in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that *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 January 17, 2017, *MERALCO* received a letter dated November 23, 2016, informing *MERALCO* that *ERC* provisionally approved the *PSA*. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 26, 2019, further *ERC* action is pending.

Meanwhile, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On January 15, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor *NASECORE* a chance to present its evidence. However, due to its unjustified and continued absence, *NASECORE* was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. On January 19, 2018, *MERALCO* received a motion filed by an oppositor before the *CA* seeking additional time to file a Petition for Review. On January 26, 2018, *MERALCO* received the Petition for Review. In a decision dated February 28, 2018, the *CA* denied the Petition, prompting the oppositor's filing of an *MR*. On December 3, 2018, *MERALCO* received the *CA*'s Notice of Resolution grating the oppositor's *MR* without necessarily giving due course to the oppositor's Petition for Review and requiring *MERALCO* and *PEDC* to file their respective comments thereto. *MERALCO* and *PEDC* have filed their respective comments. On December 7, 2018, *MERALCO* filed its Comment with Opposition to the *CA*'s Resolution. As at February 26, 2019, the case is awaiting further action from the *CA*.

St. Raphael

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *St. Raphael* for the purchase of up to 400 *MW* of electric output from the 2 x 350 *MW* coal-fired power generating facility that *St. Raphael* intends to construct, own, operate, manage and maintain in Calaca, Batangas. On April 29, 2016, the Joint

Application for approval of said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *St. Raphael* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On January 10, 2018, the *ERC* conducted a hearing for the purpose of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. Nevertheless, on April 13, 2018, the *ERC* issued an Order directing *MERALCO* and *St. Raphael* to submit additional compliance documents (all to be provided by *St. Raphael*) in order to aid *ERC* in its evaluation of the present case. In a Compliance dated June 18, 2018, *St. Raphael*, from whom all of *ERC*'s requested documents are to come, completed its submissions. At the same time, per directive of the *ERC*, *MERALCO* and *St. Raphael* submitted their respective comments on *MSK's Manifestation and Prayer* on June 8, 2018 and July 3, 2018. As at February 26, 2019, the case is pending decision by the *ERC*.

RP Energy

On April 20, 2016, *MERALCO* signed a 20-year *PSA* with *RP Energy* for the purchase of 225 *MW* capacity and energy from the first 300 *MW* unit of 2 x 300 *MW* coal-fired power plant that *RP Energy* intends to construct, own, operate, manage and maintain in Subic, Zambales, within the Subic Bay Freeport Zone. On April 29, 2016, the Joint Application for approval of the said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *RP Energy* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s which the *ERC* likewise denied in an order dated November 17, 2017. On January 5, 2018, the *ERC* conducted a hearing for the purpose of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. However, despite the case having been submitted for decision, the *ERC* hearing officer allowed an oppositor to submit his written comment/opposition to the continuation of the proceedings. On January 15, 2018, a written comment/opposition was filed by oppositor and on January 19, 2018, *MERALCO* filed its opposition to the said comment/opposition. As at February 26, 2019, the case is pending decision by the *ERC*.

BGI

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. As at February 26, 2019, the case is pending decision by the *ERC*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electric output with *SBPL*. *SBPL* will be constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Philpodeco

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco.* This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. As at February 26, 2019, the case is pending decision by the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions

of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed the one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 26, 2019, the contract term has expired and the decision remains pending with the *ERC*.

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 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. As at February 26, 2019, the contract term has expired and the Decision remains pending with the *ERC*.

A1E

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *A1E* for the purchase of 1,200 *MW* of electric output from the 2 x 600 *MW* supercritical coal-fired power generating facility that *A1E* intends to construct, own, operate, manage and maintain in Atimonan, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After completion of the hearings and filing by *MERALCO* and *A1E* of their respective *FOE* on March 8, 2017, several consumers filed their petitions to intervene. On

July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On March 29, 2017, *MERALCO* and *A1E* filed their Joint Urgent Motion to Resolve. On May 22, 2017, *A1E* filed its Manifestation for Urgent Resolution. Thereafter, on May 23, 2017, *MERALCO* and *A1E* both filed separate letters for Urgent Resolution of the case. On October 19, 2017, *MERALCO* filed its Third Urgent Motion to Resolve. Then on November 8, 2017, *MERALCO* received *A1E's* Urgent Motion for Resolution. On August 30, 2018, *A1E* filed another Very Urgent Motion for Resolution of the case, and it was followed by *MERALCO*'s Extremely Urgent Motion to Resolve filed on September 10, 2018. Thereafter, on September 14, 2018, *MERALCO* and *A1E* filed a Joint Manifestation with Extremely Urgent Motion for Resolution. As at February 26, 2019, the case is pending decision by the *ERC*.

Central Luzon Power

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Central Luzon Power* for the purchase of up to 528 *MW* of electric output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Central Luzon Power* intends to construct, own and operate in Pagbilao, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated January 25, 2017, the *ERC* held the processing of the application in abeyance. On March 2, 2017, *MERALCO* received the *MR* of *Central Luzon Power* on of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Cental Luzon Power* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC. Central Luzon Power* filed a pleading explaining status of the *ECC* application. As at February 26, 2019, further *ERC* action is pending.

GLEDC

On April 27, 2016, *MERALCO* signed a 20-year *PSA* with *GLEDC* for the purchase of 600 *MW* of electric output from the 2 x 335 *MW* coal-fired power generating facility that *GLEDC* intends to construct, own, operate, manage and maintain in Luna, La Union. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On October 21, 2016, *MERALCO* received *GLEDC*'s *MR* of the said Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a motion seeking the dismissal of the case, to which *MERALCO* filed an Opposition. On March 6, 2018, *GLEDC* filed a Manifestation updating the *ERC* of the status of its *ECC* Application. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *GLEDC* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC*. *GLEDC* initially filed a pleading explaining status of the *ECC* application. *GLEDC* thereafter filed a Compliance with the *ERC* submitting the *ECC* granted to it by the *DENR* and moved that the August 9, 2016 Order of the *ERC* be lifted so that the case can proceed. As at February 26, 2019, the case is still awaiting further action from the *ERC*.

First Bulacan

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *First Bulacan* for the purchase of 50 *MW* of electric output from its solar plant in San Miguel, Bulacan. On February 23, 2017, after conduct of a Competitive Selection Process ("*CSP*") wherein *First Bulacan* was declared as the winning power supplier, the application for approval of the *PSA* with *First Bulacan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In an Order dated November 28, 2017, the *ERC* resolved to grant interim relief for approval of the *PSA*. *First Bulacan* filed a Motion for Reconsideration and an Urgent Motion to Resolve the Motion for Reconsideration, which sought reconsideration of the Order of interim relief. As at February 26, 2019, both are pending resolution by the *ERC*.

Solar Philippines Tanauan

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In a letter dated December 29, 2017, *ERC* informed *MERALCO* and *Solar Philippines Tanauan* that the *ERC* resolved to grant an interim relief for approval of the *PSA*. However, such interim relief is not contemplated under the *PSA* and the parties have yet to implement the *PSA.*

Solar Philippines Tarlac

On October 6, 2017, after being declared the winner power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order dated November 28, 2017, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On
July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* have agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration. As at February 26, 2019, the Motion for Partial Reconsideration is still pending resolution 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 electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. In an Order dated June 5, 2018, *ERC* granted Interim Relief to provisionally implement the *PSA*. On June 26, 2018, *MERALCO* and *FNPC* implemented the *PSA* based on the June 5, 2018 Order of the *ERC*. On August 8, 2018, a party filed an intervention to the case. *MERALCO* and *FNPC* filed their Comment/Opposition to said intervention. *FNPC* thereafter filed a Compliance with Motion for Confidential Treatment of Information. Thereafter, the Pre-trial conference on the case was

concluded. As at February 26, 2019, the parties are awaiting the order of the *ERC* resolving the intervention and *FNPC's* Compliance with Motion by the *ERC* and setting the case for another hearing.

BEI

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 16, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for another extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 26, 2019, the contract term has expired and *MERALCO* is awaiting the *ERC*'s decision.

Interim Power Supply Agreement ("IPSA")

On January 19, 2016, after the conduct of a price challenge in compliance with *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 *MW* (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 215 *MW* bunker oil-fired diesel engine power plant in Bauang, La Union. The term of the *IPSA* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to two (2) times, unless terminated by either party prior to the expiration of its term. The *IPSA* was filed for approval by the *ERC* on February 10, 2016 and shall become effective upon the approval by the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved the *IPSA*. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed 1590 Energy Corporation that it is no longer interested in renewing the *IPSA*, thus, the *IPSA* will only be until February 25, 2017. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 21, 2016, after the conduct of a price challenge in compliance to *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two (2) separate *IPSA*s with the following wholly owned subsidiaries of *GBPC*, namely; (i) *TPC* for the 28 *MW* (firm) output from its 40 *MW* diesel-fired power plant in Carmen, Toledo City; and (ii) *PPC* for the 45 *MW* (firm) output from its 72 *MW* diesel-fired power plant in La Paz, Iloilo City. The term of the *IPSAs* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to four (4) times, unless terminated by either party prior to the

expiration of its term. On February 10, 2016, both *IPSA*s were filed for approval of the *ERC.* In an Order dated April 5, 2016, the *ERC* provisionally approved these *IPSA*s.

On January 26, 2017, considering the imminent Malampaya shutdown from January 28 until February 16, 2017, *MERALCO* agreed to extend the *IPSAs* with *TPC* and *PPC* until February 25, 2018, provided that beginning January 28, 2017, (i) supply from *TPC* and *PPC* will be through replacement energy at a price lower than the contract price and (ii) supply from *PPC* will be on a firm basis until August 25, 2017, and on a non-firm basis from August 26, 2017 until end of the term thereof. All other terms and conditions under the *IPSAs*, as may be approved by the *ERC*, remain the same. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed *TPC* and *PPC* that it is no longer interested in renewing their respective *IPSA*s, thus, the *IPSA*s will only be until February 25, 2018. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC. MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA.*

CEDC

SMEC

On March 20, 2013, *CEDC* and *SMEC*, as the Independent Power Producer Administrator of the Sual coal fired thermal power plant, entered into a *PSA* through December 25, 2019, unless terminated earlier in accordance with the terms of the Agreement. The initial contracted capacity from the plant was pegged at 55,000 *kWh* which may be increased up to 70,000 *kWh*.

On July 28, 2015, *CEDC* and *SMEC* filed a joint application for the amendment of the *PSA* for "*SMEC* to offer replacement contract capacity and associated energy form other sources, provided, such shall be lower than its forecast replacement power cost from *WESM*".

On September 30, 2016, the *ERC* approved an interim relief to allow *CEDC* to procure additional supply from *SMEC* in light of the planned outage of Sual Unit 1 from October 2016 to November 2016.

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

SPDC

On February 20, 2017, *CEDC* executed an agreement for the supply of Contract Electric Energy with *SPDC*, the Independent Power Producer Administrator of the 345 *MW* San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *CEDC* and *SPDC* agreed that the latter shall supply a total of 25 *MW*, consisting of 20 *MW* firm and 5 *MW* non-firm capacities during Mondays to Saturdays. This *PSA* was entered into by *CEDC* to diversify its source of capacity and also to mitigate its exposure to the *WESM* during the outages of its then lone power supplier, *SMEC*. The *PSA* was jointly filed by *CEDC* and *SPDC* on May 19, 2017 for *ERC* approval. As at February 26, 2019, no decision has been received from the *ERC* with regard to the application.

TransCo/NGCP

CEDC entered into a Transmission Service Agreement ("*TSA*") with *TransCo* beginning March 30, 2006 until terminated, in accordance with the Open Access Transmission Service ("*OATS*") rules.

In January 2009, by virtue of *RA* No. 9511, *NGCP* has acquired the franchise to engage in *TransCo*'s business of conveying or transmitting electricity. *NGCP* eventually became *CEDC*'s transmission service supplier upon taking over the whole of *TransCo*'s regulated business.

With the termination of the previous *TSA*, *CEDC* executed a *TSA* on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules. The term of the *TSA* ends on December 25, 2018.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation ("Alternergy")

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for the latter's 90 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO's* Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2017. In the letter agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalize the extended use of said line.

Interconnection Agreement with Alternergy Sembrano Wind Corporation ("*Alternergy Sembrano*")

On March 23, 2017, *MERALCO* signed an Interconnection Agreement with *Alternergy Sembrano* for the latter's 81 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall also interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy Sembrano* is also an embedded generator. On May 4, 2018, *Alternergy Sembrano* filed an Application with the *ERC* to develop, own and/or operate a dedicated point-to-point 115 *kV* line connecting its generating facility to *MERALCO*'s system. On November 15, 2018, the said case was submitted for decision by the *ERC*.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for the latter's 20 *MW* (with maximum capacity of 40 *MW*) geothermal facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*'s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115*kV* line connecting its generating facility to *MERALCO*'s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*'s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter's 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*'s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*'s system. In its Decision dated June 8, 2015, the *ERC* approved *ATN's* application for authority to develop, own and operate a dedicated point-to-point lines and facilities.

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 *DU*s, 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.

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

1. Implementation of *PBR*

As *DU*s, *MERALCO* and *CEDC* are subject to the rate-making regulations and regulatory policies of the *ERC.* Billings of *MERALCO* and *CEDC* to customers are itemized or "unbundled" into a number of bill components that reflect the various activities and costs incurred in providing electric service. 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 tax ("*LFT*"); and [ii] the "Rules for the Setting of Distribution Wheeling Rates" ("*RDWR*"), as modified by the *ERC* on December 1, 2009, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

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

PBR

a. MERALCO

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

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

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years ("*RYs*"). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The 4th *RP* for Group A *DU*s began on July 1, 2015 and shall end on June 30, 2019.

Maximum Average Price ("MAP") for the 3rd RP

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

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

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

4th RP Reset Application

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

In a Notice dated November 16, 2016, the *ERC* approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Handbook*") for posting in its website. All interested parties were asked to submit their respective comments to the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group's Petition as referred in the foregoing has been resolved. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*'s Omnibus Motion.

Interim Average Rate for RY 2016

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

Capital Expenditures ("CAPEX") for 4th RP

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

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

5th RP Reset Application

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

CEDC

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

3rd RP PBR Reset for CEDC

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

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

2. Application for Recoveries

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

MERALCO

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

post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

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

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

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

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

CEDC

CEDC filed its application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 in conformity with the said resolutions. Public hearing was held on June 17, 2014 and the *ERC* decision was received by *CEDC*

on January 13, 2017. On January 30, 2017, *CEDC* filed a *MR* on the decision of the *ERC*. As at February 26, 2019, the *MR* is pending decision by the *ERC*.

On March 31, 2017, *CEDC* filed with the *ERC* its second application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014, 2015 and 2016. Public hearing was held on October 25, 2017. As at February 26, 2019, the Decision of the *ERC* is pending.

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

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

Application for the Recovery of Differential Generation Costs

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

Deferred Purchased Price Adjustment ("Deferred PPA")

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

Application for Recovery of LFT

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

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

City	Date of filing	Status
City of Trece Martires	July 3, 2015	Application for the authority to recover the difference between the previous and new *LFT* rate for the calendar years 2012 to 2014, under the *TRAC* formula with prayer for provisional authority to collect the *LFT* which it had previously paid and the corresponding carrying cost**.** Hearings have been completed. On September 29, 2015, *MERALCO* filed its *FOE* with Manifestation and Compliance and thereby submitted the case for resolution. In a decision dated May 10, 2016, the *ERC* approved the application with modification.
Cities of Manila and Quezon	December 5, 2016	Application for authority to implement the new *LFT* rates in the City of Manila and Quezon City as well as for authority to refund the differential *LFT* for 2014 to 2016 under the *TRAC* formula. Hearings have been completed and *MERALCO* filed its *FOE* on June 2, 2017. However, a consumer filed a motion to intervene after the termination of the proceedings. On June 23, 2017, *MERALCO* filed its opposition thereto. On March 16, 2018, *MERALCO* filed a motion for resolution. As at February 26, 2019, the *ERC* resolution of the motion to intervene is pending.
City of Binan	October 19, 2017	Application for a provisional authority to recover the new *LFT* at the rate of 75% of 1% beginning on the date of effectivity thereof, or on January 1, 2017 and to recover the differential *LFT* and carrying cost from the customers. Hearings have been completed and *MERALCO* filed its *FOE* on August 30, 2018. As at February 26, 2019, *MERALCO* is awaiting the final decision of the *ERC*.
Cities of Makati and Sta. Rosa, Laguna	March 23, 2006	Application to implement and recover the new *LFT* rate of 50% of 1%. In a Decision dated June 30, 2008, the *ERC* approved the application with modification. On September 11, 2008, *MERALCO* filed a Motion for Partial Reconsideration. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s

City	Date of filing	Status
		Motion for Partial Reconsideration. The *ERC* has yet to act on *MERALCO*'s Motion.
City of Valenzuela	June 23, 2004	Application to recover and implement the *LFT* rate of 75% of 1%. On March 31, 2005, *MERALCO* received a copy of the Decision dated March 1, 2005, approving the application with modification. *MERALCO* filed a Motion for Clarification dated April 8, 2005. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Clarification. The *ERC* has yet to act on *MERALCO*'s Motion.
City of Taguig	January 16, 2008	Application to recover and implement the *LFT* rate of 50% of 1%. On September 1, 2008, MERALCO received a copy of the Decision dated June 30, 2008, approving the application with modification. MERALCO filed a Motion for Partial Reconsideration on September 11, 2008. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Partial Reconsideration. The *ERC* has yet to act on *MERALCO*'s Motion.

3. Benefit Sharing Scheme to Lower *SL*

On January 26, 2011, *MERALCO*, together with *PEPOA* and Philippine Rural Electric Cooperative Association ("*PHILRECA*"), filed a joint petition to the *ERC* to initiate rule-making to adopt the Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users. This was aimed to encourage the *DU*s to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower *SL* charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities. As at February 26, 2019, the Joint Petition is pending further action or decision by the *ERC*.

4. *RCOA*

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

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *DU*s to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least one (1) *MW* for the

preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information in issuing the certificates of contestability.

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

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

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

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

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

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

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

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

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

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

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

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

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at February 26, 2019, the *ERC* has yet to respond to *MERALCO*'s letter.

5. Interim Pre-Emptive Mitigating Measure in the *WESM*

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average generated weighted average price ("*GWAP*") of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or secondary cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (i) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (ii) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such resolution; and (iii) extend the effectivity of the secondary cap mechanism for a period of 120 days from August 10, 2014 or until the *ERC* establishes a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure which shall be applied in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold ("*CPT*") amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the

effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*'s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 26, 2019, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, "A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*". They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5) -day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

6. 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 *DU*s which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DU*s in *RTC*-Pasig.

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

7. Decision on the ₱0.167 per *kWh* Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 19, 2018, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers.

8. Purchase of Subtransmission Assets *("STA*s")

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

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015. During the hearing, *TransCo* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

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

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying

for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia. MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which is pending resolution. In a Letter dated December 27, 2017, *Labrador* denied *TransCo*'s request for settlement of the warrant of distraints issued by said city against *TransCo*'s properties, including the subject properties for local business tax claims. As at February 26, 2019, *MERALCO* is awaiting for *CA*'s decision before any action may be taken in relation to the contract to sell.

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

9. 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 as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board ("*NREB*") filed its Petition to Initiate Rule Making for the Adoption of *FiT*. The Petition proposed a specific *FiT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FiT* Rates lower than the rates applied by the *NREB.*

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator. On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

On July 30, 2014, *TransCo* filed its Application for Approval of the *FiT-All* for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FiT-All* of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE, TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from

implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. The parties have been directed to submit their respective memoranda.

On April 30, 2014, the *DOE* issued a certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its certification, the *DOE* stated that "solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016".

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FiT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, the *ERC* issued a Decision dated March 27, 2015 setting the new solar *FiT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FiT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FiT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FiT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FiT*. In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh. MERALCO* filed a *MR* on the Decision. As at February 26, 2019, the *MR* is pending further action of the *ERC*.

On December 22, 2015, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2016. In an Order dated February 16, 2016, the *ERC* provisionally approved a *FiT-All* of ₱0.1240 per *kWh* effective in the succeeding billing period after *TransCo* received the Order. The *FiT-All* was implemented starting April 2016 billing month. In a Decision dated May 9, 2017, the *ERC* approved the final *FiT-All* for calendar year 2016 of ₱0.1830 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FiT-All* rate was implemented starting June 2017 billing.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FIT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*.

On December 1, 2016, *TransCo* filed for an application with the *ERC* seeking to collect a *FiT-All* rate of ₱0.2291 per *kWh* for 2017. In a Decision docketed May 11, 2018, the *ERC* approved the final *FiT-All* for calendar year 2017 of ₱0.2563 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FiT-All* rate was implemented starting June 2018 billing.

On August 30, 2017, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2018 seeking to collect a *FiT-All* rate of ₱0.2932 per *kWh*. The case has been submitted for decision of the *ERC*. On July 27, 2018, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2019 seeking to collect a *FiT-All* rate of ₱0.2780 per *kWh,* effective January 2019 billing. As at February 26, 2019, proceedings in the case are on going.

On November 23, 2018, the *ERC* issued an Order and Notice of Proposed Rule Making to review and re-adjust the Run-of-River ("*ROR*") Hydro and Biomass *FiT* rates due to the extension by the *DOE* of the *FiT* eligibility of of *ROR* Hydro and Biomass for an additional 2 years, or from January 1, 2018 up to December 31, 2019, or upon successful commissioning of the remaining balance of their respective installation targets, whichever comes first. The petition for rule making stemmed from the endorsement by the *NREB* of submissions from PhilHydro Associations, Inc. and Biomass Renewable Energy Alliance ("*BREA*"), which sought for the currently degressed *FiT* rates of ₱5.8705 per *kWh* for ROR Hydro and ₱6.5969 per *kWh* for Biomass. The public consulations by the *ERC* concluded last January 18, 2019 and parties await further action by the *ERC*.

10. Net Metering Program

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

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the *ERC* in due course. In the meantime, the *DU*s' blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. As at December 31, 2018, *MERALCO* has already installed 1,831 meters and energized 1,695 net metering customers.

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

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

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the

full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

12. Interruptible Load Program *("ILP")*

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program" and *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program".

As at December 31, 2018, there are 162 companies with a total committed de-loading capacity of 584 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

13. Long-term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

13. Prepaid Retail Electricity Service *("PRES")*

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2018, there are 101,844 customers availing of *PRES*.

14. *CSP* for *PSAs*

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DU*s to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy ("*DASAP*"). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, "Providing Policies for Further Enhancement of the *WESM* Design and Operations", prescribing *DU*s to procure all its uncontracted demand through *CSP*, through the participation of a third party and which may be done by *DU*s on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines ("*IG*"). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and the *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On the same date, the *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

- All *DU*s are required to undergo *CSP*. Pending the *ERC*'s issuance of a prescribed process, *DU*s may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.

- A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.

- The *CSP* requirement shall apply to *PSA*s that although executed, have not yet been filed for approval before the *ERC*.

On March 15, 2016, the *ERC* released Resolution No. 1, Series of 2016 entitled, "A Resolution Clarifying the Effectivity of *ERC* Resolution No. 13, Series of 2015". In this new Resolution, the *ERC* clarified that after judicious study and due consideration of views raised by different industry stakeholders, it has resolved that:

- The effectivity of *ERC* Resolution No. 13, Series of 2015 is hereby restated to be April 30, 2016.

- On the other forms of *CSP* referred to in Section 2 of the *ERC* Resolution No. 13, Series of 2015, these should likewise comply with the minimum terms of reference and the requirement of at least two (2) qualified bids for the *CSP* to be considered successful.

In reference to *PSA*s with provisions allowing the automatic renewal or extension of their term, *PSA*s that were previously approved by the *ERC* or filed with the *ERC* before the effectivity of this Resolution may have one (1) automatic renewal or extension for a period not exceeding one (1) year from the end of their respective terms. Upon effectivity of this Resolution, automatic renewal clauses or extension of *PSA*s shall no longer be permitted.

On November 18, 2016, *MERALCO* received a copy of the Petition dated April 28, 2016 filed by a consumer group in the *SC* against the *ERC*, *DOE*, *MERALCO*, *Central Luzon Power*, *St. Raphael*, *PEDC*, *Mariveles Power*, *A1E*, *RP Energy* and the Philippine Competition Commission which sought to declare as void Resolution No. 1, Series of 2016 and to mandate the *ERC* to disapprove all *PSA* applications for

failing to comply with the *CSP* requirement. In a Resolution dated November 16, 2016, the *SC* directed all parties to comment on the Petition. *MERALCO* has filed its comments to the Petition. In a Resolution dated June 17, 2017, the petitioners were directed to file their replies to the comments filed by respondents.

On February 9, 2018, the *DOE* published *DOE* Circular No. DC2018-02-0003, entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market". Upon effectivity of the Circular, all prospective *PSA*s in grid and off-grid areas shall be procured through *CSP*.

The *CSP* under the Circular involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

a. Generation project owned by the *DU* funded by grant or donations
b. Negotiated procurement of emergency supply
c. Provision of supply in off-grid areas prior to the entry of New Power Providers
d. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*

*PSA*s that were granted exemption from *CSP* shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). Each *CSP* shall be completed within five (5) months from the time of the publication of the Invitation to Bid until submission of the *PSA* to the *ERC*.

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

a. No proposal was received by the *DU*
b. Only one (1) generator submitted an offer
c. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document.

Within 60 days upon effectivity of the Circular, the *ERC* shall develop rules and procedures to:
(i) support the Circular, including guidelines for *TPA* accreditation and a *PSA* template, and
(ii) address disputes arising from the conduct of the *CSP*.

On April 26, 2018, the *ERC* posted in its website the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements ("*PSA*") Entered into by Distribution Utilities for the Supply of their Captive Market". *ERC* has conducted a public consultation and received comments thereon. On September 28, 2018, the *ERC* posted on its website the second draft of the said Rules. *ERC* has conducted another round of public consultations and received comments thereon. As at February 26, 2019, *MERALCO* is awaiting the rules and procedures to be promulgated by the *ERC*.

15. True-up Adjustments of Fuel and Purchased Power Costs ("TAFPPC") and Foreign Exchange-Related Costs *("TAFxA")*

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether or they were covered or not during the relevant test periods. As at February 26, 2019, The *ERC* has yet to act on the Motion.

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not applicable

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

1. Mediation with *NPC*

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

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

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

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

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

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

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

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

With the dismissal of the petition filed by the *OSG* with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at February 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

2. Sucat-Araneta-Balintawak Transmission Line

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

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City "the *Plaintiffs*", filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC. MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 *kV* line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

3. *RPT* Assessment

Several Local Government Units ("*LGU*s") 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 *LGU*s, 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 *LGU*s are pending with their respective administrative bodies or government offices.

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

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass-through cost in the light of the *SC* Decision. Hearings have been completed and *MERALCO* filed its intervention and submitted its comments. As at February 26, 2019, the Petition is pending before the *ERC*.

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

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

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DU*s that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. As at February 26, 2019, further action of the *SC* on the matter is pending.

(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.

2018 Capital Expenditure Requirements (*in millions)*

Electric capital projects	₱13,232
Non-electric projects and other capitalized items	8,055
Total capital expenditures	₱21,287

MERALCO has a management-approved capital expenditure budget of ₱21,287 million for the year ended December 31, 2018, of which about 62% 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.

Absent the release by the *ERC* of the final rules to govern the filing of its 4th *RP* Reset Application, and in anticipation of the network system requirements and possible effect of severe weather conditions after June 30, 2015, *MERALCO* filed applications for approval of authority to implement its *CAPEX* programs for *RY* 2016 (July 1, 2015 to June 30, 2016), *RY* 2017 (July 1, 2016 to June 30, 2017) and *RY* 2018 (July 1, 2017 to June 30, 2018) on February 9, 2015, March 8, 2016 and April 3, 2017, respectively.

(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 ("*SGC*s") is

₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *MPPCL,* Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGC*s.

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 26, 2019, *MERALCO*'s Manifestation and Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 26, 2019, *MERALCO* is still awaiting further action of the *SC* on the Petition.

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

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

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 26, 2019, 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. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum. As at February 26, 2019, *PSALM*'s Petition for Review is pending resolution by the *SC*.

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

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

for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2019, 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* last December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

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

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2019, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

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 tribune that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated

January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

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

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

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

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC*-Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC*-Mandaluyong issued an Order dated June 27, 2016 denying the *MR*s. *PSALM* has elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC*-Mandaluyong. As at February 26, 2019, hearings are ongoing before the new presiding judge.

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 a consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for

syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. *NASECORE*'s Motion for Partial Reconsideration was denied through an Order dated July 30, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. As at February 26, 2019, *MERALCO* is awaiting further action of the Office of the Ombusdman on the matter.

(v) Any significant elements of income or loss that did not arise from the registrant's continuing operations.

None

(vi) Any seasonal aspects that had a material effect on the financial condition or results of operations.

Seasonality of Operations and Growth Drivers

Approximately 98% of *MERALCO Group*'s operating revenues pertain to sale of electricity distributed by *MERALCO* and *CEDC*.

The electricity sales of *MERALCO* and *CEDC* 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 *CEDC*'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 years ended December 31, 2018 and 2017.

Period	2018	2017
First Quarter	10,145	9,317
Second Quarter	11,520	11,021
Third Quarter	11,256	11,063
Fourth Quarter	11,392	10,701
Total	**44,313**	**42,102**

The businesses of all other subsidiaries are not highly seasonal.

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

The Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO* Group's liquidity as at December 31, 2018.

- **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 *CEDC*, *MGen*, *MIESCOR, e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the years ended December 31, 2018 and 2017.

Financial Highlights and Ratios of Major Subsidiaries
As at and for the Years Ended December 31, 2018 and 2017
(Amounts in million pesos except for financial ratios and % change)

	CEDC			MGen			MIESCOR Group			e-MVI Group			CIS Group		
	2018	2017	% change	2018	2017	% change	2018	2017	% change	2018	2017	% change	2018	2017	% change
Percentage of ownership	65%	65%	–	100%	100%	–	65%	–	–	100%	100%	–	65%	65%	–
Condensed Statements of Financial Position															
Total assets	₱2,410	₱2,207	9	₱17,823	₱17,768	–	₱4,240	₱4,150	2	₱2,611	₱2,154	21	₱2,860	2,383	20
Current assets	1,163	1,176	(1)	7,290	7,261	–	3,417	3,331	3	1,482	1,056	40	2,727	2,258	21
Cash and cash equivalents	778	904	(14)	713	1,026	(31)	205	478	(57)	1,118	668	67	1,065	1,064	–
Equity	1,529	1,431	7	17,659	17,576	–	1,445	1,360	6	2,181	1,768	23	889	1,153	(23)
Total debt [17]	–	–	–	–	–	–	800	583	37	–	–	–	–	–	–
Current liabilities	451	393	15	107	145	(26)	2,571	2,532	2	361	328	10	1,950	1,212	61
Financial Ratios															
Debt-to-equity ratio	–	–	–	–	–	–	0.55	0.43	29	–	–	–	–	–	–
Current ratio	2.58	2.99	(14)	68.13	50.08	36	1.33	1.32	1	4.11	3.22	28	1.40	1.86	25
Condensed Statements of Income															
Revenues	2,589	2,859	(9)	–	–	–	3,662	3,824	(4)	1,301	1,074	21	1,694	1,563	8
Costs and expenses	2,462	2,644	(7)	620	676	(8)	3,571	3,704	(4)	636	563	13	1,296	1,186	9
Net income (loss)	136	210	(35)	(1,397)	(473)	195	61	77	(21)	534	386	38	284	279	2
Financial Ratios															
Profit margin	5.3%	7.3%	(28)	–	–	–	1.7%	2.0%	(17)	41.0%	35.9%	14	16.8%	17.9%	(6)
Return on equity	8.9%	14.7%	(39)	(7.9%)	(2.7%)	194	4.2%	5.7%	(25)	24.5%	21.8%	12	31.9%	24.2%	(18)
Asset turnover	1.12	1.33	(16)	–	–	–	0.87	0.95	(8)	0.55	0.55	(1)	0.65	0.80	(19)

[17] Total Debt is composed of notes payable and interest-bearing long-term financial liabilities, current and non-current portions.

ANNEX – Aging of Trade and Other Receivables

As at December 31, 2018

(Amounts in millions)

	Total	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	₱24,487	₱20,392	₱258	₱136	₱3,701
Other trade receivables	5,731	2,661	253	109	2,708
Gross trade receivables	**30,218**	**23,053**	**511**	**245**	**6,409**
Non-trade receivables	2,805	2,397	32	207	169
Total receivables	**33,023**	**25,450**	**543**	**452**	**6,578**
Allowance for doubtful accounts	(1,680)	(50)	(35)	(35)	(1,560)
Net receivables	**₱31,343**	**₱25,403**	**₱508**	**₱417**	**₱5,015**

Item 7. Financial Statements

Refer to Index to Financial Statements

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

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

External Audit Fees

The External Auditors

The shareholders of *MERALCO* has reappointed *SGV* as its external auditors for the year ended December 31, 2018 during the annual stockholders' meeting on May 29, 2018. The signing partner of *SGV* for *MERALCO* is Mr. Narciso T. Torres Jr.

(a) Audit and Audit-Related Fees

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

	2018	2017
	(Amounts in millions)	
Financial statements audit	₱8.0	₱7.7
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the *ERC*	0.5	0.5

(b) Tax Fees

Not applicable.

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

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

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

Not applicable.

(e) *If there were any disagreements as described in subparagraph (2), the registrant shall request the former accountant to furnish the registrant with a letter addressed to the Commission stating whether it agrees with the statements made by the registrant and, if not,*

stating the respects in which it does not agree. The registrant shall file the former accountant's letter as an exhibit to the report or registration statement containing this disclosure.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

As of March 29, 2019, the names of the incumbent Directors, nominees for election as directors and Executive Officers of *MERALCO* and their respective ages, citizenship, current positions, periods of service and business experiences during the past five (5) years are as follows:

MANUEL V. PANGILINAN
Filipino, 72 years old
Chairman of the Board of Directors
Chairman of the Executive Committee
Chairman, Remuneration and Leadership Development Committee
Director of Manila Electric Company since May 26, 2009

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

Membership in Board of Listed Companies:
- PLDT Inc.
- Metro Pacific Investments Corporation
- Philex Mining Corporation
- Roxas Holdings, Inc.

Membership in Board of Non-Listed Companies:
- Beacon Electric Asset Holdings Inc.
- Smart Communications, Inc.
- PLDT Communications and Energy Ventures Inc.
- Landco Pacific Corporation
- Medical Doctors, Inc.
- Colinas Verdes Corporation
- Davao Doctors Hospital
- Riverside Medical Center, Inc.
- Our Lady of Lourdes Hospital
- Asian Hospital Inc.
- Maynilad Water Services, Inc.
- Mediaquest, Inc.
- Associated Broadcasting Corporation (TV5)
- NLEX Corporation
- MERALCO PowerGen Corporation

- Philex Petroleum Corporation
- Metro Pacific Hospital Holdings, Inc.
- Makati Medical Center
- Cardinal Santos Medical Center
- Digital Telecommunications Phils. Inc.
- Digitel Mobile Philippines, Inc.

Position and Membership in Other Organizations and Corporations:

- Chairman of PLDT Inc., Smart Communications, Inc., Metro Pacific Investments Corporation, PLDT Communications and Energy Ventures Inc., Landco Pacific Corporation; Metro Pacific Hospital Holdings, Inc., Maynilad Water Services, Inc., Mediaquest, Inc., Associated Broadcasting Corporation (TV5), Makati Medical Center, Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Philex Mining Corporation, Philex Petroleum Corporation, NLEX Corporation, Digital Telecommunications Phils. Inc., Digitel Mobile Philippines, Inc. and MERALCO PowerGen Corporation
- President and Chief Executive Officer of PLDT Inc.
- Chief Executive Officer and Managing Director of First Pacific Company Limited
- Co-chairman of US-Philippines Society
- Chairman of the Board of Trustees of San Beda College, Hongkong Bayanihan Trust, Philippine Disaster Resilience Foundation, Disaster Recovery Foundation, Inc. and Philippine Business for Social Progress
- Vice Chairman of the Foundation for Crime Prevention
- Member of the Board of Overseers of The Wharton School, University of Pennsylvania
- Former Governor of the Philippine Stock Exchange

LANCE Y. GOKONGWEI
Filipino, 52 years old
Vice-Chairman of the Board of Directors
Member, Executive Committee
Member, Nomination and Governance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Remuneration and Leadership Development Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since December 16, 2013

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-listed Companies:

- JG Summit Petrochemicals Corporation
- Robinsons Bank Corporation
- Gokongwei Brothers Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

- President and Chief Operating Officer of Universal Robina Corporation
- President and Chief Executive Officer of Cebu Air, Inc. and JG Summit Holdings, Inc.
- Chairman of Universal Robina Corporation, Robinsons Land Corporation, Robinsons Bank Corporation, JG Summit Petrochecmicals Corporation, and Robinsons Retail Holdings, Inc.

JOHN L. GOKONGWEI, JR.
Filipino, 92 years old
Member, Finance Committee
Director of Manila Electric Company since March 31, 2014

Education and Training:

- Masters in Business Administration, De La Salle University
- Advanced Management Program Degree, Harvard University

Membership in Board of Listed Companies:

- JG Summit Holdings, Inc.
- Universal Robina Corporation
- Robinsons Land Corporation
- Cebu Air, Inc.
- Robinsons Retail Holdings, Inc.
- Oriental Petroleum and Minerals Corporation
- A. Soriano Corporation

Membership in Board of Non-listed Companies:

- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- United Industrial Corporation Limited

Position and Membership in Other Organizations and Corporations:

- Chairman Emeritus of JG Summit Holdings, Inc., and Chairman Emeritus and Founder of Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemicals Corporation, and JG Summit Olefins Corporation
- Chairman of Gokongwei Brothers Foundation, Inc.

OSCAR S. REYES
Filipino, 72 years old
President and Chief Executive Officer since May 29, 2012
Director of Manila Electric Company since July 1, 2010

Education and Training:
- BA Economics, Ateneo De Manila University
- Masters in Business Administration Program (completed units), Ateneo Graduate School of Business Administration
- International Management Development Program, Waterloo Lutheran University
- Program for Management Development, Harvard Business School

Membership in Board of Listed Companies:
- Manila Electric Company
- Manila Water Company
- Pepsi Cola Products Philippines Inc.
- Basic Energy Corporation
- Cosco Capital Inc.

Membership in Board of Non-listed Companies:
- PLDT Communications and Energy Ventures Inc.
- Sun Life Financial Plans, Inc.
- Sun Life Prosperity Funds
- Grepalife Asset Management Corporation
- Petrolift Corporation
- Eramen Minerals Inc.
- Asian Eye Institute
- Clark Electric Development Corporation
- MERALCO PowerGen Corporation
- Atimonan One Energy, Inc.
- Redondo Peninsula Energy Inc.
- PacificLight Power Pte Ltd.
- Meralco Industrial Engineering Services Corporation
- Meralco Energy, Inc.
- CIS Bayad Center, Inc.
- MPioneer Insurance Inc.
- MSpectrum, Inc.
- MRAIL, Inc.
- eSakay, Inc.

Position and Membership in Other Organizations and Corporations:
- Chairman of Pepsi Cola Products Philippines Inc., Atimonan One Energy, Inc., PacificLight Power Pte Ltd., Redondo Peninsula Energy Inc., CIS Bayad Center, Inc., MPioneer Insurance Inc.,
  Meralco Industrial Engineering Services Corporation, Meralco Energy, Inc., MSpectrum Inc. and MRAIL, Inc.; Co-Chairman, Meralco PowerGen Corporation
- Member of the Advisory Board of PLDT, Inc.
- Member of the Advisory Council of Bank of the Philippine Islands
- Vice Chairman of the Board of Trustees of One Meralco Foundation, Inc.

- Trustee of Pilipinas Shell Foundation, Inc., El Nido Foundation, Inc., SGV Foundation and Philippine Disaster Resilience Foundation

RAY C. ESPINOSA
Filipino, 62 years old
Chairman, Finance Committee
Director of Manila Electric Company since May 26, 2009
General Counsel

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

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

Membership in Board of Non-listed Companies:
- Smart Communications, Inc.
- Maybank Philippines, Inc.
- Mediaquest Holdings, Inc.
- Philstar Daily, Inc.
- Business World Publishing Corporation
- Cignal TV, Inc.
- First Agri Holdings Corporation
- First Coconut Manufacturing, Inc.
- Philippine Telecommunications Investment Corporation
- Metro Pacific Resources, Inc.
- Meralco PowerGen Corporation
- TV5 Network, Inc.
- AGN Philippines, Inc.
- BTF Holdings, Inc.
- Beacon Electric Asset Holdings, Inc.
- Beacon PowerGen Holdings, Inc.
- Bell Telecommunication Philippines, Inc.
- Bonifacio Communications Corp.
- Bow Arken Holding Company, Inc.
- Brightshare Holdings Corporation
- Cignal Cable Corporation
- Cinegear, Inc.
- Cobaltpoint Telecom, Inc.
- Comstech Integration Alliance, Inc.
- Connectivity Unlimited Resource Enterprise Inc.
- Dakila Cable TV Corporation
- Dominer Pointe, Inc.

- Eastern Telecommunications Philippines, Inc.
- Enterprise Investments Holdings, Inc.
- Epik Studios, Inc.
- eTelco, Inc.
- ESPI Real Estate Ventures Inc.
- Francom Holdings Inc.
- Global Business Power Corporation
- Hastings Holdings, Inc.
- Hi Frequency Telecommunications, Inc.
- JS' Publications (THE FREEMAN) Company, Inc.
- Landco Pacific Corporation
- Liberty Telecom Holdings, Inc.
- Manila Overseas Press Club
- Medical Doctors, Inc.
- Med Vision Resources, Inc.
- Media5 Marketing Corporation
- Metro Pacific Assets Holdings, Inc.
- Metro Pacific Holdings, Inc.
- Multisys Technologies Corporation
- Multi Technology Investments Holdings, Inc.
- MVP Rewards and Loyalty Solutions Inc.
- Nation Broadcasting Corp.
- New Century Telecoms, Inc.
- Pacific Aurora Plantation Corp.
- Pacific Global One Aviation Company, Inc
- Perchpoint Holdings, Inc.
- Perihelion, Inc.
- PH Broadband Networks Holdings, Inc.
- PH Communications Holdings Corporation
- Philstar Global Corporation
- Pilipinas Global Network Limited
- Pilipinas Natural Resources Holdings, Inc
- Pilipinas Pacific Enterprise Holdings, Inc.
- Pilipinas Pacific Natural Resources Holdings Inc.
- Pilipinas Pacific Telecom Holdings, Inc.
- Pilipino Star Ngayon, Inc.
- Pilipino Star Printing Company, Inc.
- PLDT Capital Pte Ltd.
- PLDT Capital Investments Pte Ltd
- PLDT Communications and Energy Ventures, Inc
- PLDT Digital Investments Pte Ltd
- PLDT Global Corporation
- PLDT Global Investments Corporation
- PLDT Global Investments Holdings Inc.
- PLDT Online Investments Pte Ltd.
- Power Smart Capital Ltd.
- Roxas Power Corporation
- Sari Sari Network Inc.
- SatVentures, Inc.

- Skyphone Logistics, Inc.
- Somete Logistics & Development Corporation
- Stargate Media Corporation (People Asia)
- Studio5, Inc.
- Takatack Malaysia SDN. BHD.
- Tahanan Mutual Building and Loan Association, Inc.
- Talas Data Intelligence Inc.
- Telecommunication Technologies Philippines, Inc.
- Telemedia Business Ventures, Inc.
- The Philippines Home Cable Holdings, Inc.
- Tori Spectrum Telecom, Inc.
- Trans Digital Excel Inc.
- Two Cassandra - CCI Conglomerate, Inc.
- Two Rivers Pacific Holdings Corporation
- Unilink Communications Corporation
- Unitel Production Inc.
- UxS Inc. (formerly Unitel Productions, Inc.)
- Upbeam Investments, Inc.
- Vega Telecom, Inc.
- Wolfpac Mobile Inc.

Position and Membership in Other Organizations and Corporations:

- Audit Committee Chairman of Lepanto Consolidated Mining Company and Chairman of the Risk Management Committee of Maybank Philippines, Inc.
- Senior Advisor to the President and Chief Executive Officer of PLDT Inc.
- Regulatory Affairs and Policy Office Head of PLDT Inc.
- Trustee of the Beneficial Trust Fund of PLDT Inc., First Pacific Leadership Academy, Inc., and the PLDT – Smart Foundation
- First Pacific Group's Head Government and Regulatory Affairs and Head Communications Bureau for the Philippines
- Member of the Integrated Bar of the Philippines, Philippine Bar Association, and Inter-Pacific Bar Association
- Executive Committee Member of LAWASIA Energy Section
- President of ESPI Real Estate Ventures Inc., BTF Holdings, Inc., First Agri Holdings Corporation, Pilipinas Natural Resources Holdings, Inc., Pilipinas Pacific Enterprise Holdings, Inc., Pilipinas Pacific Natural Resources Holdings Inc., Eastern Telecommunications Philippines, Inc. (Co-President), and Telecommunication Technologies Philippines, Inc. (Co-President)
- President and *CEO* of Mediaquest Holdings, Inc.
- Chairman and President of The Philippines Home Cable Holdings, Inc.
- Chairman of Business World Publishing Corporation, Cinegear, Inc., Comstech Integration Alliance, Inc., Hastings Holdings, Inc., Med Vision Resources, Inc., Nation Broadcasting Corp., Philstar Daily, Inc., Philstar Global Corporation, Pilipino Star Ngayon, Inc., Pilipino Star Printing Company, Inc., Stargate Media Corporation (People Asia), Studio5, Inc., Telemedia Business Ventures, Inc., Unilink Communications Corporation, Upbeam Investments, Inc., Bell Telecommunication Philippines, Inc. (Co-Chairman), Bow Arken Holding Company, Inc. (Co-Chairman), Brightshare Holdings Corporation (Co-Chairman), Cobaltpoint Telecom, Inc. (Co-Chairman), Dominer Pointe, Inc. (Co-Chairman), eTelco, Inc. (Co-Chairman), Hi

Frequency Telecommunications, Inc. (Co-Chairman), Liberty Telecom Holdings, Inc. (Co-Chairman), Multi Technology Investments Holdings, Inc. (Co-Chairman), New Century Telecoms, Inc. (Co-Chairman), Perchpoint Holdings, Inc. (Co-Chairman), PH Broadband Networks Holdings Corporation (Co-Chairman), Sari Sari Network Inc. (Co-Chairman), Skyphone Logistics, Inc. (Co-Chairman), Somete Logistics & Development Corporation (Co-Chairman),Tori Spectrum Telecom, Inc. (Co-Chairman), Two Cassandra - CCI Conglomerate, Inc. (Co-Chairman), Vega Telecom, Inc. (Co-Chairman)

- Vice Chairman of Epik Studios, Inc., Pacific Aurora Plantation Corp., Unitel Production Inc., First Coconut Manufacturing Inc., and UxS Inc.
- Corporate Secretary of Philippine Telecommunications Investment Corporation
- Assistant Corporate Secretary of Pilipinas Pacific Telecom Holdings, Inc.

JAMES L. GO
Filipino, 79 years old
Member, Executive Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Finance Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Comittee
Director of Manila Electric Company since December 16, 2013

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-listed Companies:

- JG Summit Petrochemicals Corporation
- JG Summit Olefins Corporation
- Marina Center Holdings, Inc.
- Hotel Marian City Private Limited
- Gokongwei Brothers Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

- Chairman and Chief Executive Officer of JG Summit Holdings, Inc. and Oriental Petroleum and Minerals Corporation
- Chairman of Robinsons Land Corporation, Universal Robina Corporation, JG Summit Petrochemicals Corporation and JG Summit Olefins Corporation

- Vice-Chairman and Deputy Chief Executive Officer of Robinsons Retail Holdings, Inc.
- President and Trustee of Gokongwei Brothers Foundation, Inc.

JOSE MA. K. LIM
Filipino, 66 years old
Chairman, Risk Management Committee
Member, Executive Committee
Member, Audit Committee
Member, Related Party Transactions
Member, Nomination and Governance Committee
Member, Remuneration and Leadership Development Committee
Director of Manila Electric Company since May 29, 2012

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

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

Membership in Board of Non-listed Companies:
- MERALCO Powergen Corporation
- Beacon Electric Asset Holdings, Inc.
- Global Business Power Corporation
- Maynilad Water Services, Inc.
- Metro Pacific Tollways Corporation
- NLEX Corporation
- Light Rail Manila Corporation
- AF Payments Inc.
- MetroPac Water Investment Corporation
- EasyTrip Services Corporation
- Metropac Movers Inc.
- Medical Doctors, Inc.
- Manila Medical Services Inc.
- Asian Hospital Inc.
- Our Lady of Lourdes Hospital
- Manila Doctors Hospital
- Davao Doctors Hospital
- Riverside Medical Center, Inc.
- Asian Institute of Management
- Ateneo Graduate School of Business
- Indra Philippines, Inc.
- Light Rail Manila Holdings, Inc.
- Light Rail Manila Holdings 6, Inc.
- Metro Pacific Light Rail Corporation
- AHI Hospital Holdings Corp.
- Colinas Verdes Hospital Managers Corporation
- Riverside College, Inc.
- Metro Pacific Tollways Development Corporation

- Metro Pacific Tollways North Corporation
- Metro Pacific Tollways Vizmin Corporation
- Metro Pacific Tollways South Corporation
- Beacon Powergen Holdings, Inc.
- MetroPac Iloilo Holdings Corporation
- MetroPac Iloilo Bulk Water Supply Corporation
- MetroPac Cagayan de Oro, Inc.
- MetroPac Logistics Company, Inc.
- Eco-System Technologies International, Inc.
- Maynilad Water Holding Company, Inc.
- Cagayan de Oro Bulk Water Inc.
- Collared Wren Holdings, Inc.
- MPCALA Holdings, Inc.
- Larkwing Holdings, Inc.
- CAVITEX Infrastructure Corporation
- Cebu Cordova Link Expressway Corporation

Position and Membership in Other Organizations and Corporations:

- President and Chief Executive Officer of Metro Pacific Investments Corporation
- Chairman of Davao Doctors Hospital, Asian Hospital Inc. and Riverside Medical Center, Inc.
- President and Trustee of Metro Pacific Investments Foundation Inc.
- President and Director of Beacon Electric Asset Holdings, Inc., Metro Strategic Infrastructure Holdings, MPIC-JGS Airports Holdings, Inc., and MetPower Ventures Partners Holdings, Inc.
- President and Chairman of Neo Oracle Holdings Inc.
- Director of Pacific Global One Aviation Company, Metro Vantage Properties, Inc., Surallah Biogas Ventures, Inc., and Philippine Disaster and Risk Foundation, Inc.
- Trustee of Davao Doctors College, Riverside College Inc., and Philippine Disaster Recovery Foundation
- Founding Member of the Shareholders Association of the Philippines

ARTEMIO V. PANGANIBAN
Lead Independent Director
Filipino, 82 years old
Independent Director
Chairman, Audit Committee
Member, Executive Committee
Member, Risk Management Committee
Member, Related Party Transactions Committee
Independent Director of Manila Electric Company since May 27, 2009

Education and Training:

- Associate Arts Degree, Far Eastern University
- Bachelor of Laws, Far Eastern University
- Doctor of Laws (Honoris Causa), University of Iloilo/ Far Eastern University/ University of Cebu/Angeles University/ Bulacan State University

Membership in Board of Listed Companies:

- Petron Corporation

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

Membership in Board of Non-listed Companies:
- Metro Pacific Tollways Corporation
- TeaM Energy Corporation
- Tollways Management Corporation
- Asian Hospital Inc.

Position and Membership in Other Organizations and Corporations:
- Former Chief Justice of the Supreme Court of the Philippines
- Former Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy
- Chairman of Pan Philippine Resources Corporation, Peecee Holdings Corporation, and Arpan Investment and Management, Inc.
- Independent Director of Petron Corporation, First Philippine Holdings Corporation, PLDT Inc., Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, Robinsons Land Corporation, GMA Network, Inc., GMA Holdings, Inc. and Asian Terminals, Inc.
- Member of Metrobank Foundation, Manila Metropolitan Cathedral-Basilica Foundation, Inc., Foundation for Liberty and Prosperity, Tan Yan Kee Foundation, Inc., Claudio Teehankee Foundation, Philippine Judges Foundation, and Permanent Court of Arbitration (The Hague, Netherlands)
- Senior Adviser of Metropolitan Bank and Trust Company
- Adviser of Double Dragon Properties Corp. and Bank of the Philippine Islands
- Columnist for the Philippine Daily Inquirer

PEDRO E. ROXAS
Filipino, 63 years old
Independent Director
Chairman, Nomination and Governance Committee
Chairman, Related Party Transactions Committee
Member, Finance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Remuneration and Leadership Development Committee
Independent Director of Manila Electric Company since May 25, 2010

Education and Training:
- BS Business Administration, University of Notre Dame Indiana, USA

Membership in Board of Listed Companies:
- Roxas and Company, Inc.
- Roxas Holdings, Inc.

- PLDT Inc.
- Cemex Holdings Inc.

Membership in Board of Non-listed Companies:
- Roxaco Land Corporation
- Club Punta Fuego, Inc.
- BDO Private Bank, Inc.
- Brightnote Assets Corporation
- Hawaiian Phil. Co.
- Fundacion Santiago, Inc.
- MAPFRE Insular Insurance Corporation

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

ANABELLE L. CHUA
Filipino, 58 years old
Member, Finance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since May 31, 2016

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

Membership in Board of Listed Companies:
- Philippine Stock Exchange

Membership in Board of Non-Listed Companies:
- Beacon Electric Asset Holdings, Inc.
- PLDT Communications and Energy Ventures, Inc.
- Digital Telecommunications Phils. Inc.
- ePLDT, Inc.
- Philippine Trade and Investment Center
- Voyager Innovations, Inc.
- PayMaya
- Mediaquest Holdings Inc.
- Cignal TV, Inc.
- TV5 Network, Inc.
- Philstar Daily, Inc.
- Securities Clearing Corporation of the Philippines

Position and Membership in Other Organizations and Companies

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

ELPIDIO L. IBAÑEZ
Filipino, 68 years old
Member, Finance Committee
Director of Manila Electric Company since May 29, 2018

Education and Training:

- AB Economics, Ateneo de Manila University
- Masters in Business Administration, University of the Philippines

Membership in Board of Listed Companies:

- First Philippine Holdings Corporation

Position and Membership in Other Organizations and Companies

- Board Member of the Ophthalmological Foundation of the Philippines
- Former President and Chief Operating Officer of First Philippine Holdings Corporation

Nominee for Election to the Board of Directors

Except for Ms. Oscar S. Reyes, all of the above incumbent directors have been nominated for re-election at the annual stockholders' meeting. In addition, Mr. Victorico P. Vargas has been nominated as a regular director.

Below is the qualification of Mr. Victorico P. Vargas:

VICTORICO P. VARGAS
Filipino, 67 years old

Education and Training:

- BS Psychology, University of Santo Tomas

Membership in Board of Non-Listed Companies:

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

Position and Membership in Other Organizations and Companies

- Associate Director of First Pacific Company Limited
- Head of the Business Transformation Office of the PLDT Group
- President of the Board of Trustees of First Pacific Leadership Academy
- Trustee of the MVP Sports Foundation and Ideaspace Foundation
- President of PhilPop Music Fest Foundation, Philippine Olympic Committee, and Association of Boxing Alliances in the Philippines

- Member of the Executive Committee of the Asian Boxing Confederation
- Former President and Chief Executive Officer of Maynilad Water Services, Inc.
- Former Chairman of the Philippine Basketball Association
  Former Vice Chairman of the Samahang Basketbol ng Pilipinas

Executive Officers

SIMEON KEN R. FERRER, 62, Filipino
Corporate Secretary (since May 26, 2009)
Atty. Ferrer is the Corporate Secretary of two other public companies: Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc. He is also the Corporate Secretary or Board member of various non-public companies. He is a Senior Partner and head of the Corporate Services Department at SyCip Salazar Hernandez & Gatmaitan, the Philippine Law Firm of the Year at the Chambers Asia Pacific Awards 2018. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association. A Fellow of the Institute of Corporate Directors, Atty. Ferrer is an *SEC*-accredited lecturer on corporate governance. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines and obtained his Master of Laws degree from the University of Michigan as a DeWitt Fellow.

RAY C. ESPINOSA
General Counsel
OIC, Deputy President and CEO (since January 28, 2019)
(*Refer to his profile on page 130)*

ROBERTO R. ALMAZORA, 58
Senior Vice President (since March 2009)
Head, MPower
Mr. Almazora heads MPower, the Local Retail Electricity Supply business segment of *MERALCO*. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management. Previously, he held various executive positions during his 31 years with *MERALCO* and served as Director Indra Philippines, Inc., Meralco Energy Inc., Meralco Industrial Engineering Services Corporation, Miescor Builders Inc., Miescor Logistics, Inc., Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation and Bauang Private Power Corporation. He served as President of Miescor Builders, Inc. in 2011. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of University of the Philippines. In 2011, he was granted the Professional Degree Award from Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as a resource speaker in various energy conferences and has served as an energy adviser to business groups and associations.

RONNIE L. APEROCHO, 50, Filipino
Senior Vice President (since January 1, 2017)
Head, Networks
Mr. Aperocho is a Director of Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation, Radius Telecoms, Inc., MSpectrum, Inc. and Meralco Energy, Inc. He is the Chairman of Miescor Logistics Inc. and Miescor Builders Inc. He is a member of the Board of Trustees of Meralco Power

Academy. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and has topped the 1991 Electrical Engineering Board Exams. He is a registered Professional Electrical Engineer (PEE). Mr. Aperocho holds a Master's Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology. He is also an ASEAN Chartered Professional Engineer.

ANGELITO D. BERMUDO, 59, Filipino
Senior Vice President (since December 15, 2012)
Mr. Bermudo is the President and Chief Executive Officer of Miescor Group: Meralco Industrial Engineering Services Corporation, Miescor Builders Inc. and Miescor Logistics Inc. He was the former President and Chief Executive Officer of AG&P Company of Manila. He also worked with Linde Arabian Contractors, in various key top management roles, in Marketing and Business Development, as a Senior Contracts Manager and then, as Deputy General Manager of Linde's Middle East operations. He is a licensed mechanical engineer. In 2011, he received the Outstanding Alumnus Award for Mechanical Engineering, from the University of the Philippines, College of Engineering. He holds a Masters degree in Business Management from the Asian Institute of Management.

ALFREDO S. PANLILIO, 56, Filipino
Senior Vice President (since September 2010)
Head, Customer Retail Services and Corporate Communications
Mr. Panlilio is a Director of CIS Bayad Center, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., MRAIL Inc., Miescor Industrial Engineering Services Corporation, Comstech Integration Alliance, Inc., and MSpectrum, Inc., Independent Director of Cemex Holdings Philippines, Inc.; Chairman of Radius Telecoms, Inc., e-Meralco Ventures Inc., Paragon Vertical Corporation, Powersource First Bulacan Solar, Inc. and Pure Meridian Hydropower Corporation; Vice Chairman of Aclara Meters Philippines, Inc.; Associate Board Member of Semiconductor and Electronics Industries in the Philippines, Inc. ("*SEIPI*"); Trustee of One Meralco Foundation, Inc., Meralco Power Academy, Kapampangan Development Foundation, and Philpop Musicfest Foundation, Inc.; President of Samahang Basketbol ng Pilipinas, Inc. ("*SBP*"), MVP Sports Foundation ("*MVPSF*") and Treasurer, and National Golf Association of the Philippines. He is also the Philippine Basketball Association Governor for the Meralco Bolts and a member of the Management Association of the Philippines. He has over 30 years of experience in the field of telecommunications and information systems. Prior to joining *MERALCO*, he was the President and *CEO* of *PLDT* Global based in Hong Kong. Mr. Panlilio was the 2013 *CEO* Excel Awardee of the International Association of Business Communicators ("*IABC*") Philippines; was one (1) of seven (7) Finalists in the Rising Star (Individual) category of the 2015 PLATTS Global Energy Awards held in New York City; and has received multiple local and international awards for customer management and business communication excellence. Mr. Panlilio holds a Bachelor of Science degree in Business Administration (Computer Information Systems) from the California State University – San Francisco State University and obtained his Masters in Business Administration at J. L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

ROGELIO L. SINGSON, 70, Filipino
Senior Vice President and President (since October 1, 2017)
CEO of Meralco Powergen Corporation
Mr. Singson is also the President of Atimonan One Energy, Inc. Prior to joining Meralco Powergen Corporation, Mr. Singson served as the President and Chief Executive Officer ("*CEO*") of Light Rail Manila Corporation. Mr. Singson completed a full six (6)-year term (July 2010 to June 2016) as

Secretary of the Department of Public Works and Highways ("*DPWH*") where he led the Good Governance and Anti-Corruption Program, and the implementation of major infrastructure projects nationwide. Before he was appointed as the *DPWH* Secretary in 2010, Mr. Singson was President and *CEO* of Maynilad Water Services, Inc. for three (3) years and led the successful turnaround of one of the two (2) major water concessionaires in Metro Manila. He holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines, Diliman.

BETTY C. SIY-YAP, 57, Filipino
Senior Vice President and Chief Finance Officer (since July 2009)
Chief Risk Officer
Ms. Siy-Yap is a Director of Clark Electric Distribution Corporation, CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Aclara Meters Philippines, Inc., Radius Telecoms, Inc., MPioneer Insurance Inc. (formerly Republic Surety and Insurance Company, Inc.), Indra Philippines, Inc., Redondo Peninsula Energy, Inc., Atimonan One Energy Inc., MERALCO PowerGen Corporation, MRAIL, Inc.; among others. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., and Treasurer of First Pacific Leadership Academy, Inc. and MVP Sports Foundation, Inc. She serves as Alternate Governor of the Philippine Basketball Association for the Meralco Bolts. She was previously a Director of Rockwell Land Corporation, a member of the Market Governance Board of the Philippine Dealing Exchange Corp., Vice Chairman and member of the Board of Accountancy of the Professional Regulation Commission. She was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) from 1995 to 2009. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Master's in Business Administration from J.L. Kellogg School of Management at Northwestern University/The Hong Kong University of Science and Technology.

MELANIE T. OTEYZA, 48, Filipino
First Vice President (since October 1, 2018)
Chief Audit Executive
Ms. Oteyza was a former Director of Rajawali Corpora in Indonesia handling Corporate Governance and Internal Audit. She was also previously the Ethics Committee Chairman, Audit and Risk Committee Deputy Chairman and a Member of the HR and IT Board Committees for RC Holding. In Singapore, she was appointed as the Audit Director of Singapore Telecommunications Limited Inc. ("*SingTel*") handling the international investments, joint ventures and regional mobile associates in Africa and Asia Pacific of the group. She was also the Assistant Vice President for Internal Audit of San Miguel Corporation and the Country Audit Head for National Foods Limited handling internal audit across Australia as well as other international entities in the Asia Pacific region. She was also the Audit Center Head of PLDT Inc. and an Internal Audit Executive at Digital Telecommunications Philippines Inc. She worked in various assurance and consulting companies such as Protiviti Singapore and SyCip, Gorres and Velayo (a Member Firm of Ernst & Young Global). She also served as a Board of Governor for the Singapore Institute of Internal Auditors (IIA) and Board of Director for the Philippine Institute of Internal Auditors ("*IIA*"). Ms. Oteyza holds a Bachelor of Science Degree in Commerce Major in Accounting and a Masters Degree in Business Administration at University of Santo Tomas. She also completed her Executive Management Leadership Program from the Asian Institute of Management. Ms. Oteyza is a certified public accountant with international certifications from *IIA* USA such as Certified Internal Auditor, Certification in Risk Management Assurance, Certification in Control Self Assessment and a Qualified Validator in Quality Assurance for Internal Audit.

WILLIAM S. PAMINTUAN, 57, FIlipino
First Vice President (since January 1, 2012)
Deputy General Counsel, Assistant Corporate Secretary,
Compliance Officer and Head, Legal and Corporate Governance Office
Chief Data Privacy Officer
Atty. Pamintuan is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Kalilayan Power, Inc., MPG Mauban LP Corporation, MPG Asia Ltd., Redondo Peninsula Energy, Inc., St. Raphael Power Generation Corporation, First Pacific Leadership Academy, Inc., MRAIL, Inc., and Meralco Industrial Engineering Services Corporation. He also serves as Director of Atimonan Land Ventures Development Corporation, MPG Holdings Phils., Inc., Radius Telecoms, Inc., MSpectrum, Inc., Pure Meridian Hydropower Corporation, Comstech Integration Alliance, Inc., Meridian Atlantic Light Company Ltd., PMHC Pulanai Inc., PMHC Lalawinan Inc. Aurora Managed Power Services, Inc., eSakay, Inc., MPioneer Insurance, Inc., Aclara Meters Philippines and Lighthouse Overseas Insurance Limited. He is a trustee of Meralco Pension Fund and Meralco Power Foundation, Inc. He is a former trustee of Shareholders' Association of the Philippines, Inc. He is Vice Chair of *MAP* Energy Committee. He is currently the Officer-in-Charge and Acting President of Meralco Energy, Inc. He was a former Corporate Secretary and Senior Vice President of Digital Telecommunications Philippines, Inc. and Digitel Mobile Phils., Inc.; and, General Manager of Digitel Crossing, Inc. He is a member of the UP Vanguard, Inc., Management Association of the Philippines, Integrated Bar of the Philippines and Philippine Bar Association. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

ANTONIO M. ABUEL, JR., 50, Filipino
Vice President (since January 1, 2014)
Head, Organizational Safety and Resiliency Office
Mr. Abuel has been employed in *MERALCO* for 28 years. Over the last two years, he has been leading the *MERALCO*'s Environment, Health and Safety ("*ESH*") and Business Continuity Programs. Prior to this, he had extensive work experience in Networks for 26 years which include headships of Network Planning and Project Management, North and Central Distribution Services and Subtransmission Services. Mr. Abuel has also been serving as Chairman of the *MERALCO* Kuryenteng Ligtas (KLigtas) Awards Program for the years 2017-2019. He was recently appointed as Chairman of the Institute of Integrated Electrical Engineers Electrical Safety Committee for 2019. He was elected and serves as Board of Director of Safety Organization of the Philippines and is the Director-in-Charge of its Industrial Safety Division for the years 2018-2020 as well as Board of Trustee for the Department of Energy ("*DOE*")-supported Safety and Health Association for the Power and Energy Sector ("*SHAPES*") for the years 2019-2020. He is one of *MERALCO*'s representatives in the *DOE* Task Force on Energy Resiliency ("*TEFR*") and Philippine Disaster Resiliency Foundation Power and Energy Cluster Committee. He also previously served as Trustee of the Meralco Savings and Loan Association and Meralco Employees Mutual Aid and Benefits Association, Inc. Mr. Abuel is a Professional Electrical Engineer, ASEAN Certified Professional Engineer ("*ACPE*"), Department of Labor and Employment ("*DOLE*") Accredited Occupational Safety and Health Practitioner, Bureau of Fire Accredited Fire Safety Practitioner and Fire Brigade Member Practitioner, *DENR* Pollution Control Officer. He was also an active contributor to the Professional Regulatory Commission Electrical Engineering Law Harmonization Committee Technical Working Team and *DOLE* RA 11058 *IRR* technical working group. He achieved a Pass With Merit in the Certificate of the Business Continuity Institute Examination in December 2016. He completed his academic requirements for Executive Masters in Business Administration ("*MBA*") at the Asian

Institute of Management in 2009 and earned his *MBA* units in University of Santo Tomas in years 2006-2008. He holds a Bachelor of Science degree in Electrical Engineering from the University of Santo Tomas.

IRENEO B. ACUÑA, 52, Filipino
Vice President (since January 1, 2013)
Head, Electric Distribution Development Office
Mr. Acuña heads the group which is responsible for the development of business opportunities in electricity distribution and the operations for Cavite Ecozone and Pampanga Electric Cooperative II and the development of mini-hydropower plants for Pure Meridian Hydropower Corporation ("*PMHC*"). Mr. Acuña is concurrently a Director of MIESCOR Builders, Inc., Comstech Integration Alliance Corporation, Fieldtech Specialist, Inc., Meridian Atlantic Light Company, Ltd., (Nigeria), *PMHC*, PMHC Lalawinan, Inc., PMHC Pulanai, Inc., and Meridian Power Ventures (Hong Kong). He graduated with a Bachelor of Science degree in Electrical Engineering from Far Eastern University – Institute of Engineering. He received his Masters in Business Administration from the Asian Institute of Management (with Distinction).

FERDINAND C. ALEJANDRO, 53, Filipino
Vice President (since January 1, 2015)
Head, Customer Process
Mr. Alejandro was assigned as Head of Home MicroBiz ("*HMB*") North Business Area, HMB South Business Area, Manager in Dasmarinas, Commonwealth and Sta. Maria Business Centers. He was also assigned as Head of Service Quality Assurance. He holds a Bachelor of Science degree in Electrical Engineering from Far Eastern University.

PATRICK DAVE B. BACANI, 48, Filipino
Vice President (since January 1, 2017)
Head, Performance and Rewards
Mr. Bacani has had 25 years of experience as a Human Resource ("*HR*") practitioner. Prior to joining *MERALCO*, he served as the Head of the Total Rewards for the 24/7 and Convergys, and Chevron. He also served as an HR Consultant for Change Management International and SyCip Gorres Velayo & Co.
(a Member Firm of Ernst & Young Global). He holds a degree in Management major in Human Resources Management from De La Salle University - College of St. Benilde and Masters in Business Administration from De La Salle University.

BENNETTE D. BACHOCO, 50, Filipino
Vice President (since July 7,2011)
Head, Financial Planning and Reporting
Ms. Bachoco is a Director of Miescor Builders, Inc., Customer Frontline Solutions, Inc., Inc., Meralco Financial Services Corporation and Pure Meridian Hydropower Corporation. She is also an agent of Meralco Pension Fund. Prior to joining *MERALCO*, she was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) and was a former Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation. Ms. Bachoco holds a Bachelor of Science degree in Business Administration and Accountancy degree from the University of the Philippines and a Master in Business Management from the Asian Institute of Management.

JOSEPH ALLAN C. BALTAZAR, 52, Filipino
Vice President (since January 1, 2016)
Head, Engineering Design
Mr. Baltazar is a Trustee of Meralco Employees Fund for Charity, Inc. He was a former Director and Corporate Secretary of the Grid Management Committee and a member of the Wholesale Electricity Spot Market Technical Committee under the Philippine Electricity Market Corporation. Mr. Baltazar is a registered electrical engineer and holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology.

EDGARDO V. CARASIG, 53, Filipino
Vice President (since January 1, 2013)
Head, HR and Corporate Services
Mr. Carasig is Chairman of Customer Frontline Solutions, Inc. and a Director of Miescor Builders, Inc., Miescor Logitics, Inc., MRAIL, Inc., and CIS Bayad Center, Inc. He holds a Bachelor of Science degree in Industrial Management Engineering from the De La Salle University.

BERNARD H. CASTRO, 54, Filipino
Vice President (since January 1, 2016)
Head, South Distribution Services Metering Council
Mr. Castro is a licensed electrical engineer. He was the former Central Distribution Services Head and is currently the South Distribution Head. He has been with *MERALCO* for 29 years.

BENJAMIN U. CUSI, 56, Filipino
Vice President (since January 1, 2015) and Head of Network Asset Management
Mr. Cusi is a Trustee of Meralco Employees Fund for Charity, Inc. He was a former President and Director of Meralco Employees Mutual Aid and Benefits Association. He is currently a Director of Meralco Industrial Engineering Services Corporation . He graduated with a Bachelor's Degree in Electrical Engineering from the Mapua Institute of Technology.

MA. CECILIA M. DOMINGO, 50, Filipino
Vice President (since January 1, 2019)
Head, BIZ Partners Group
Ms. Domingo is the head of Meralco BIZ Partners Group since 2015, the segment that caters to the needs of *MERALCO*'s Small and Medium Enterprises. She started in *MERALCO* as a Cadet Engineer in 1990 and has been assigned in different offices and positions within the Company. She is a registered electrical engineer who graduated from Nueva Ecija University of Science and Technology in Cabanatuan City. She holds an Executive Masters in Business Administration from the Asian Institute of Management. She presently serves as Council Leader of Capitol City Foursquare Church, a Born-Again Christian church where she and her family actively worship and serve.

LAWRENCE S. FERNANDEZ, 50, Filipino
Vice President (since January 1, 2015) and Head, Utility Economics
Mr. Fernandez received a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines and is a licensed mechanical engineer. He was a Director of the Philippine Economics Society and had served as a Director of the Energy Management Association of the Philippines (now called the Energy Efficiency Practitioners of the Philippine, or ENPAP).

FERDINAND O. GELUZ, 54, Filipino
Vice President (since January 1, 2013) and Head, Supply Chain & Logistics Management
Mr. Geluz was a former Director of Meralco Energy, Inc. He held various positions in Networks and Customer Retail Services of *MERALCO* prior to his current post. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines. He is a registered electrical engineer.

VICTOR EMMANUEL S. GENUINO, 47, Filipino
Vice President (since January 1, 2011) and Head, Corporate Business Group
Mr. Genuino is a Director of Customer Frontline Solutions, Inc., Miescor Logistics, Inc., Miescor Builders, Inc., and Radius Telecoms, Inc. He was formerly the general manager of PLDT Global Corporation – Hong Kong Office. Mr. Genuino holds a Bachelor of Arts in Interdisciplinary Studies from the Ateneo de Manila University and a Masters in Business Administration from the J.L. Kellogg School of Management, Northwestern University/ The Hong Kong University of Science and Technology.

NIXON G. HAO, 60, Filipino
Vice President (since June 2008)
Head, Energy Management (from September 1, 2005 to March 31, 2012, and since July 1, 2018)
Mr. Hao is a Director of Clark Electric Distribution Corporation. He was formerly a Director of Philippine Electricity Market Corporation and Society of Risk Management Professionals, Inc. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines. He took the GE Power System Engineering Course in Schenectady, New York and finished his Executive Masters in Business Administration proper at the Asian Institute of Management.

JOSE MARI P. MELENDRES, 58, FILIPINO
Vice President (since January 1, 2016)
Head, Sub-Transmission Services
Mr. Melendres is a Trustee of Meralco Employees Fund for Charity, Inc. Mr. Melendres holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and a Masters of Science in Electrical Engineering from the University of the Philippines.

CHARINA P. PADUA, 50, Filipino
Vice President (since January 1, 2018)
Head, Home and Micro Business - North Business Area
Ms. Padua has been the Head of Home and Micro Business for North Business Area since February 1, 2019. She served as Head of Commercial Operations of *MERALCO* since October 2012 until January 31, 2019. She holds a Bachelor of Science degree in Business Economics from the University of the Philippines and an Executive Masters in Business Administration from the Asian Institute of Management. She served as a Trustee in the Board of Meralco Savings and Loans Association from
2013-2016.

RAYMOND B. RAVELO, 41, Filipino
Vice President (since May 2011)
Head, Strategy and Business Development Office
Mr. Ravelo concurrently serves as President and Chief Executive Officer ("*CEO*") of eSakay, Inc. He is a Director of Radius Telecoms, Inc. and was its President and *CEO* from 2011 to 2016. He is also a Director of of MSpectrum, Inc. and Powersource First Bulacan Solar, Inc. Prior to joining *MERALCO*, he was part of McKinsey and Company's Washington *DC* office where he led strategy development efforts and

operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, *magna cum laude*, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

JOSE RAINIER A. REYES, 50, Filipino
Vice President (since January 1, 2013)
Mr. Reyes is the President and a Director of MSpectrum, Inc. He was formerly the head of Home-Micro Business (*"HMB*") South Business Area of *MERALCO*. He served as the Head of Sales of Globe Telecom. He holds a Bachelor of Science degree in Commerce, major in Accounting degree from the University of Santo Tomas and Masters in Management Program from the Asian Institute of Management.

JOSE S. REYES JR., 49, Filipino
Vice President (since January 1, 2018)
Head, North Distribution Services
Mr. Reyes started his career in *MERALCO* in 1991 as a Cadet Engineer. He is a registered electrical engineer by profession and holds a degree in Bachelor of Science in Electrical Engineering from the Mapúa Institute of Technology and Master of Science in Electrical Engineering from the University of the Philippines. He also completed his Management Development Program from the Asian Institute of Management with Academic Excellence award. He was a former President and presently a Trustee of the Meralco Employees Fund for Charity, Inc.

FROILAN J. SAVET, 51, Filipino
Vice President (since January 1, 2017) and Head, Network Planning and Project Management
Mr. Savet is a Director and Treasurer of the Distribution Management Committee, Inc., as well as a Senior IIEE Member and Chairman of the IIEE Professional Training and Development Committee for 2019. He holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and a Master of Science in Electrical Engineering from the University of the Philippines. He ranked second in the April 1992 Electrical Engineering Licensure Exams, and is a Professional Electrical Engineer since 2015. Lastly, he was recently registered as an ASEAN Chartered Professional Engineer last November 2018.

LIZA ROSE G. SERRANO-DIANGSON, 59, Filipino
Vice President (since January 1, 2010)
5th RP Lead for Customer Retail Services
Ms. Serrano-Diangson holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines and a Master in Management from the Asian Institute of Management. She is a Trustee (since April 2017) of Meralco Savings and Loan Association.

MA. CYNTHIA C. SOLUREN, 54, Filipino
Senior Assistant Vice President (since January 1, 2018)
Head, Treasury for Distribution Utility
Ms. Soluren is the Treasurer of Meralco Financial Services Corporation and Comstech Integration Alliance Inc. She has been a Trustee of the Meralco Savings and Loan Association Inc. ("*MESALA*") since 2013 and is the President of the *MESALA*. Ms. Soluren holds a Bachelor of Science degree in Statistics and a Masters degree in Business Administration from the University of the Philippines.

MANUEL LORENZO L. TUASON, 56, Filipino
Vice President (since January 1, 2014)
Mr. Tuason is the President and Chief Executive Officer and a Director of CIS Bayad Center, Inc. He is concurrently the President and Chief Executive Officer of Customer Frontline Solutions, Inc. and President of Corporate Information Solutions, Inc. He also serves as Chairman of Fieldtech Specialist Inc.
Mr. Tuason holds a Bachelor of Science degree in Business Administration and a Master of Business Administration from the University of the Philippines. He also took a Professional Directors Program at the Institute of Corporate Directors.

JOSE ANTONIO T. VALDEZ, 54, Filipino
Vice President (since February 2011)
Head, Marketing, Customer Solutions and Product Development
Mr. Valdez served as the Head of Business Development and Marketing of PLDT Global Corporation and Vice President for Retail Marketing of PLDT, Inc. He is a Director of Bahay Maria, a shelter for street children in Makati. Mr. Valdez obtained his Bachelor of Science degree in Management from the Ateneo de Manila University and his Masters in Business Management from the Asian Institute of Management.

JOSE RONALD V. VALLES, 48, Filipino
Vice President (since January 1, 2015)
Head, Regulatory Management Office (since July 2018)
Atty. Valles holds a Bachelor of Science degree in Commerce Major in Management of Financial Institutions degree from the De La Salle University, a Bachelor of Laws degree from San Beda College, and a Master's degree in Business Economics from University of Asia and the Pacific ("*UA&P*"). He attended the Public Utility Research Center – World Bank International Training Program on Utility Regulation and Strategy at the University of Florida and the Global Strategic Leadership Program by Wharton University of Pennsylvania and First Pacific Leadership Academy. He is currently teaching Energy Law at the *UA&P* – School of Law and Governance, Institute of Law.

MARIA ZARAH R. VILLANUEVA-CASTRO, 48, Filipino
Vice President (since January 1, 2019)
Head, Corporate Legal Services
Atty. Villanueva-Castro holds a Bachelor of Arts degree major in Political Science from the University of the Philippines-Diliman and a Bachelor of Laws degree from San Beda University. She is also the Corporate Secretary of One Meralco Foundation, Inc., Radius Telecommunications, Inc. and other subsidiaries and affiliates of *MERALCO*. She is a professor of law at the San Beda University, College of Law, where she teaches Commercial Law Review.

Term of Office

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

Attendance of Directors in Board and Committee Meetings

Below is the record of attendance of the directors in 2018:

2018 ASM and Board Meeting Attendance				
Director	Designation	May 29, 2018		Board Meetings
		Annual Stockholders' Meeting	Organizational Meeting	
Manuel V. Pangilinan[1]	Chairman	Present	Present	12/13
Lance Y. Gokongwei	Director	Present	Present	13/13
Oscar S. Reyes	Director	Present	Present	13/13
Ray C. Espinosa[2]	Director	Present	Present	12/13
James L. Go	Director	Present	Present	13/13
John L. Gokongwei Jr.	Director	Absent	Present	12/13
Anabelle L. Chua	Director	Present	Present	13/13
Jose Ma. K. Lim[3]	Director	Present	Present	13/13
Manuel M. Lopez[4]	Director	Present	Present	6/6
Elpidio L. Ibañez[5]	Director	Present	Present	7/7
Artemio V. Panganiban[6]	Independent Director	Present	Present	13/13
Pedro E. Roxas[7]	Independent Director	Present	Present	13/13

[1] Chairman of Remuneration and Leadership Development Committee
[2] Chairman of Finance Committee
[3] Chairman of Risk Management Committee
[4] End of term as Director
[5] Elected during the 2018 Annual Stockholders' Meeting
[6] Chairman of Audit Committee and Risk Management Committee
[7] Chairman of Nomination and Governance Committee and Related Party Transactions Committee

2018 Board Committee Meeting Attendance						
	Finance	**Audit**	**Risk Management**	**Related Party Transactions**	**Nomination and Governance**	**Remuneration and Leadership Development**
Manuel V. Pangilinan	n/a	n/a	n/a	n/a	n/a	4/4
Lance Y. Gokongwei	n/a	5/9	1/2	1/1	2/5	2/4
Oscar S. Reyes	n/a	n/a	n/a	n/a	n/a	n/a
Ray C. Espinosa	11/12	n/a	n/a	n/a	n/a	n/a
James L. Go	12/12	8/9	2/2	0/1	4/5	n/a
John L. Gokongwei, Jr.	12/12	n/a	n/a	n/a	n/a	n/a
Jose Ma. K. Lim	n/a	8/9	2/2	1/1	5/5	3/4
Anabelle L. Chua	12/12	9/9	2/2	1/1	5/5	n/a
Manuel M. Lopez[1]	5/5	n/a	n/a	n/a	n/a	n/a
Elpidio L. Ibañez[1]	7/7	n/a	n/a	n/a	n/a	n/a
Pedro E. Roxas[2]	10/12	9/9	2/2	1/1	5/5	4/4
Artemio V. Panganiban[2]	n/a	9/9	2/2	1/1	n/a	n/a

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

Significant Employees

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

Family Relationships

Mr. John L. Gokongwei, Jr., is the brother of Mr. James L. Go and the father of Mr. Lance Y. Gokongwei, all of whom are Directors of *MERALCO*.

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

Involvement in Certain Legal Proceedings

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

Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 22 to the consolidated financial statements as at December 31, 2018 and 2017 and for each of the three (3) years ended December 31, 2018, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO's* total outstanding shares and members of their immediate family had a material interest.

Resignation of Directors

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

Item 10. Executive Compensation

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

NAME	YEAR	SALARIES[1]	BONUS[2]	OTHER ANNUAL COMPENSATION[3]
		Amounts in Millions		
Chief Executive Officer (*CEO*) and four (4) most highly compensated executive officers[4]	Projected 2019	₱123	₱58	₱7
	2018	142	80	14
	2017	135	78	14
All other key officers, other officers and directors as a group (excluding the *CEO* and four most highly compensated executive officers)	Projected 2019	233	106	27
	2018	205	99	25
	2017	248	120	33

[1] Basic salaries and allowances.
[2] Includes government-mandated payout and variable pay
[3] Commutation of unused leave benefits.
[4] Comprised of the following: Oscar S. Reyes, President and CEO; Betty C. Siy-Yap, Senior Vice President and Chief Finance Officer; Alfredo S. Panlilio, Senior Vice President and Head of Customer Retail Services and Corporate Communications; Rogelio Singson, Senior Vice President and President and CEO, Meralco PowerGen Corporation; William S. Pamintuan, First Vice President, Deputy General Counsel, Assistant Corporate Secretary, Compliance Officer and Head, Legal and Head, Corporate Governance and Data Privacy Officer.

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

In 2018, each of the Directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each Director which was implemented beginning May 2013 as approved by the Stockholders. The Directors have the option to receive the number of shares granted of the equivalent cash value.

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

Below are the details of the remuneration paid to the directors in 2018:

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Based on *MERALCO*'s stock and transfer book, the security ownership as of March 29, 2019 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Beacon Electric Asset Holdings, Inc. 10/F MGO Bldg., Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City	Same as the record owner	Filipino	394,059,235	34.96%
Common	JG Summit Holdings, Inc. 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City	Same as the record owner	Filipino	333,189,397	26.56%
Common	Metro Pacific Investments Corporation 10/F MGO Building Legaspi corner Dela Rosa Streets, Makati City	Same as the record owner	Filipino	118,364,807	10.50%
Common	PCD Nominee Corp. 37/F Tower One Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City No relationship with Issuer	PCD Participants	Filipino and Foreign	224,912,731	19.96%

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

JG Summit Holdings, Inc. ("*JG Summit*") was incorporated in November 1990 as the holding company for a group with substantial business interests in branded consumer foods, agro-industrial and commodity food products, property development and hotel management, air transportation, petrochemicals, and international capital and financial services. In addition, *JG Summit* has business interests in other sectors, including power generation and insurance. *JG Summit* conducts its businesses throughout the Philippines, but primarily in and around Metro Manila and in the regions of Visayas and Mindanao. *JG Summit*, through its subsidiaries, also has branded foods businesses in the People's Republic of China and the ASEAN region, including an interest in a property development company in Singapore. The Chairman or in his absence, the President of *JG Summit*, or

any other representative designated by the President of *JG Summit*, is duly authorized as proxy to vote its *MERALCO* shares as he may deem proper or beneficial to *JG Summit*.

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

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

(2) Security Ownership of Management

As of March 29, 2019, the securities owned beneficially, directly or indirectly, by directors and executive officers of *MERALCO* are as follows:

Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Manuel V. Pangilinan	40,000 (Direct)	Filipino	0.00%
Common	Oscar S. Reyes	268 (Direct)	Filipino	0.00%
Common	Anabelle L. Chua	10,060 (Direct)	Filipino	0.00%
Common	Ray C. Espinosa	41,000 (Direct)	Filipino	0.00%
Common	James L. Go	5,110 (Direct)	Filipino	0.00%
Common	John L. Gokongwei, Jr.	20,810 (Direct)	Filipino	0.00%
Common	Lance Y. Gokongwei	10 (Direct)	Filipino	0.00%
Common	Jose Ma. K. Lim	40,010 (Direct)	Filipino	0.00%
Common	Elpidio L. Ibañez	10,263 (Direct)	Filipino	0.00%
Common	Artemio V. Panganiban	1 (Direct)	Filipino	0.00%

Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Pedro E. Roxas	1,000 (Direct)	Filipino	0.00%
Common	Simeon Ken R. Ferrer	767 (Direct)	Filipino	0.00%
Common	Roberto R. Almazora	93,082 (Direct)	Filipino	0.01%
Common	Ronnie L. Aperocho	14 (Direct)	Filipino	0.00%
Common	Alfredo S. Panlilio	668 (Direct)	Filipino	0.00%
Common	Angelito D. Bermudo	–	Filipino	0.00%
Common	Rogelio L. Singson	–	Filipino	0.00%
Common	Betty C. Siy-Yap	–	Filipino	0.00%
Common	Ferdinand C. Alejandro	8,952 (Direct)	Filipino	0.00%
Common	Benjamin U. Cusi	24,050 (Direct)	Filipino	0.00%
Common	Melanie T. Oteyza	–	Filipino	0.00%
Common	William S. Pamintuan	–	Filipino	0.00%
Common	Antonio M. Abuel, Jr.	10,427 (Direct)	Filipino	0.00%
Common	Ireneo B. Acuna	18,355 (Direct)	Filipino	0.00%
Common	Angelita S. Atanacio	4,000 (Direct)	Filipino	0.00%
Common	Patrick Dave B. Bacani	–	Filipino	0.00%
Common	Bennette D. Bachoco	–	Filipino	0.00%
Common	Joseph Allan C. Baltazar	–	Filipino	0.00%
Common	Edgardo V. Carasig	–	Filipino	0.00%
Common	Bernard H. Castro	463 (Direct)	Filipino	0.00%
Common	Lawrence S. Fernandez	4,500 (Direct)	Filipino	0.00%
Common	Ferdinand O. Geluz	12,877 (Direct)	Filipino	0.00%
Common	Victor Emmanuel S. Genuino	–	Filipino	0.00%
Common	Nixon G. Hao	2,791 (Direct)	Filipino	0.00%
Common	Jose Mari P. Melendres	–	Filipino	0.00%
Common	Charina P. Padua	31,609 (Direct)	Filipino	0.00%
Common	Raymond B. Ravelo	–	Filipino	0.00%
Common	Jose Rainier A. Reyes	–	Filipino	0.00%
Common	Jose S. Reyes, Jr.	8,727 (Direct)	Filipino	0.00%
Common	Froilan J. Savet	8,435 (Direct)	Filipino	0.00%
Common	Liza Rose G. Serrano-Diangson	34,393 (Direct)	Filipino	0.00%
Common	Ma. Cecilia M. Domingo	5 (Direct)	Filipino	0.00%
Common	Ma. Cynthia C. Soluren	11,575 (Direct)	Filipino	0.00%
Common	Manuel Lorenzo L. Tuason	22,180 (Direct)	Filipino	0.00%
Common	Jose Antonio T. Valdez	–	Filipino	0.00%
Common	Jose Ronald V. Valles	–	Filipino	0.00%
Common	Maria Zarah R. Villanueva-Castro	–	Filipino	0.00%

As of March 29, 2019, the securities owned beneficially by the nominees for election to the Board of Directors (“*BOD”)* are as follows:

Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Manuel V. Pangilinan	40,000 (Direct)	Filipino	0.00%
Common	Anabelle L. Chua	10,060 (Direct)	Filipino	0.00%
Common	Ray C. Espinosa	41,000 (Direct)	Filipino	0.00%
Common	James L. Go	5,110 (Direct)	Filipino	0.00%
Common	John L. Gokongwei, Jr.	20,810 (Direct)	Filipino	0.00%
Common	Lance Y. Gokongwei	10 (Direct)	Filipino	0.00%
Common	Jose Ma. K. Lim	40,010 (Direct)	Filipino	0.00%
Common	Elpidio L. Ibañez	10,263 (Direct)	Filipino	0.00%
Common	Artemio V. Panganiban	1 (Direct)	Filipino	0.00%

Common	Pedro E. Roxas	1,000 (Direct)	Filipino	0.00%
Common	Victorico P. Vargas	1,000 (Direct)	Filipino	0.00%

The aggregate number of shares owned on record by the Chief Executive Officer, Executive Officers, Directors and Nominees as of March 29, 2019 is 467,402 shares or 0.04% of MERALCO's total outstanding shares.

(3) Voting Trust Holders

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

(4) Changes in Control

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

Item 12. Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 22 to the consolidated financial statements as at December 31, 2018 and 2017 and for each of the three (3) years ended December 31, 2018, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO's* total outstanding shares and members of their immediate family had a material interest.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Compliance with Leading Practices on Corporate Governance

MERALCO, as a Philippine publicly listed company ("*PLC*"), is in full compliance with the rules and regulations of the Securities and Exchange Commission (SEC), the Philippine Stock Exchange ("*PSE*"), the Philippine Dealing & Exchange Corp. ("*PDEx*") and all other rules and regulations for the development of the Philippine capital market.

In 2018, the Company was recognized for its governance initiatives and practices:

- Received a Silver Anvil Award for the Meralco Corporate Governance Awareness Campaign
- Recognized by the Institute of Corporate Directors as one of the Top 20 Publicly Listed Companies in the Philippines vis-à-vis the ASEAN Corporate Governance Scorecard (ACGS); and
- Voted as the fourth (4th) Best Managed Companies in the Philippines and fifth (5th) Most Committed to Corporate Governance in the FinanceAsia's 2018 Asia's Best Companies Poll, among others.

Pursuant to the governance principle of transparency, *MERALCO* fully complied with the *SEC* and *PSE*'s reportorial requirements on corporate governance, including:

1. The 2018 Certification by the Compliance Officer of *MERALCO*'s full compliance with the Revised Manual of Corporate Governance. No deviations from the Manual transpired.
2. Certification of Board attendance, reports involving financial statements, disclosure of material information and events, clarifications on specific news articles concerning MERALCO, and trainings attended by Board members and key officers on corporate governance.
3. Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code ("*SRC*"), and the reporting of trading transactions of directors and concerned officers of *MERALCO* by the Compliance Officer not later than the following day after the required event or transaction. There has been no case of insider trading involving directors and management of *MERALCO*.

Annual Corporate Governance Performance Assessments

MERALCO's Performance in the field of corporate governance was assessed and found to be exemplary in the ASEAN Corporate Governance Scorecard Assessment. The ASEAN Corporate Governance Scorecard evaluates the level of *CG* practices of Philippine PLCs vis-à-vis regional and international standards and best practices. This was conducted by the Institute of Corporate Directors ("*ICD*") in cooperation with *SEC* and *PSE*.

Continuing Education for the Board and Senior Management

Corporate governance education continues with orientations and trainings for the Board and Senior Management. In fulfillment of the requirements of the Company's Revised Manual of Corporate Governance, the *ERC* Resolution No. 1, Series of 2004, *SEC* Memo Circular No. 19, Series of 2016, the directors attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on November 16, 2018.

Continuing Policy Formulation

With the creation of a Corporate Governance Office in *MERALCO* in 2010, several corporate policies and programs were implemented such as the Revised Manual of Corporate Governance, Revised Code of Ethics, Policy on Blackout Period/Restriction on Trading of Shares, Policy on Solicitation and Acceptance of Gifts, "Be Right" Open Communication (integrated whistle-blowing) Policy, Conflict of Interest, Related Party Transactions Policy, Suppliers Business Conduct, and Social Media Policy among others.

In 2018, *MERALCO* approved an **Anti-Bribery and Corruption Policy** which formalizes its stand against corrupt practices and specifies in detail the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption**.**

The Board also adopted and made available, at the option of a shareholder, an established **Alternative Dispute Resolution (ADR) mechanism** to resolve intra-corporate disputes in an amicable and effective manner as provided in the Revised Manual of Corporate Governance.

To reinforce board independence and pursuant to the recommendation under ASEAN Corporate Governance Scorecard and the SEC's Code of Corporate Governance for Publicly-Listed Companies (PLCs), the Board appointed Independent Director (ID), Ret. Chief Justice Artemio V. Panganiban, as the **Lead Independent Director**. The **Charter of the Board of Directors** was also drafted to sets the Board's purposes, authority, duties, and responsibilities, structure and procedures. The Board Charter also included the provision for guidelines on **Board Meetings through Teleconferencing and Videoconferencing**.

Following developments in governance policies and practices that are aligned with the recommendations under the Code of Corporate Governance for Publicly-Listed Companies, the Integrated Annual Corporate Governance Scorecard and the ASEAN Corporate Governance Scorecard, *MERALCO* also introduced amendments to existing policies such as the **Related Party Transactions Policy**. Amendment of the Related Party Transactions Policy was made to include the defined thresholds for disclosure and approval of RPTs and the treatment for de minimis transactions.

Corporate Governance Advocacies and Outlook

Believing that corporate governance is about shining a light through the whole organization, *MERALCO* has institutionalized the Be Right Open Communication Policy in the corporate culture, which has paved the way to an extensive good governance awareness program for its internal stakeholders. CG orientations for its new employees and roadshows for its directors, officers, employees, and suppliers are regularly held, and online CG policy information campaigns are periodically issued. *MERALCO* has also enhanced its CG compliance monitoring through a unique online HR Express Corporate Governance Facility where employees can file their annual CG commitment, conflict-of-interest disclosures and gift registry.

MERALCO is in the process of embedding *CG* policies and programs in its business responsibility unit through its line leadership as a means to make the full transition from compliance to a culture of good governance from Top Management to the ranks in the Company in pursuit of sustainability of relationships with and interests of all stakeholders.

In pursuit of further improvements in the discipline of governance, *MERALCO* is also actively involved with national and international *CG* advocates and organizations such as the *ICD*, and the Good Governance Advocates and Practitioners of the Philippines ("*GGAPP*"). *MERALCO* joined the GGAPP Forum held at the Conrad Manila on October 11, 2018 with the title: "Keeping Pace with a Dynamic Corporate Landscape." The annual forum enables regulators, advocators and publicly listed companies to tackle relevant corporate governance issues and strengthen best practices in the country.

The Company participates in best practice and knowledge-sharing events organized by *ICD* and *GGAPP* with *CG* practitioners, *BOD* and Senior Management, as unified by their *CG* principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.

For a full discussion on the Corporate Governance practices and achievements of *MERALCO,* you may go to the Company website: www.meralco.com.ph.

PART V. EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports

(a) Report on SEC Form 17-C and other Disclosure

	JANUARY 2018
JANUARY 3	• Foreign Ownership Report as of December 31, 2017
JANUARY 3	• Report on Number of Stockholders owning at least one (1) board lot as of December 31, 2017
JANUARY 3	• Initial Statement of Beneficial Ownership of Securities (SEC 23-A) – J. S. Reyes Jr.
JANUARY 3	• Initial Statement of Beneficial Ownership of Securities (SEC 23-A) – C. P. Padua
JANUARY 5	• Sec Form 17-C – Resignation of an Officer
JANUARY 5	• Sec Form 17-C – Certificate of Attendance and Certificate of Compliance with CG Manual 2017
JANUARY 10	• Public Ownership Report as of December 31, 2017
JANUARY 10	• Top 100 Stockholders as of December 31, 2017
JANUARY 10	• Clarification of News Article – "Meralco unit plans to spend P40 billion in wind projects"
JANUARY 29	• Amendments to Articles of Incorporation
JANUARY 29	• Results of Board Meeting

	FEBRUARY 2018
FEBRUARY 1	• Statement of Changes in Beneficial Ownership (SEC 23-B) – J. S. Reyes Jr.
FEBRUARY 1	• SEC Form 17-C – Appointment of Acting Chief Audit Executive
FEBRUARY 2	• Amended General Information Sheet 2017
FEBRUARY 14	• Notice of Analysts'/Investors' Briefing
FEBRUARY 26	• Results of Board Meeting/ Financial and Operating Results for the year ended December 31, 2017/Cash Dividends Declaration

	MARCH 2018
MARCH 1	• 2017 Audited Financial Statement
MARCH 6	• Foreign Ownership Report as of February 28, 2018
MARCH 6	• Report on Number of Stockholders owning at least one (1) board lot as of February 28, 2018
MARCH 6	• New Subsidiary – eSakay, Inc.
MARCH 12	• Clarification of News Article – "Meralco boosting capital expenditure to P21b in 2019"

	APRIL 2018
APRIL 4	• 2018 Preliminary Information Statement
APRIL 5	• List of Top 100 Stockholders as of March 31, 2018
APRIL 6	• Foreign Ownership Report as of March 31, 2018
APRIL 6	• Report on Number of Stockholders owning at least one (1) board lot as of March 31, 2018
APRIL 11	• Public Ownership Report as of March 31, 2018
APRIL 16	• SEC Form 17A (2017 Annual Report)
APRIL 18	• 2018 Definitive Information Statement

APRIL 30	• SEC Form 17-C Results of Board Meeting- Financial and Operations Results
APRIL 30	• Results of Board Meeting/ Financial and Operating Results for the quarter ended March 31, 2018

	MAY 2018
MAY 3	• SEC Form 17-C: Change in Date of Proxy Validation
MAY 8	• Foreign Ownership Report as of April 30, 2018
MAY 8	• Board Lots as of April 30, 2018
MAY 15	• SEC 17-Q: Quarterly Report 1Q 2018
MAY 15	• General Form for Financial Statements
MAY 24	• Clarification of News Article – "Meralco, FDC eye Ayala Coal stake"
MAY 29	• SEC 17-C – Results of the 2018 Annual Stockholders' Meeting and Organizational Meeting
MAY 29	• Statement of Changes in Beneficial Ownership (SEC 23-B) – J. L. Go
MAY 29	• SEC 17 -C – Change in Shareholdings of Directors and Principal Officers – J. L. Gokongwei Jr.
MAY 29	• Statement of Changes in Beneficial Ownership (SEC 23-B) – A. L. Chua
MAY 29	• Initial Statement of Beneficial Ownership of Securities (23-A) – E. L. Ibañez
MAY 29	• Statement of Changes in Beneficial Ownership (SEC 23-B) – R. C. Espinosa
MAY 29	• Statement of Changes in Beneficial Ownership (SEC 23-B) – M. M. Lopez
MAY 29	• Statement of Changes in Beneficial Ownership (SEC 23-B) – L. Y. Gokongwei
MAY 29	• Statement of Changes in Beneficial Ownership (SEC 23-B) – J. M. K. Lim
MAY 29	• Amendment of the Articles of Incorporation
MAY 31	• Statement of Changes in Beneficial Ownership (SEC 23-B) – J.L. Gokongwei Jr.

	JUNE 2018
JUNE 4	• SEC 17-C – Resignation of an Officer
JUNE 4	• Clarification of News Article – "Meralco expects to start Ghana operation in 2019"
JUNE 6	• Report on Number of Stockholders owning at least one (1) board lot as of May 31, 2018
JUNE 6	• Foreign Ownership as of May 31, 2018
JUNE 14	• SEC 17-C – Retirement and Promotion of Officers
JUNE 20	• 2018 General Information Sheet
JUNE 22	• SEC 17-C – Change in Designation – J. A. Baltazar
JUNE 29	• Clarification of News Article – "Meralco expects 6.5% sales growth"

	JULY 2018
JULY 5	• Report on Number of Stockholders owning at least one (1) board lot as of June 30, 2018
JULY 5	• Foreign Ownership Report as of June 30, 2018
JULY 5	• Amended 2018 General Information Sheet
JULY 12	• Public Ownership Report as of June 30, 2018
JULY 13	• Top 100 Stockholders as of June 30, 2018
JULY 16	• Notice of Analysts'/Investors' Briefing
JULY 30	• SEC 17-C - Results of Board Meeting / Financial and Operating Results for 1H 2018 / Cash Dividends Declaration

	AUGUST 2018
AUGUST 1	• Clarification of News Articles – "M.V.P. firm ready to submit proposal to develop L.N.G. terminal"; "Meralco seeks to expand footprint in Africa"
AUGUST 1	• SEC Form 17-C – Retirement of an Officer
AUGUST 7	• Report on Number of Stockholders owning at least one (1) board lot as of July 31, 2018
AUGUST 7	• Clarification of News Article – "Meralco sets add'l P4.2-B capex for DOTr railway projects"
AUGUST 7	• Foreign Ownership Report as of July 31, 2018
AUGUST 10	• Amended 2018 General Information Sheet
AUGUST 14	• SEC 17-Q: Quarterly Report 1H 2018

	SEPTEMBER 2018
SEPTEMBER 5	• Amended 2018 General Information Sheet
SEPTEMBER 5	• Foreign Ownership Report as of August 31, 2018
SEPTEMBER 5	• Report on Number of Stockholders owning at least one (1) board lot as of August 31, 2018
SEPTEMBER 12	• Advisement Letter on CG Training of Officers
SEPTEMBER 13	• Statement of Changes in Beneficial Ownership (SEC 23-B) - F. O. Geluz
SEPTEMBER 24	• SEC Form 17-C – Rank Conferment of an Officer

	OCTOBER 2018
OCTOBER 1	• Initial Statement of Beneficial Ownership of Securities (SEC 23-A) – M. T. Oteyza
OCTOBER 4	• Amended 2018 General Information Sheet
OCTOBER 10	• List of Top 100 Stockholders as of September 30, 2018
OCTOBER 12	• Public Ownership Report as of September 30, 2018
OCTOBER 15	• Advisement Letter on CG Training of an Officer
OCTOBER 17	• Notice of Analysts'/Investors' Briefing
OCTOBER 29	• SEC 17-C – Retirement of an Officer
OCTOBER 29	• SEC 17-C – Results of Board Meeting/Financial and Operating Results for 9M 2018

	NOVEMBER 2018
NOVEMBER 6	• Foreign Ownership Report as of October 31, 2018
NOVEMBER 6	• Report on Number of Stockholders owning at least one (1) board lot as of October 31, 2018
NOVEMBER 7	• Amended General Information Sheet
NOVEMBER 14	• SEC 17-Q: Quarterly Report 3Q 2018
NOVEMBER 21	• Advisement Letter on CG Training of Directors and Officers
NOVEMBER 26	• Advisement Letter on CG Training of Directors
NOVEMBER 26	• Clarification of News Article – "Meralco sees up to 5% sales growth this year"
NOVEMBER 27	• Statement of Changes in Beneficial Ownership (SEC 23-B) – L.Y.Gokongwei

	DECEMBER 2018
DECEMBER 4	• Sec 17-C - Change in Shareholdings of a Director – J.L. Go
DECEMBER 6	• Statement of Changes in Beneficial Ownership (SEC 23-B) – J.L. Go
DECEMBER 7	• Clarification of News Article - Power demand seen to surge in 2019
DECEMBER 10	• Clarification of News Article - Meralco to spend US$40M for stake in Ghana power utility
DECEMBER 11	• SEC Form 17-C – Change in Shareholdings of a Director
DECEMBER 17	• SEC Form 17-C – Promotion of Officers
DECEMBER 17	• Advisement Letter on CG Training of Officers
DECEMBER 19	• SEC Form 17-C – Change in Shareholdings of a Director
DECEMBER 27	• SEC Form 17-C – Amended Articles of Incorporation

SIGNATURES

REFER TO THE FOLLOWING PAGE

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Pasig this 11 APR 2019 day of April 2019.

By:

OSCAR S. REYES
President and CEO

BENNETTE D. BACHOCO
Vice President and Head,
Financial Planning and Reporting

MA. CYNTHIA C. SOLUREN
Senior Assistant Vice President,
Interim Treasurer
Head, Investment and Debt Management

WILLIAM S. PAMINTUAN
First Vice President
Assistant Corporate Secretary &
Compliance Officer

SUBSCRIBED AND SWORN to before me this 11 APR 2019 day of April 2019 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Oscar S. Reyes	[redacted]
Ma. Cynthia C. Soluren	
Bennette D. Bachoco	
William S. Pamintuan	

Doc. No. 193;
Page No. 40;
Book No. VI;
Series of 2019.

ATTY. GABRIEL ALFONSO C. ENRIQ...
Notary Public
Pasig, San Juan and Pateros
Issued on January 3, 2018 at Pasig City
Appointment No. 71(2018-2019)
Roll No. 64589/IBP No. 060139/1-9-19 RSM Chapter
PTR No. 5312073/1-21-19 Pasig City
MCLE VI-0000259-07/11/16
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

MANILA ELECTRIC COMPANY
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

- Statement of Management's Responsibility for Consolidated Financial Statements
- Report of Independent Auditors
- Consolidated Statement of Financial Position as at December 31, 2018 (With Comparative Figures as at December 31, 2017)
- Consolidated Statement of Income for the Year Ended December 31, 2018 (With Comparative Figures for the Years Ended December 31, 2017 and 2016)
- Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2018 (With Comparative Figures for the Years Ended December 31, 2017 and 2016)
- Consolidated Statement of Changes in Equity for the Year Ended December 31, 2018 (With Comparative Figures for the Years Ended December 31, 2017 and 2016)
- Consolidated Statement of Cash Flows for the Year Ended December 31, 2018 (With Comparative Figures for the Years Ended December 31, 2017 and 2016)
- Notes to Consolidated Financial Statements
- Supplementary Schedules
    - Report of Independent Auditors on Supplementary Schedules
    - Schedule A. Financial Assets*
    - Schedule B. Amounts Receivable From Directors, Officers, Employees Related Parties and Principal Stockholders (Other than Related Parties)*
    - Schedule C. Amounts Receivable From Related Parties which are Eliminated during the Consolidation of Financial Statements
    - Schedule D. The Movement of Intangible Assets - Other Assets
    - Schedule E. Long-term Debt
    - Schedule F. Indebtedness to Related Parties*
    - Schedule G. Guarantees of Securities of Other Issuers*
    - Schedule H. Capital Stock
    - Schedule I. List of Effective Standards and Interpretations
    - Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
    - Schedule K. Map Showing the Relationships among the Companies within the Group
    - Financial Soundness Indicators
- Parent Company Financial Statements

**These schedules have been omitted because they are either not applicable or schedule is in the Consolidated Financial Statements.*

MERALCO

ORTIGAS AVENUE, PASIG CITY
0300 PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

MANUEL V. PANGILINAN
Chairman of the Board

OSCAR S. REYES
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this 18 MAR 2019 day of _____ 2019 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	**Tax Identification Number**
Manuel V. Pangilinan	[redacted]
Oscar S. Reyes	
Betty C. Siy-Yap	

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

Doc. No. 435;
Page No. 88;
Book No. XX;
Series of 2019.

ATTY. CORNELIO [illegible] III C. [illegible]
Notary Public
Pasig San Juan and Pateros
Issued on June 3, 2018 in Pasig City
Appointment No. 64 (2018-2019)
Roll No. 45053/IBP No. 060127/01-3-19 RSM Chapt
PTR No. 5312081/01-21-19 Pasig City
MCLE VI-0000232-07/11/16
8th Floor Lopez Bldg. Ortigas

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	1	0	2							

Company Name

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

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

LOPEZ BUILDING, ORTIGAS AVENUE PASIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
N/A	6312222/ 16220	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
42,687	Last Tuesday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. William Pamintuan	wspamintuan@meralco.com.ph	632-8014	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.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

Opinion

We have audited the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including those in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

BUREAU OF INTERNAL REVENUE
APR 15 2019

Revenue recognition

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

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

Audit response

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

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

Retirement and other long-term post-employee benefits

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

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019

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

Audit response

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

Provisions and contingencies

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

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

Audit response

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

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

Other Information

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

BUREAU OF INTERNAL REVENUE
APR 15 2019

SGV
Building a better working world

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our

RECEIVED
APR 15 2019

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

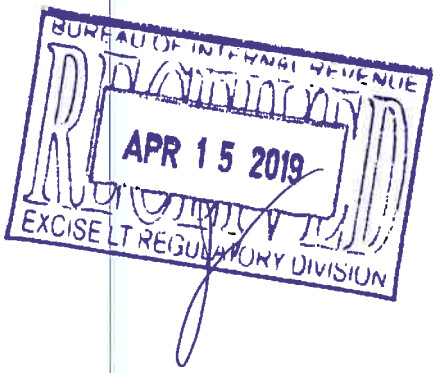
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law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

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

SYCIP GORRES VELAYO & CO.

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

February 26, 2019



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	2017
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	*7 and 10*	₱139,846	₱133,874
Investments in associates and interests in joint ventures	*8 and 22*	11,313	11,446
Investment properties	*9*	1,502	1,509
Deferred tax assets - net	*27*	18,800	16,146
Other noncurrent assets	*2, 10, 14, 23, 26, 28 and 29*	49,446	41,948
Total Noncurrent Assets		220,907	204,923
Current Assets			
Cash and cash equivalents	*11, 24 and 26*	36,471	45,937
Trade and other receivables	*12, 23 and 26*	31,343	26,288
Inventories	*13 and 24*	3,812	3,330
Other current assets	*10, 14, 22 and 26*	43,718	22,877
Total Current Assets		115,344	98,432
Total Assets		₱336,251	₱303,355
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	*15*	₱11,273	₱11,273
Additional paid-in capital		4,111	4,111
Equity reserve		(116)	(126)
Employee stock purchase plan	*15*	1,049	1,049
Unrealized fair value losses on fair value through other comprehensive income ("*FVOCI*") financial assets	*10*	(295)	(160)
Remeasurement adjustments on retirement and other post-employment liabilities	*25*	3,535	2,329
Share in remeasurement adjustments on associates' retirement liabilities	*8*	(10)	(10)
Cumulative translation adjustments of associates	*8*	551	1,150
Cumulative translation adjustments of subsidiaries		33	25
Treasury shares	*15*	(11)	(11)
Retained earnings	*15*	61,922	53,980
Equity Attributable to Equity Holders of the Parent		82,042	73,610
Non-controlling Interests		845	822
Total Equity		82,887	74,432

(Forward)

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

	Note	December 31 2018	2017
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*16, 24 and 26*	**₱24,745**	₱24,786
Customers' deposits - net of current portion	*17, 21 and 26*	**27,024**	24,000
Long-term employee benefits	*25*	**1,980**	4,559
Provisions	*18, 21 and 28*	**17,442**	18,456
Refundable service extension costs - net of current portion	*21 and 26*	**6,170**	6,012
Deferred tax liabilities - net	*27*	**67**	52
Other noncurrent liabilities	*2, 5, 7, 23 and 28*	**60,419**	45,219
Total Noncurrent Liabilities		**137,847**	123,084
Current Liabilities			
Notes payable	*20, 24 and 26*	**13,428**	13,586
Trade payables and other current liabilities	*15, 16, 17, 18, 21, 22, 23, 26 and 28*	**90,456**	83,950
Customers' refund	*2, 19 and 26*	**4,359**	4,603
Current portion of long-term employee benefits	*25*	**3,463**	–
Income tax payable		**1,968**	1,816
Current portion of interest-bearing long-term financial liabilities	*16, 24 and 26*	**1,843**	1,884
Total Current Liabilities		**115,517**	105,839
Total Liabilities		**253,364**	228,923
Total Liabilities and Equity		**₱336,251**	₱303,355

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

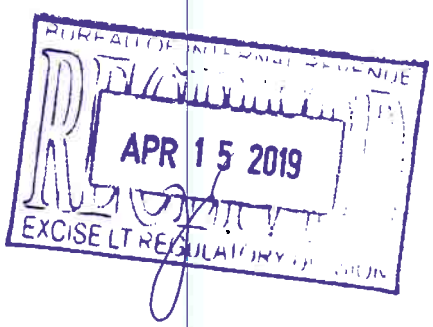
See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE REGULATORY DIVISION

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

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

(Forward)

	Equity Attributable to Equity Holders of the Parent														
	Common Stock (Note 15)	Additional Paid-in Capital	Equity Reserve (Note 3)	Employee Stock Purchase Plan (Note 15)	Unrealized Fair Value Gains (Losses) on *FVOCI* Financial Assets (Note 10)	Remeasure-ment Adjustments on Retirement and Other Post-Employment Liabilities (Note 25)	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 15)	Appropriated Retained Earnings (Note 15)	Unappro-priated Retained Earnings (Note 15)	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests (Note 6)	Total Equity
	(Amounts in millions)														
At January 1, 2016	₱11,273	₱4,111	(₱328)	₱1,049	₱102	₱935	(₱12)	(₱86)	₱14	(₱11)	₱11,000	₱52,229	₱80,276	₱585	₱80,861
Net income	–	–	–	–	–	–	–	–	–	–	–	19,176	19,176	164	19,340
Other comprehensive income (loss)	–	–	–	–	(373)	2,449	–	1,150	7	–	–	–	3,233	–	3,233
Total comprehensive income (loss)	–	–	–	–	(373)	2,449	–	1,150	7	–	–	19,176	22,409	164	22,573
Dividends	–	–	–	–	–	–	–	–	–	–	–	(28,268)	(28,268)	(20)	(28,288)
Reversal of appropriation	–	–	–	–	–	–	–	–	–	–	(11,000)	11,000	–	–	–
	–	–	–	–	–	–	–	–	–	–	(11,000)	(17,268)	(28,268)	(20)	(28,288)
At December 31, 2016	₱11,273	₱4,111	(₱328)	₱1,049	(₱271)	₱3,384	(₱12)	₱1,064	₱21	(₱11)	₱–	₱54,137	₱74,417	₱729	₱75,146

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

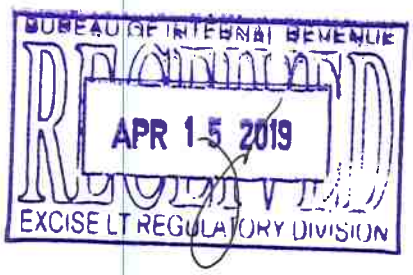
	Note	Years Ended December 31 2018	2017	2016
			(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱30,545**	₱27,862	₱26,693
Adjustments for:				
Provision for probable losses and expenses from claims - net	*2, 23 and 28*	**9,795**	6,959	8,691
Depreciation and amortization	*7, 9 and 10*	**7,827**	7,520	7,312
Interest and other financial income	*24*	**(2,831)**	(2,188)	(2,080)
Interest and other financial charges	*24*	**2,033**	1,530	1,343
Equity in net losses (earnings) of associates and joint ventures	*8*	**725**	(221)	1,677
Others		**(741)**	868	(306)
Operating income before working capital changes		**47,353**	42,330	43,330
Increase in:				
Trade and other receivables		**(8,161)**	(3,864)	(2,212)
Inventories		**(482)**	(538)	(519)
Other current assets		**(113)**	(3,847)	(326)
Increase (decrease) in:				
Trade payables and other current liabilities		**11,300**	(2,012)	1,423
Customers' deposits		**2,525**	3,953	3,786
Customers' refund		**(244)**	(385)	(562)
Long-term employee benefits		**(1,662)**	2,151	(2,153)
Cash generated from operations		**50,516**	37,788	42,767
Income tax paid		**(10,370)**	(9,403)	(7,416)
Net cash flows provided by operating activities		**40,146**	28,385	35,351
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Short-term investments	*14*	**(19,337)**	–	–
Utility plant and others	*7*	**(12,997)**	(11,808)	(10,807)
Debt securities at amortized cost	*10*	**(12,114)**	(1,515)	(9,819)
Financial assets at *FVOCI*	*10*	**(10,017)**	(25,326)	(74,665)
Investments in associates and interests in joint ventures	*8*	**(1,667)**	(857)	(1,398)
Intangible assets	*10*	**(435)**	(158)	(587)
Proceeds from sale of:				
Financial assets at *FVOCI*		**10,056**	31,249	65,711
Debt securities at amortized cost		**9,098**	1,466	4,067
Interest and other financial income received		**2,570**	2,201	831
Dividends received from associates		**476**	473	491
Proceeds from disposal of utility plant and others		**345**	210	456
Proceeds from disposal of interest in an associate		**–**	–	3,151
Decrease in minority interest		**(62)**	(28)	(20)
Decrease in other noncurrent assets		**(1,670)**	(6,465)	(372)
Net cash used in investing activities		**(35,754)**	(10,558)	(22,961)

(Forward)

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

	Note	Years Ended December 31 2018	2017	2016
		(Amounts in millions)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of notes payable	*20*	**₱2,229**	₱4,705	₱11,907
Availment of interest-bearing long-term financial liabilities	*16*	**350**	600	–
Disposal of non-controlling interest	*3*	**10**	202	–
Payments of:				
Dividends	*15*	**(14,557)**	(19,843)	(28,114)
Notes payable		**(2,419)**	(2,593)	(1,475)
Interest and other financial charges		**(1,563)**	(1,387)	(1,256)
Interest-bearing long-term financial liabilities	*16*	**(424)**	(2,827)	(417)
Increase in other noncurrent liabilities		**2,516**	2,597	2,781
Net cash used in financing activities		**(13,858)**	(18,546)	(16,574)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(9,466)**	(719)	(4,184)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**45,937**	46,656	50,840
CASH AND CASH EQUIVALENTS AT END OF YEAR	*11*	**₱36,471**	₱45,937	₱46,656

See accompanying Notes to Consolidated Financial Statements.



1. Corporate Information

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

The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, Clark Electric Distribution Corporation ("*CEDC*"). *CEDC* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and Meralco Industrial Engineering Services Corporation ("*MIESCOR*") dated February 19, 1997.

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

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

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

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

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

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

The consolidated financial statements were approved and authorized for issue by the *BOD* on February 26, 2019.

2. Rate Regulations

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

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

Performance-Based Regulations ("*PBR*")

MERALCO

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

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

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years ("*RYs*"). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The 4th *RP* for Group A *DU*s began on July 1, 2015 and shall end on June 30, 2019.

Maximum Average Price ("MAP") for the 3rd RP

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

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

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

4th RP Reset Application

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

In a Notice dated November 16, 2016, the *ERC* approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Handbook*") for posting in its website. All interested parties were asked to submit their respective comments to the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group's Petition as referred in the foregoing has been resolved. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*'s Omnibus Motion.

Interim Average Rate beginning RY 2016

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

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

CAPEX for 4th RP

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

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

5th RP Reset Application

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

CEDC

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

shall end on September 30, 2019. *CEDC* is to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its 3rd *RP* reset application.

3rd RP PBR Reset for CEDC

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

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

SC Decision on Unbundling Rate Case

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

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

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

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

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

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

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DU*s that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. As at February 26, 2019, further action of the *SC* on the matter is pending.

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

MERALCO

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

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

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

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

On March 31, 2017, *MERALCO* filed its application with the *ERC* to confirm its net generation charge over-recoveries of ₱4,919 million, net transmission charge over-recoveries of ₱632 million, net lifeline subsidy over-recoveries of ₱131 million, net *SL* over-recoveries of ₱1,243 million, net

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

CEDC

CEDC filed its application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 in conformity with the said resolutions. Public hearing was held on June 17, 2014 and the *ERC* decision was received by *CEDC* on January 13, 2017. On January 30, 2017, *CEDC* filed a *MR* on the decision of the *ERC*. As at February 26, 2019, the *MR* is pending decision by the *ERC*.

On March 31, 2017, *CEDC* filed with the *ERC* its second application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014, 2015 and 2016. Public hearing was held on October 25, 2017. As at February 26, 2019, the Decision of the *ERC* is pending.

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

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

Application for the Recovery of Differential Generation Costs

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

Deferred Purchase Price Adjustment ("*Deferred PPA*")

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

Applications for Recovery of LFT

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

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

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

City	Date of filing	Status
City of Binan	October 19, 2017	Application for a provisional authority to recover the new *LFT* at the rate of 75% of 1% beginning on the date of effectivity thereof, or on January 1, 2017 and to recover the differential *LFT* and carrying cost from the customers. Hearings have been completed and *MERALCO* filed its *FOE* on August 30, 2018. As at February 26, 2019, *MERALCO* is awaiting the final decision of the *ERC*.
Cities of Makati and Sta. Rosa, Laguna	March 23, 2006	Application to implement and recover the new *LFT* rate of 50% of 1%. In a Decision dated June 30, 2008, the *ERC* approved the application with modification. On September 11, 2008, *MERALCO* filed a Motion for Partial Reconsideration. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Partial Reconsideration. The *ERC* has yet to act on *MERALCO*'s Motion.
City of Valenzuela	June 23, 2004	Application to recover and implement the *LFT* rate of 75% of 1%. On March 31, 2005, *MERALCO* received a copy of the Decision dated March 1, 2005, approving the application with modification. *MERALCO* filed a Motion for Clarification dated April 8, 2005. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Clarification. The *ERC* has yet to act on *MERALCO*'s Motion.
City of Taguig	January 16, 2008	Application to recover and implement the *LFT* rate of 50% of 1%. On September 1, 2008, MERALCO received a copy of the Decision dated June 30, 2008, approving the application with modification. MERALCO filed a Motion for Partial Reconsideration on September 11, 2008. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Partial Reconsideration. The *ERC* has yet to act on *MERALCO*'s Motion.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 19, 2018, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers.

See Note 19 – Customers' Refund.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost and fair value through other comprehensive income ("*FVOCI*") financial assets, which are measured at fair value.

All values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of *MERALCO* and its subsidiaries have been prepared in compliance with Philippine Financial Reporting Standards ("*PFRSs*").

Basis of Consolidation

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

Subsidiaries	Place of Incorporation	Principal Business Activity	2018 Percentage of Ownership		2017 Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. ("*CIS*")	Philippines	e-Transactions	100	–	100	–
Customer Frontline Solutions, Inc. ("*CFSI*")	Philippines	Tellering services	–	100	–	100
CIS Bayad Center, Inc. ("*Bayad Center*")	Philippines	Bills payment collection	–	95	–	95
Fieldtech Specialist, Inc. ("*Fieldtech*")	Philippines	Bills payment collection	–	51	–	51
Meralco Energy, Inc. ("*MServ*")	Philippines	Energy systems management	100	–	100	–
Aurora Managed Power Services, Inc. ("*AMPSI*")[1]	Philippines	Energy systems management	–	60	–	60
eMeralco Ventures, Inc. ("*e-MVI*")	Philippines	e-Business development	100	–	100	–
Paragon Vertical Corporation ("*Paragon*")	Philippines	Information technology *("IT")* and multi-media services	–	100	–	100
Radius Telecoms, Inc. ("*Radius*")	Philippines	*IT* and multi-media services	–	100	–	100
MGen	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation[1]	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. ("*A1E*")[2]	Philippines	Power generation	–	100	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	–	100	–	100
MPG Asia Limited ("*MPG Asia*")	British Virgin Islands	Holding company	–	100	–	100
Solvre, Inc.[1]	Philippines	Retail electricity supplier	–	100	–	100
Spectrum	Philippines	Renewable energy	100	–	100	–
Vantage	Philippines	Retail electricity supplier	100	–	100	–
Meralco Financial Services Corporation ("*Finserve*")	Philippines	Financial services provider	100	–	100	–
Lighthouse Overseas Insurance Limited ("*LOIL*")	Bermuda	Insurance	100	–	100	–
MRAIL, Inc. ("*MRail*")	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
(Forward)						
Meridian Atlantic Light Company Limited[1]	Nigeria	Management of power distribution	100	–	100	–
eSakay, Inc. ("*eSakay*")[3]	Philippines	Maintenance and operation of transport service networks	100	–	–	–
Meridian Power Ventures Limited ("*MPV Limited*")[4]	Hongkong	Investment holdings	100	–	–	–
MIESCOR	Philippines	Engineering, construction and consulting services	99	–	99	–
Miescor Builders Inc. ("*MBI*")	Philippines	Electric transmission and distribution operation and maintenance services	–	99	–	99
Miescor Logistics Inc. ("*MLI*")	Philippines	General services, manpower/maintenance	–	99	–	99

(Forward)

Subsidiaries	Place of Incorporation	Principal Business Activity	2018		2017	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
CEDC	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. ("*Clarion*") [1]	Philippines	Retail electricity supplier	–	65	–	65
Comstech	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc. [1]	Philippines	Retail electricity supplier	–	60	–	60

[1] *Has not started commercial operations as at December 31, 2018.*
[2] *In development stage as at December 31, 2018.*
[3] *Incorporated on March 1, 2018 and started commercial operations in June 2018.*
[4] *Incorporated in June 6, 2018 and has not started commercial opearations as at December 31, 2018.*

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

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

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

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

Non-controlling interests represent the portion of profit or loss and net assets in *MIESCOR* and subsidiaries, *CEDC* and subsidiary, *Comstech* and subsidiary, *AMPSI, Fieldtech* and *Bayad Center* not held by *MERALCO* and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

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

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

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

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2018.

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

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

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

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

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

PFRS 9, Financial Instruments

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

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

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

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

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

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

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

- Cash and cash equivalents, trade and other receivables, short-term investments and advances to a supplier previously classified as loans and receivables are hold-to-collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost.
- Investments in government and private debt securities previously classified as held-to-maturity ("*HTM*") financial assets are hold-to-collect contractual cash flows and are now classified as financial assets at amortized cost.
- Quoted debt instruments previously classified as available-for-sale ("*AFS*") financial assets are now classified and measured as financial assets at *FVOCI* with recycling. The *MERALCO Group* expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.
- Equity investments in non-listed companies previously classified as *AFS* financial assets are now classified and measured as financial assets at *FVOCI* without recycling. The *MERALCO Group* elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss for these investments in prior years.
- Listed equity investments previously classified as *AFS* financial assets are now classified and measured as financial assets at *FVOCI*.

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

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

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

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

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

PFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future Changes in Accounting Policies and Disclosures

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

Effective Beginning on or after January 1, 2019

Amendments to PFRS 9, Prepayment Features with Negative Compensation

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

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

PFRS 16, Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

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

The interpretation specifically addresses the following:

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

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

Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

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

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

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

comprehensive income or equity according to where the entity originally recognized those past transactions or events.

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

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

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

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

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

Effective beginning on or after January 1, 2020

Amendments to PFRS 3, Definition of a Business

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

PFRS 17, Insurance Contracts

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

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

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

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

Deferred Effectivity

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

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

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

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

Significant Accounting Policies

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

Utility Plant and Others

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

properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

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

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

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

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

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Investments in Associates and Interests in Joint Ventures

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

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

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

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

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

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

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

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

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

part of equity in net earnings of an associate or a joint venture in the consolidated statement of income.

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

Business Combinations and Goodwill

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

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition

date, allocated to each of the cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, beginning on the acquisition date.

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

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

Investment Properties

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the *MERALCO Group*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The *MERALCO Group* uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

i. Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
ii. Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
iii. Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the *MERALCO Group* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, the *MERALCO Group* has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Impairment of Nonfinancial Assets

The *MERALCO Group* assesses at each reporting year whether there is an indication that a nonfinancial asset (utility plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue ("*BIR*") other than goodwill and intangible assets with indefinite useful life, may be impaired. If any such indication exists, the *MERALCO Group* makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an individual asset's or a cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm's-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

APR 15 2019

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement (Applicable starting January 1, 2018 upon adoption of PFRS 9)

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss.

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

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

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

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

Subsequent Measurement

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at *FVOCI* with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at *FVOCI* with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value thorugh profit or loss (*"FVPL"*)

Financial assets at amortized cost (debt instruments)

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

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

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

Financial assets at FVOCI (debt instruments)

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

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

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

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32, Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

The *MERALCO Group* elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the *MERALCO Group*'s consolidated statement of financial position) when:

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

When the *MERALCO Group* has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the *MERALCO Group* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the *MERALCO Group* has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

Impairment of Financial Assets

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

ECLs are measured in a way that reflects the following:

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

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

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

For trade receivables and contract assets, the *MERALCO Group* applies a simplified approach in calculating *ECLs*. Therefore, the *MERALCO Group* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. The *MERALCO Group* has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

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

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

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

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

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

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

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

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent Measurement

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX REGULATORY UNIT

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of

a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of Financial Instruments

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

Redeemable Preferred Stock

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

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

Financial Assets

Initial Recognition

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

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

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

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

Subsequent Measurement

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

Financial Assets at FVPL

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

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

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

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

Loans and Receivables

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

HTM Investments

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

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as *AFS* or are not classified in any of the three (3) foregoing categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, *AFS* financial assets are measured at fair value with unrealized gains or losses recognized in *OCI* until the investment is derecognized, at which time the cumulative gain or loss recorded in *OCI* is recognized in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss recorded in *OCI* is recognized in the consolidated statement of income. Interest earned from *AFS* debt securities is included under "Interest and other financial income" account in the consolidated

statement of income. Dividends earned from *AFS* equity are likewise recognized in the consolidated statement of income under "Interest and other financial income" account when the right to receive payment has been established. These are included under noncurrent assets unless there is an intention to dispose of the investment within 12 months from the reporting date.

Financial Liabilities

Initial Recognition

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

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

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

Subsequent Measurement

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

Financial Liabilities at FVPL

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

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

Other Financial Liabilities

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

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

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

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

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

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

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

Offsetting of Financial Instruments

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

Amortized Cost of Financial Instruments

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

'Day 1' Profit or Loss

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

derecognized. For each transaction, the *MERALCO Group* determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the *MERALCO Group* first assesses whether objective evidence of impairment exists individually. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment based on historical loss experience. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. *MERALCO* and *CEDC* consider termination or disconnection of service and significant financial difficulties of debtors as objective evidence that a financial asset or group of financial assets is impaired. For both specific and collective assessments, any deposits, collateral and credit enhancement are considered in determining the amount of impairment loss.

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

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

APR 15 2019
EXAMINATION REGULATORY DIVISION

AFS Financial Assets

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

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

Assets Carried at Cost

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

Derecognition of Financial Instruments

Financial Assets

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

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

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

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

Financial Liabilities

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

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

Inventories

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

Prepayments

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

VAT

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

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

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

Provisions

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

Retirement Benefits

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

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

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

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

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

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

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

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

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

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

Termination Benefits

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

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

Employee Leave Entitlements

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

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

Long-term Incentive Plan

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

Equity

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

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

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

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

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

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

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

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

Revenue Recognition

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

Beginning January 1, 2018, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the *MERALCO Group* expects to be entitled in exchange for those goods or services. The *MERALCO Group* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO Group* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

Sale of Electricity

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

Sale of Services

Beginning January 1, 2018, the *MERALCO Group* recognizes revenue from construction contracts over time on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract (output method). Progress is measured based on the monthly project accomplishment which integrates the performance to date of the construction activities.

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

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

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

Service and consulting fees are recognized when services are rendered.

Interest Income

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

Lease Income

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

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

Receivables

Receivable represents the *MERALCO Group*'s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

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

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

Contract Liabilities

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

The following are considered as contract liabilities:

Assets Funded by Customers

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

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX REGULATORY DIVISION

Net Over-recoveries of Pass-through Charges

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

Cost and Expense Recognition

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

Beginning January 1, 2018, *MERALCO Group* recognizes contract costs relating to satisfied performance obligations as these are incurred. Contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. Project mobilization costs and incremental costs of obtaining a contract with a customer are recognized as an asset if the *MERALCO Group* expects to recover them and the contract term is for more than one year. The project mobilization costs and costs of obtaining a contract is amortized over the expected construction period following the pattern of revenue recognition. Costs incurred prior to obtaining a contract with a customer are not capitalized but are expensed as incurred. Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single construction contract.

Prior to January 1, 2018, contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single contruction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated cost and gross margins are recognized in the year in which the changes are determined.

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

Leases

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

Company as Lessee

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

Company as Lessor

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

Foreign Currency-Denominated Transactions and Translations

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

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

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

As at the reporting date, the monetary assets and liabilities of subsidiaries, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting date, and income and expenses are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of *OCI* as cumulative translation adjustments. On the disposal of a subsidiary, the amount of cumulative translation adjustments recognized in *OCI* is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Earnings per Share

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

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

Contingencies

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

Events After the Reporting Date

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

5. Significant Judgments, Accounting Estimates and Assumptions

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

Judgments

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

Determination of Functional Currency

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

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

Operating Lease Commitments

As Lessor

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

Principal Vs. Agent

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

Revenue from sale of electricity requires *MERALCO* and *CEDC* to bill customers based various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPA*s and *PSA*s. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of judgment. The difference

between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC* Resolution No. 16, *A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.*

Moreover, *MERALCO* and *CEDC* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the period when the services are expected to be provided.

Arrangement that Contains a Lease

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

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

See *Note 23 – Purchased Power.*

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

MERALCO, through *MGen*, has a 51% interest in San Buenaventura Power Ltd. Co. ("*SBPL*"). While *MERALCO* owns majority of the voting rights in *SBPL*, it does not have sole control of *SBPL*. *MERALCO's* investment in *SBPL* is accounted for as a joint venture since key operating and financial decisions of *SBPL* require the unanimous vote and consent of the parties sharing control.

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

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

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

Contingencies

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

See *Note 28 – Contingencies and Legal Proceedings*.

Estimates and Assumptions

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

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

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

Realizability of Deferred Income Tax Assets

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

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting year. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the recorded or recognized deferred tax assets to be utilized. The amounts of the deferred income tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred income tax assets:

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

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

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

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

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

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

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

To measure the expected credit losses, trade and other receivables and contract assets have been grouped based on share credit risk characteristics and the days past due. The contract assets relate to unbilled receivables and under-recoveries of pass-through charges and have substantially the same

risk characteristics as the trade and other receivables. The *MERALCO Group* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the collection profiles of receivables over the period of 36 months before December 31, 2018 and the corresponding historical credit losses experience within the period. The historical rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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

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

See *Note 12 – Trade and Other Receivables.*

Estimating Net Realizable Value of Inventories

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

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

See *Note 13 – Inventories.*

Estimation of Retirement Benefit Costs

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

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

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

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

Provisions

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

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

The *MERALCO Group* recognized net provisions on various claims and assessments amounting to ₱10,198 million, ₱8,533 million and ₱9,373 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Revenue Recognition

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

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

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

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

6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including revenues and expenses relating to transactions with other business segments within the *MERALCO Group*). The operating results of each of the operating segments are regularly reviewed by *MERALCO*'s Management Committee to determine how resources are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

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

- Power

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

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

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

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

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

  MGen is developing a 2 x 600 *MW* (net) ultra-supercritical pulverized coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *A1E*. A *PSA* has been executed between *A1E* and *MERALCO* for the full capacity. The regulatory hearing process at the *ERC* for the *PSA* had long been completed and *A1E* has filed its *FOE* on March 8, 2017. The selected Engineering, Procurement and Construction ("*EPC*") contractors for the project is awaiting the issuance of a "Notice to Proceed" and is engaged in early site preparation works in the interim. Financing has been arranged by the Mandate Lead Arrangers with a madate letter signed with a consortium of eight (8) local banks. *A1E* has also secured on Environmental Compliance Certificate ("*ECC*") and has been issued a Certificate of Registration as a preferred enterprise by the Board of Investments ("*BOI*"). The expected completion of the first unit is third quarter of 2023 and the second 600 *MW* by first quarter of 2024.

MGen is also developing (i) a 2 x 300 *MW* (net) Circulating Fluidized Bed ("*CFB*"), coal-fired power plant in the Subic Freeport Zone through Redondo Peninsula Energy, Inc. ("*RP Energy*"), and (ii) a 2 x 350 *MW* (net) sub-critical pulverized coal-fired power plant in Calaca, Batangas through St. Raphael Power Generation Corporation ("*St. Raphael*"), and among others.

MGen has 49% equity interest in Mariveles Power Generation Corporation ("*Mariveles Power*") which is developing a 4 x 132 *MW* coal-fired power plant in Bataan.

MERALCO has 50% equity interest in *Pure Meridian*, which is primarily engaged in the development of various mini-hydroelectric power projects.

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

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*; *Solvre*, a wholly owned subsidiary of *MGen*; *MeridianX*, a wholly owned subsidiary of *Comstech*, on January 10, 2017, February 9, 2017 and February 9, 2017, respectively. *Clarion*, a wholly owned subsidiary of *CEDC*, has submitted the requirements for its *RES* licensing to *ERC*. As at February 26, 2019, the approval of its *RES* licensing is pending with the *ERC*.

- Other Services

The other services segment is involved principally in electricity-related services, such as; electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as "*MIESCOR Group*"), *CIS*, *Bayad Center*, *CFSI and Fieldtech* (collectively referred to as "*CIS Group*"), *e-MVI*, *Paragon* and *Radius* (collectively referred to as "*e-MVI Group*"), *Comstech*, *MRail*, *LOIL*, *Finserve*, *MServ*, *Spectrum* and *eSakay*.

The Management Committee monitors the operating results of each business unit separately for the purpose of determining resource allocation and assessing performance. Performance is evaluated based on (i) net income attributable to equity holders of the parent for the year, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization ("consolidated core *EBITDA*"); and (iii) consolidated core net income ("*CCNI*"). Net income for the year is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures and provision for income tax.

CCNI for the year is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

Billings between operating segments are done on an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE REGULATORY DIVISION

The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. The *MERALCO Group* has no revenues from transactions with a single external customer accounting for 10% or more of its revenues from external customers.

	Note	Power			Other Services			Inter-segment Transactions			Total		
		2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
							(Amounts in Millions)						
Revenues		**₱295,389**	₱275,172	₱249,206	**₱11,373**	₱9,547	₱9,866	**(₱2,308)**	(₱2,163)	(₱1,891)	**₱304,454**	₱282,556	₱257,181
Segment results		**₱25,588**	₱24,066	₱23,122	**₱2,513**	₱1,904	₱2,450	**₱–**	**₱–**	**₱–**	**₱28,101**	₱25,970	₱25,572
Provisions for probable losses and expenses from claims	*2, 23 and 28*	**10,198**	8,533	9,373	–	–	–	–	–	–	**10,198**	8,533	9,373
Depreciation and amortization	*7, 8 and 10*	**(7,334)**	(7,135)	(6,948)	**(493)**	(385)	(364)	–	–	–	**(7,827)**	(7,520)	(7,312)
Interest and other financial income	*24*	**2,786**	2,153	2,027	**45**	35	53	–	–	–	**2,831**	2,188	2,080
Equity in net earnings (losses) of associates and joint ventures	*8*	**(679)**	293	(1,567)	**(46)**	(72)	(110)	–	–	–	**(725)**	221	(1,677)
Interest and other financial charges	*24*	**(1,935)**	(1,450)	(1,293)	**(98)**	(80)	(50)	–	–	–	**(2,033)**	(1,530)	(1,343)
Provision for income tax - net	*27*	**(6,923)**	(6,812)	(6,749)	**(520)**	(551)	(604)	–	–	–	**(7,443)**	(7,363)	(7,353)
Net income attributable to non-controlling interests		–	–	–	–	–	–	**(85)**	(115)	(164)	**(85)**	(115)	(164)
Net income attributable to equity holders of the Parent		**₱21,701**	₱19,648	₱17,965	**₱1,401**	₱851	₱1,375	**(₱85)**	(₱115)	(₱164)	**₱23,017**	₱20,384	₱19,176

The inter-segment revenues mainly represent revenues of other services segment earned from the power segment.

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

	2018	2017	2016
		(Amounts in millions)	
EBITDA	**₱37,165**	₱34,474	₱34,049
Add (deduct):			
Depreciation and amortization	**(7,827)**	(7,520)	(7,312)
Interest and other financial income	**2,831**	2,188	2,080
Interest and other financial charges	**(2,033)**	(1,530)	(1,343)
Equity in net earnings (losses) of associates and joint ventures	**(725)**	221	(1,677)
Foreign exchange gains	**1,134**	29	896
Income before income tax	**30,545**	27,862	26,693
Provision for income tax - net	**(7,443)**	(7,363)	(7,353)
Net income	**₱23,102**	₱20,499	₱19,340

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

	2018	2017	2016
		(Amounts in millions)	
CCNI	**₱22,408**	₱20,213	₱19,583
Add (deduct) non-core items, net of tax:			
Foreign exchange gains	**884**	27	718
Non-core income (expenses)	**(275)**	144	(1,125)
Net income for the year attributable to equity holders of the Parent	**23,017**	20,384	19,176
Net income for the year attributable to non-controlling interests	**85**	115	164
Net income	**₱23,102**	₱20,499	₱19,340

Utility Plant and Others

The movements in utility plant and others are as follows:

	2018								
	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
					(Amounts in millions)				
Cost:									
Balance at beginning of year	₱167,843	₱15,361	₱6,501	₱2,726	₱3,243	₱3,530	₱4,592	₱13,974	₱217,770
Additions	159	51	15	107	140	218	316	12,228	13,234
Disposals/retirements	(1,360)	–	(56)	(44)	(543)	(208)	(69)	–	(2,280)
Transfers from construction in progress	14,869	–	201	68	–	6	54	(15,198)	–
Reclassifications	–	–	(4)	–	(9)	4	9	–	–
Balance at end of year	181,511	15,412	6,657	2,857	2,831	3,550	4,902	11,004	228,724
Less accumulated depreciation and amortization:									
Balance at beginning of year	72,626	–	2,745	1,232	2,497	2,233	2,563	–	83,896
Depreciation and amortization	5,881	–	176	239	274	273	347	–	7,190
Disposals/retirements	(1,359)	–	–	(44)	(543)	(198)	(64)	–	(2,208)
Reclassifications	–	–	(1)	–	(1)	2	–	–	–
Balance at end of year	77,148	–	2,920	1,427	2,227	2,310	2,846	–	88,878
Net book value	₱104,363	₱15,412	₱3,737	₱1,430	₱604	₱1,240	₱2,056	₱11,004	₱139,846

		2017								
	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						(Amounts in millions)				
Cost:										
Balance at beginning of year		₱160,528	₱15,363	₱6,279	₱2,726	₱3,242	₱3,425	₱4,188	₱10,861	₱206,612
Additions		287	5	79	90	153	306	199	10,850	11,969
Disposals/retirements		(236)	(7)	–	(200)	(149)	(195)	(19)	–	(806)
Deconsolidation of a subsidiary	*3 and 8*	–	–	(10)	–	(4)	(6)	(15)	–	(35)
Transfers from construction in progress		7,264	–	135	85	–	–	253	(7,737)	–
Reclassifications	*10*	–	–	18	25	1	–	(14)	–	30
Balance at end of year		167,843	15,361	6,501	2,726	3,243	3,530	4,592	13,974	217,770
Less accumulated depreciation and amortization:										
Balance at beginning of year		67,164	–	2,593	1,301	2,306	2,212	2,222	–	77,798
Depreciation and amortization		5,680	–	191	203	301	276	278	–	6,929
Deconsolidation of a subsidiary		–	–	(9)	–	(4)	(3)	(13)	–	(29)
Disposals/retirements		(218)	–	(29)	(193)	(102)	(252)	(8)	–	(802)
Reclassifications		–	–	(1)	(79)	(4)	–	84	–	–
Balance at end of year		72,626	–	2,745	1,232	2,497	2,233	2,563	–	83,896
Net book value		₱95,217	₱15,361	₱3,756	₱1,494	₱746	₱1,297	₱2,029	₱13,974	₱133,874

As at December 31, 2018 and 2017, the net book values of customer-funded assets included in "Utility plant and others" account amounted to ₱3,231 million and ₱2,922 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2018 and 2017 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

See *Note 23 – Revenues and Purchased Power.*

Construction in progress pertains to both electric capital projects ("*ECP*s") and non-*ECP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱237 million, ₱161 million and ₱190 million for the years ended December 31, 2018, 2017 and 2016, respectively.

MERALCO's average annual interest rates used for capitalization in 2018, 2017 and 2016 ranged from 4.60% to 4.83%, 4.45% to 4.70% and 4.39% to 4.51%, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2018 and 2017:

	Place of Incorporation	Principal Activity	2018	2017
			Percentage of Ownership	
Associates				
RP Energy	Philippines	Power generation	47	47
FPM Power Holdings Limited ("*FPM Power*")	British Virgin Islands	Investment and holding company	40	40
Bauang Private Power Corporation ("*BPPC*")	Philippines	Power generation	38	38
Aclara Meters Philippines, Inc. ("*Aclara Meters*")	Philippines	Sale of metering products and services	35	35
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	25	25
GBPC	Philippines	Power generation	14	14
AF Payments	Philippines	Electronic payment clearing and settlement system operator	10	10
Power Distribution Services Ghana Limited ("*PDS Ghana*")	Ghana	Distribution of power	30	–
Joint Ventures				
SBPL	Philippines	Power generation	51	51
MRail-DESCO Joint Venture ("*MDJV*")	Philippines	Maintenance of mass transit system	50	50
Pure Meridian	Philippines	Renewable energy	50	50
St. Raphael	Philippines	Power generation	50	50
Mariveles Power	Philippines	Power generation	49	49
MPioneer Insurance Inc. ("*MPioneer*")	Philippines	Insurance	49	49
Powersource First Bulacan Solar, Inc. ("*First Bulacan*")	Philippines	Renewable energy	40	40
Rockwell Business Center Joint Venture ("*RBC JV*")	Philippines	Real estate	30	30

The movements in investments in associates and interests in joint ventures account are as follows:

	2018	2017
	(Amounts in millions)	
Acquisition costs:		
Balance at beginning of year	₱14,477	₱13,620
Additions	1,667	857
Balance at end of year	16,144	14,477

(Forward)

	2018	2017
	(Amounts in millions)	
Accumulated equity in net losses:		
Balance at beginning of year	(₱4,171)	(₱3,748)
Equity in net earnings (losses)	(725)	221
Dividends	(476)	(473)
Impairment	–	(171)
Balance at end of year	(5,372)	(4,171)
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of year	(10)	(12)
Actuarial gain	–	2
Balance at end of year	(10)	(10)
Share in cumulative translation adjustments:		
Balance at beginning of year	1,150	1,064
Translation adjustments	(599)	86
Balance at end of year	551	1,150
	₱11,313	₱11,446

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

	2018	2017
	(Amounts in millions)	
GBPC	₱5,138	₱5,197
SBPL	1,306	159
RBC JV	1,043	1,066
RP Energy	1,024	1,373
Mariveles Power	954	954
FPM Power	766	1,863
MPioneer	377	236
Indra Philippines	331	278
Pure Meridian	119	117
First Bulacan	112	51
Aclara Meters	66	71
St. Raphael	48	48
PDS Ghana	15	–
MDJV	12	22
BPPC	2	11
	₱11,313	₱11,446

GBPC

GBPC owns an aggregate of 854 *MW* (gross) of coal and diesel-fired power plants in operation in the Visayas which include Panay Energy Development Corporation's (*PEDC*) 150 *MW* CFB coal-fired facility in Panay Island which started commercial operations in November 2016. A *PSA* between *PEDC* and *MERALCO* for the 70 *MW* plant capacity has been provisionally approved by the *ERC* on January 17, 2017.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX ENFORCEMENT DIVISION

In June 2017, *GBPC* acquired a 50% equity interest in Alsons Thermal Energy Corporation ("*ATEC*"). *ATEC* holds 75% equity interest in Sarangani Energy Corporation ("*Sarangani Energy*").

Sarangani Energy's first 105 *MW* (net) *CFB* plant in Maasim, Sarangani started commercial operations in 2016. Another 105 *MW CFB* unit is targeted to be completed by 2019.

SBPL

On August 29, 2013, *MGen* signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand ("*EGCO*") for the development of a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon. *MGen*'s equity in the joint venture company, *SBPL*, is 51%. *SBPL* has an *ECC* granted by the *DENR* covering the 455 *MW* (net) supercritical coal-fired power plant.

SBPL's *EPC* was executed with the Consortium of Daelim Industrial Co. Ltd. and Mitsubishi Corporation following a competitive selection process ("*CSP*") on October 8, 2014. The construction period is set at 42 months from the commencement date of December 8, 2015.

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

On October 8, 2015, *SBPL* entered into an Omnibus Agreement and related agreements with certain financial institutions providing for a term loan facility in an amount of up to ₱42.15 billion for the financing of the project. The initial drawdown was made on December 1, 2015. On December 11, 2015, *SBPL* entered into an Operation and Maintenance Agreement with Pearl Energy Philippines Operating, Inc., a wholly owned subsidiary of *QPPL*, for the operations and maintenance of the power plant. The expected commercial operations of *SBPL* is third quarter of 2019.

RBC JV

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

RP Energy

On July 22, 2011, *MGen* signed a Shareholders' Agreement with Therma Power, Inc. ("*TPI*") and Taiwan Cogeneration International Corporation – Philippine Branch ("*TCIC*") for the construction and operation of a 2 x 300 *MW CFB*, coal-fired power plant to be located in the Subic Bay Freeport Zone. The development and operations shall be undertaken by *RP Energy*, the joint venture entity.

The development of the 2 x 300 *MW* project shall be implemented in two (2) phases. On October 13, 2016, the *EPC* for the first 300 *MW* was signed.

In April 2016, *RP Energy* signed separate *PSA*s with *MERALCO* and Aboitiz Energy Solutions, Inc. ("*Aboitiz Energy*"). *RP Energy* is awaiting the approval of its *PSA* with *MERALCO* by the *ERC*.

On December 22, 2016, *RP Energy* signed a loan agreement with three (3) local banks for the ₱31.5 billion project financing. The approval of the *PSA* between *RP Energy* and *Aboitiz Energy* by the *ERC* is a condition precedent to the first loan drawdown. As at February 26, 2019, the *PSA* was not yet approved by the *ERC* which restricted *RP Energy* to issue a notice to proceed to the *EPC* contractor and led to *RP Energy*'s inability to achieve financial close. The management will reassess the project technology when the pending case with respect to the *ERC*'s restatement of the effectivity of the *CSP* is resolved.

Site preparation of the first 300 *MW* unit has been completed, with expected commercial operations in the second half of 2021. The second phase shall follow within 12 months, subject to progress of *NGCP*'s *RoW* acquisition for the new transmission line that will connect the second phase to the grid.

Mariveles Power

On June 16, 2016, *MERALCO* and *Mariveles Power* executed a joint venture agreement to develop, construct, finance, own, operate and maintain a 4 x 132 *MW* coal-fired power plant and associated facilities in Mariveles, Bataan. The project is awaiting issuance of an *ECC* by the *DENR*.

On April 26, 2016, *Mariveles Power* signed a *PSA* with *MERALCO* for 528 *MW* of its capacity. The *PSA* is still pending approval by the *ERC*.

On January 25, 2019, *Mariveles Power* issued a capital call to its shareholders. However, *MGen* waived its right to subscribe additional shares thereby reducing its ownership interest from 49% to 15%.

FPM Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia* (a wholly-owned subsidiary of *MGen)* and 60%-owned by First Pacific Company Limited ("*First Pacific*"). *FPM Power* has a 70% equity interest in *PacificLight Power*, which owns and operates a 2 x 400 *MW LNG*-fired power plant in Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

In December 2016, *FPM Power* recognized impairment charge on its investment in *PacificLight Power*. The impairment charge of ₱1.2 billion covers solely goodwill related to the acquisition and is included in the equity in net losses of associates in the 2016 consolidated statement of income.

MPioneer

In accordance with the Agreement of Shareholders and Subscription of Shares among *MERALCO*, Pioneer Insurance and Surety Corporation ("*Pioneer Insurance*") and *MPioneer*, *MPioneer* issued common shares to *Pioneer Insurance* and *MERALCO*, resulting in a dilution of *MERALCO*'s ownership interest in *MPioneer* to 49%. Under the Agreement, *MERALCO* has the right to sell to *Pioneer Insurance*, and *Pioneer Insurance* has the obligation to buy, *MERALCO*'s 49% stake in *MPioneer* which is exercisable by *MERALCO* at any time during the period from January 1, 2023 to December 31, 2023.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("*IS*") and *IT* operations and management consulting.

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation ("*REDC*") entered into a joint venture through, *Pure Meridian*, which shall undertake the development of various mini-hydroelectric power projects.

First Bulacan

On January 23, 2017, *Spectrum* entered into a shareholders' agreement with Sunseap International Pte Ltd. and Powersource Philippines Development Corporation for the development of solar energy projects through the joint venture, *First Bulacan*. The joint venture is currently in the process of developing a 50 *MW* utility scale solar facility in San Miguel, Bulacan. The *ERC* has issued an interim approved rate of ₱4.7268 per *kWh* on the 20-year *PSA* with *MERALCO* as *First Bulacan* filed a motion for reconsideration on the escalation rate. The solar farm has not commenced commercial operations yet due to its still pending land conversion application.

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology *LLC*. *Aclara Meters* serves the Philippine market for American National Standard Institute ("*ANSI*")-type Watt-hour meters.

St. Raphael

On April 27, 2016, *MGen* and Semirara Mining and Power Corporation entered a joint venture agreement to develop a 2 x 350 *MW* sub-critical pulverized coal-fired power plant in Calaca, Batangas. The development and operations shall be undertaken by *St. Raphael*, the joint venture entity. A *PSA* was signed by *St. Raphael* and *MERALCO* in April 2016 for the 400 *MW* of the plant's capacity. The *PSA* is pending approval by the *ERC*. Development activities for the project are ongoing and target commercial operations of the power plant is in June 2024.

PDS Ghana

MERALCO, through *MPV Limited*, has 30% equity in *PDS Ghana*. *PDS Ghana* was incorporated in June 2018. PDS Ghana is part of the consortium that won and was awarded a 25-year concession for the operations covering the area served by the Electricity Company of Ghana ("ECG"). The ECG serves nearly 85% of the total energy requirement in Ghana.

MDJV

On June 2, 2014, *MRail* and *DESCO* entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways ("*PNR*"). Two (2) units were completed and turned over on January 10, 2017 and one (1) unit on April 19, 2017. The Joint Venture shall remain in existence during the two-year warranty period which shall end in April 2019.

BPPC

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

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

The *Bauang Plant* has since been turned over to the *NPC* without any compensation and free of any liens. In 2010, the *SEC* approved the merger of *FPPC* and *BPPC*, with *BPPC* as the surviving entity.

BPPC management continues to evaluate its investment options in power generation and allied industries.

On November 24, 2017, *BPPC*'s *BOD* and stockholders approved a resolution to amend its articles of incorporation shortening the term of its existence from "fifty (50) years from the date of incorporation hereof" to "until June 30, 2019". As at December 31, 2018, *BPPC* is still in the process of obtaining the related necessary regulatory approvals.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* was incorporated in February 2014 primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It shall also supply and issue fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operate and maintain the related hardware and software.

In 2017, due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment charge of ₱171 million on the carrying amount of its investment in *AF Payments*. The recoverable amount of the investment in *AF Payments* was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows by the discount rate of 11.9%. The cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining service concession agreement term.

The condensed statements of financial position of material associates follow:

	2018		
	GBPC	*FPM Power*	*RP Energy*
	(Amounts in millions)		
Current assets	**₱22,860**	**₱5,977**	**₱357**
Noncurrent assets	**57,147**	**48,811**	**1,767**
Current liabilities	**(11,456)**	**(25,605)**	**(49)**
Noncurrent liabilities	**(34,474)**	**(26,675)**	**(5)**
Non-controlling interests	**(5,173)**	**(594)**	**–**
Net assets	**₱28,904**	**₱1,914**	**₱2,070**

	2017		
	GBPC	*FPM Power*	*RP Energy*
	(Amounts in millions)		
Current assets	₱26,002	₱6,821	₱758
Noncurrent assets	58,063	45,718	2,073
Current liabilities	(11,661)	(20,361)	(10)
Noncurrent liabilities	(38,043)	(28,519)	(6)
Non-controlling interests	(5,033)	999	–
Net assets	₱29,328	₱4,658	₱2,815

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

	2018			2017			2016		
	GBPC	*FPM Power*	*RP Energy*	*GBPC*	*FPM Power*	*RP Energy*	*GBPC*	*FPM Power*	*RP Energy*
				(Amounts in millions)					
Revenues	₱27,183	₱38,356	₱11	₱23,780	₱28,494	₱8	₱17,637	₱28,654	₱5
Costs and expenses	(24,070)	(41,164)	(753)	(20,399)	(29,745)	(50)	(13,472)	(34,880)	(42)
Net income (loss)	3,113	(2,808)	(742)	3,381	(1,251)	(42)	4,165	(6,226)	(37)
Non-controlling interests	(1,033)	994	–	(977)	877	–	(1,372)	1,188	–
Net income (loss) attributable to equity holders of the parent	2,080	(1,814)	(742)	2,404	(374)	(42)	2,793	(5,038)	(37)
Other comprehensive income (loss)	–	(1,503)	–	–	213	–	–	2,874	–
Total comprehensive income (loss)	₱2,080	(₱3,317)	(₱742)	₱2,404	(₱161)	(₱42)	₱2,793	(₱2,164)	(₱37)
Dividends received	₱350	₱–	₱–	₱350	₱–	₱–	₱308	₱–	₱–

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

	2018		
	GBPC	***FPM Power***	***RP Energy***
	(Amounts in millions, except % of ownership)		
Net assets of associates	**₱28,904**	**₱1,914**	**₱2,070**
Proportionate ownership in associates (%)	**14**	**40**	**47**
	4,047	**766**	**974**
Goodwill	**1,091**	**–**	**50**
	₱5,138	**₱766**	**₱1,024**

	2017		
	GBPC	*FPM Power*	*RP Energy*
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱29,328	₱4,658	₱2,815
Proportionate ownership in associates (%)	14	40	47
	4,106	1,863	1,323
Goodwill	1,091	–	50
	₱5,197	₱1,863	₱1,373

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

	2018	2017	2016
	(Amounts in millions)		
Share in net income (loss)	**₱28**	(₱1)	(₱84)
Share in other comprehensive income	**1**	2	–
Share in total comprehensive income (loss)	**₱29**	₱1	(₱84)
Dividends received	**₱21**	₱10	₱9

Joint Ventures

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

	2018		
	RBC JV	***SBPL***	***Mariveles Power***
	(Amounts in millions)		
Current assets	**₱1,021**	**₱1,081**	**₱18**
Noncurrent assets	**2,981**	**45,834**	**1,961**
Current liabilities	**(524)**	**(947)**	**(32)**
Noncurrent liabilities	**–**	**(43,408)**	**–**
Net assets	**₱3,478**	**₱2,560**	**₱1,947**

	2017		
	RBC JV	*SBPL*	*Mariveles Power*
	(Amounts in millions)		
Current assets	₱837	₱433	₱17
Noncurrent assets	3,144	29,313	1,952
Current liabilities	(427)	(331)	(22)
Noncurrent liabilities	–	(29,103)	–
Net assets	₱3,554	₱312	₱1,947

The foregoing condensed statements of financial position include the following:

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

	2017		
	RBC JV	*SBPL*	*Mariveles Power*
	(Amounts in millions)		
Cash and cash equivalents	₱653	₱339	₱17
Current financial liabilities (excluding trade payables)	(26)	(302)	–

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

	2018			2017			2016		
	RBC JV	***SBPL***	***Mariveles Power***	*RBC JV*	*SBPL*	*Mariveles Power*	*RBC JV*	*SBPL*	*Mariveles Power*
				(Amounts in millions)					
Revenues	**₱699**	**₱–**	**₱–**	₱689	₱–	₱–	₱670	₱–	₱–
Costs and expenses	**(207)**	**(250)**	**–**	(331)	(154)	(10)	(316)	(92)	(12)
Other income - net	**10**	**2**	**1**	135	1	–	100	117	–
Benefit from (provision for) income tax - net	**(121)**	**119**	**–**	(116)	49	–	(112)	(118)	–
Net income (loss)	**₱381**	**(₱129)**	**₱1**	₱377	(₱104)	(₱10)	₱342	(₱93)	(₱12)
Dividends received	**₱105**	**₱–**	**₱–**	₱113	₱–	₱–	₱174	₱–	₱–

The foregoing condensed statements of comprehensive income include the following:

	2018			2017			2016		
	RBC JV	*SBPL*	*Mariveles Power*	*RBC JV*	*SBPL*	*Mariveles Power*	*RBC JV*	*SBPL*	*Mariveles Power*
				(Amounts in millions)					
Depreciation	**₱208**	**₱3**	**₱–**	₱206	₱3	₱–	₱200	₱4	₱–
Interest income	**(10)**	**(1)**	–	(9)	(1)	–	(11)	(2)	–
Provision for income tax - net	**121**	**119**	–	116	49	–	112	118	–

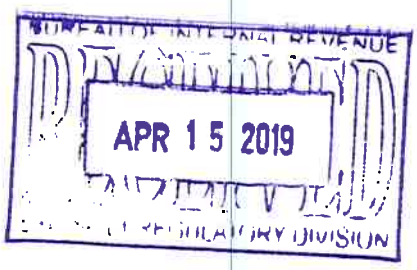
The reconciliation of the net assets of the foregoing material joint ventures to the carrying amounts of investments in these joint ventures recognized in the consolidated statements of financial position is as follows:

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

	2017		
	RBC JV	*SBPL*	*Mariveles Power*
	(Amounts in millions, except % of ownership)		
Net assets of joint ventures	₱3,554	₱312	₱1,947
Proportionate ownership in joint ventures (%)	30	51	49
	₱1,066	₱159	₱954

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

	2018	2017	2016
		(Amounts in millions)	
Share in net income (loss)	**(₱17)**	(₱18)	(₱54)
Share in other comprehensive loss	**–**	–	–
Share in total comprehensive income (loss)	**(₱17)**	(₱18)	(₱54)



9. Investment Properties

The movements in investment properties are as follows:

	2018		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost			
Balance at beginning of year	**₱1,427**	**₱204**	**₱1,631**
Disposals	–	(2)	(2)
Balance at end of year	**1,427**	**202**	**1,629**
Less accumulated depreciation:			
Balance at beginning of year	–	**122**	**122**
Depreciation	–	**5**	**5**
Balance at end of year	–	**127**	**127**
	₱1,427	**₱75**	**₱1,502**

	2017		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost	₱1,427	₱204	₱1,631
Less accumulated depreciation:			
Balance at beginning of year	–	118	118
Depreciation	–	4	4
Balance at end of year	–	122	122
	₱1,427	₱82	₱1,509

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in millions)	
Land	**₱4,501**	₱1,881
Buildings and improvements	**194**	224

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

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

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱155,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Other Noncurrent Assets

This account consists of:

	Note	**2018**	2017
		(Amounts in millions)	
Financial assets:			
Debt securities at at amortized cost	*14 and 26*	**₱29,371**	₱27,180
Financial assets at *FVOCI*	*26*	**3,890**	4,360
Advance payments to a supplier and others	*26 and 29*	**3,619**	3,563
Nonfinancial assets:			
Net under-recoveries of pass-through charges	*2*	**5,185**	1,654
Intangible assets	*7*	**2,057**	2,254
Deferred input *VAT*		**1,534**	1,565
Retirement surplus	*25*	**699**	–
Receivable from the *BIR*	*28*	**181**	181
Goodwill		**35**	35
Others		**2,875**	1,156
		₱49,446	₱41,948

Debt Securities at Amortized Cost

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

	2018			2017		
	Current Portion (see *Note 14*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 14*)	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱10,193**	**₱25,099**	**₱35,292**	₱9,001	₱26,245	₱35,246
Private debt securities	**–**	**4,272**	**4,272**	–	935	935
	₱10,193	**₱29,371**	**₱39,564**	₱9,001	₱27,180	₱36,181

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at *FVOCI*

The details of financial assets at *FVOCI* are as follows:

	2018	2017
		(Amounts in millions)
Investment in debt securities:		
Investments in government securities	**₱2,946**	₱3,233
Investments in corporate bonds and other investments	**613**	883
Investments in shares of stock and club shares:		
Quoted	**287**	203
Unquoted	**44**	41
	₱3,890	₱4,360

The rollforward of unrealized fair value gains (losses) on quoted *FVOCI* financial assets, net of tax, included in the consolidated statements of financial position follows:

	2018	2017
		(Amounts in millions)
Balance at beginning of year	**(₱160)**	(₱271)
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	**(200)**	95
Equity securities	**65**	16
Balance at end of year	**(₱295)**	(₱160)

Intangible Assets

The movements of intangible assets are as follows:

	2018			
	Software	**Franchise**	**Land and Leasehold Rights**	**Total**
	(Amounts in millions)			
Cost:				
Balance at beginning of year	**₱4,873**	**₱49**	**₱431**	**₱5,353**
Additions	**435**	**–**	**–**	**435**
Balance at end of year	**5,308**	**49**	**431**	**5,788**
Less accumulated amortization:				
Balance at beginning of year	**2,823**	**–**	**276**	**3,099**
Amortization	**614**	**–**	**18**	**632**
Balance at end of year	**3,437**	**–**	**294**	**3,731**
	₱1,871	**₱49**	**₱137**	**₱2,057**

		2017			
	Note	Software	Franchise	Land and Leasehold Rights	Total
		(Amounts in millions)			
Cost:					
Balance at beginning of year		₱4,755	₱49	₱431	₱5,235
Additions		158	–	–	158
Disposals/retirement		(10)	–	–	(10)
Reclassifications	*7*	(30)	–	–	(30)
Balance at end of year		4,873	49	431	5,353
Less accumulated amortization:					
Balance at beginning of year		2,264	–	258	2,522
Amortization		569	–	18	587
Disposals/retirement		(10)	–	–	(10)
Balance at end of year		2,823	–	276	3,099
		₱2,050	₱49	₱155	₱2,254

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 ("*EVAT Law*"), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *CEDC* as *DU*s and which are still to be billed, covered by the approved recovery mechanism of the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*.

Allowance for expected credit loss on net under-recoveries of pass-through charges amounted to ₱4,720 million and ₱4,436 million as at December 31, 2018 and 2017, respectively.

See *Note 12 - Trade and Other Receivables*.

11. Cash and Cash Equivalents

This account consists of:

	2018	2017
	(Amounts in millions)	
Cash on hand and in banks	₱8,574	₱6,178
Cash equivalents	27,897	39,759
	₱36,471	₱45,937

Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up of to three (3) months depending on *MERALCO Group*'s immediate cash requirements, and earn interest at the prevailing short-term investment rates.

12. Trade and Other Receivables

This account consists of:

	Note	2018	2017
		(Amounts in millions)	
Trade:			
Electricity	*22, 23 and 26*	₱24,487	₱23,505
Service contracts		4,511	4,196
Unbilled receivables	*23*	1,220	759
Nontrade	*22 and 26*	2,805	1,366
		33,023	29,826
Less allowance for expected credit losses		1,680	3,538
		₱31,343	₱26,288

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

	2018			
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
		(Amounts in millions)		
Trade - electricity	₱3,307	(₱1,840)	(₱107)	₱1,360
Other trade receivables	229	173	(84)	318
Nontrade receivables	2	–	–	2
	₱3,538	(₱1,667)	(₱191)	₱1,680

	2017			
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
		(Amounts in millions)		
Trade - electricity	₱2,991	₱651	(₱335)	₱3,307
Other trade receivables	219	12	(2)	229
Nontrade receivables	4	(2)	–	2
	₱3,214	₱661	(₱337)	₱3,538

	2018				2017			
	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total
				(Amounts in millions)				
Individually impaired	₱768	₱318	₱2	₱1,088	₱2,708	₱229	₱2	₱2,939
Collectively impaired	592	–	–	592	599	–	–	599
	₱1,360	₱318	₱2	₱1,680	₱3,307	₱229	₱2	₱3,538

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 57%, 9% and 4%, respectively, of the total billed amount in 2018 and 55%, 10% and 4%, respectively, of the total billed amount in 2017. Billed receivables are due 10 days after bill date. *MERALCO*'s and *CEDC*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

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

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Finserve*, *Comstech*, *eSakay* and *Spectrum* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development, energy management services, energy systems management and harnessing renewable energy to third parties.

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

See *Note 10 - Other Noncurrent Assets.*

13. Inventories

	2018	2017
		(Amounts in millions)
Materials and supplies:		
At cost	₱4,011	₱3,529
At net realizable value ("*NRV*")	3,812	3,330
Materials and supplies at *NRV*	₱3,812	₱3,330

14. Other Current Assets

	Note	2018	2017
		(Amounts in millions)	
Financial assets:			
Short-term investments		**₱21,769**	₱2,532
Advances to an associate	*22 and 26*	**6,007**	5,703
Debt securities at amortized cost	*10 and 26*	**10,193**	9,001
Current portion of advance payments to a supplier	*26*	**187**	178
Nonfinancial assets:			
Prepayments		**2,621**	2,507
Prepaid tax		**1,260**	1,287
Input *VAT*		**757**	665
Pass-through *VAT* – net		**520**	846
Others		**404**	158
		₱43,718	₱22,877

Short-term investments are temporary cash placements which are made for varying period beyond three (3) months but not exceeding 12 months, and earn interest at the prevailing short-term placement investment rates.

Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

15. Equity

Common Stock

	2018	2017
	(In millions, except par value)	
Authorized number of shares- ₱10 par value per share	**1,250**	1,250
Issued and outstanding - number of shares	**1,127**	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 42,687 and 43,449 shareholders of *MERALCO*'s common shares as at December 31, 2018 and 2017, respectively.

Unappropriated Retained Earnings

BUREAU OF INTERNAL REVENUE
APR 15 2019

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱45,234 million and ₱43,831 million as at December 31, 2018 and 2017, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.

The following are the cash dividends declared on common shares in 2018, 2017 and 2016:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 30, 2018	August 29, 2018	September 24, 2018	₱5.31	₱5,985
February 26, 2018	March 28, 2018	April 25, 2018	8.07	9,090
August 3, 2017	August 30, 2017	September 22, 2017	8.93	10,059
February 27, 2017	March 27, 2017	April 21, 2017	9.30	10,482
July 25, 2016	August 24, 2016	September 19, 2016	13.48	15,193
April 25, 2016	May 25, 2016	June 17, 2016	1.68	1,894
February 26, 2016	March 23, 2016	April 15, 2016	9.92	11,181

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the year, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

16. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2018	2017
	(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities – long-term debt	**₱24,745**	₱24,786
Current portion of interest-bearing financial liabilities:		
Long-term debt	**356**	388
Redeemable preferred stock	**1,487**	1,496
	1,843	1,884
	₱26,588	₱26,670

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2018 and 2017. Interest is no longer accrued when the preferred shares are called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	2018	2017
	(Amounts in millions)	
Fixed Rate Loans		
₱11.5 Billion 7-year Bonds	**₱11,500**	₱11,500
₱7.0 Billion 12-year Bonds	**7,000**	7,000
₱7.2 Billion Note Facility Agreement	**5,760**	6,120
₱600 Million Term Loan Facilities	**540**	600
₱350 Million Note Facility Agreements	**350**	–
₱130 Million Term Loan Facility	**58**	82
Total long-term debt	**25,208**	25,302
Less unamortized debt issuance costs	**107**	128
	25,101	25,174
Redeemable Preferred Stock	**1,487**	1,496
	26,588	26,670
Less current portion	**1,843**	1,884
Long-term portion of interest-bearing financial liabilities	**₱24,745**	₱24,786

All of the interest-bearing long-term financial liabilities as at December 31, 2018 and 2017 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2018 are as follows:

	Amount
	(In millions)
Less than one (1) year	₱383
One (1) year up to two (2) years	12,053
More than two (2) years up to three (3) years	472
More than three (3) years up to four (4) years	460
More than four (4) years up to five (5) years	460
More than five (5) years	11,380
	₱25,208

₱18.5 Billion Fixed Rate Puttable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion and with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

On December 12, 2013, the ₱11.5 billion fixed rate puttable bonds due in 2020 and ₱7.0 billion fixed rate puttable bonds due in 2025, were listed on the Philippine Dealing and Exchange Corporation.

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

₱7.2 Billion Note Facility Agreement

In February 2014, *MERALCO* entered into a ₱7,200 million, 10-year Fixed Rate Note Facility Agreement due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

₱600 Million Term Loan Facilities

In 2017, *MServ* obtained a total of ₱600 million, 10-year fixed rate term loans. The principal amount is payable over 10 years until January 2027.

₱350 Million Note Facility Agreements

In July 2018, *MServ* obtained a total of ₱350 million, 5-year Fixed Rate Note Facility Agreements due in July 2023. The principal amount is payable semi-annually over five (5) years until July 2023.

₱130 Million Term Loan Facility

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

The annual interest rates for the interest-bearing financial liabilities range from 4.38% to 5.50% as at December 31, 2018 and 2017.

Debt Covenants

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

As at December 31, 2018 and 2017, *MERALCO* is in compliance with all of the covenants of the loan agreements.

Unamortized Debt Issuance Costs

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

	Note	2018	2017
		(Amounts in millions)	
Balance at beginning of year		**₱128**	₱153
Additions		**5**	–
Amortization charged to interest and other financial charges	24	**(26)**	(25)
Balance at end of year		**₱107**	₱128

Redeemable Preferred Stock

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

	2018	2017
Balance at beginning of year	**149,615,014**	150,157,797
Redemptions	**(913,690)**	(542,783)
Balance at end of year	**148,701,324**	149,615,014

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR,* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

17. Customers' Deposits

This account consists of:

	2018			2017		
	Current Portion (see *Note 21*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 21*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,149**	**₱27,024**	**₱29,173**	₱2,555	₱24,000	₱26,555
Meter deposits	**312**	**–**	**312**	424	–	424
	₱2,461	**₱27,024**	**₱29,485**	₱2,979	₱24,000	₱26,979

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU,* equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

On February 22, 2010, the amended *DSOAR,* which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR,* interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks on the first working day of the year, subject to the confirmation of the *ERC*.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX ENFORCEMENT DIVISION

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

The following are the movements of the bill deposits account:

	Note	2018	2017
		(Amounts in millions)	
Balance at beginning of year		**₱26,555**	₱26,095
Additions		**5,205**	4,477
Refunds		**(2,587)**	(4,017)
Balance at end of year		**29,173**	26,555
Less portion maturing within one year	*21*	**2,149**	2,555
Noncurrent portion of bill deposits and related interests		**₱27,024**	₱24,000

Meter Deposits

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

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, check, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

In May 2014, *MERALCO* implemented automatic crediting or offsetting of the remaining unclaimed meter deposit refund ("*MDR*") as approved by *ERC*, including all accrued interests to the corresponding existing and active service contracts. This was done after releasing a "Final Notice" to advice our customers, particularly those who have not yet claimed their *MDR*, to claim the same prior to *MERALCO*'s implementation of auto-crediting. Thus, all remaining unclaimed *MDR* as reported to the *ERC* as at December 31, 2014 are only for terminated services.

In May 2016, the *ERC* promulgated *ERC* Resolution No. 12, Series of 2016 entitled, "Amended Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Consumers," directing all *DU*s to deposit all unclaimed meter deposits including all accrued interests in a government or commercial bank under a single savings account and in the name of the *DU* strictly intended for the claimants of meter deposits. Further, customers were given until December 31, 2017 within which to claim their *MDR*, to be facilitated by the *DU*; otherwise, all unclaimed meter deposits, including accrued interest will be subject to an escheat proceeding in favor of the government.

In compliance with said *ERC* directive, in July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. In May 2017, *MERALCO* submitted the required reports to the *ERC* in compliance with the *ERC*'s directive to all *DU*s pursuant to *ERC* Resolution No. 13, Series of 2016,

entitled, "Guidelines to Govern the Audit Process of Meter Deposit Refund to Residential and Non-Residential Customers."

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at February 26, 2019, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposit refund.

18. Provisions

Provisions consist of amounts recognized for probable losses and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

		2018	2017
		(Amounts in millions)	
Balance at beginning of year		₱34,111	₱38,224
Reversals for the year - net		(1,265)	(2,539)
Settlements		(296)	(1,574)
Balance at end of year		32,550	34,111
Less current portion	*21*	15,108	15,655
Noncurrent portion of provisions		₱17,442	₱18,456

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 28 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

19. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC,* in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC's* approval to continue refunding to eligible accounts or customers under Phases I to IV, for three (3) years from January 1, 2016 or until December 31, 2018.

In an Order dated February 4, 2019, the *ERC* authorized *MERALCO* to continue with the implementation of the refund to eligible customers until June 30, 2019. The *ERC* also required *MERALCO* to submit information and documents related to the customers' refund.

20. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates range from 2.75% to 7.50% and 2.80% to 4.25% as at December 31, 2018 and 2017, respectively.

Interest expense on notes payable amounted to ₱481 million, ₱348 million and ₱171 million for the years ended December 31, 2018, 2017 and 2016, respectively.

See *Note 24 – Expenses and Income.*

21. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2018**	2017
		(Amounts in millions)	
Trade accounts payable	*22 and 23*	**₱37,025**	₱32,574
Provisions	*18 and 28*	**15,108**	15,655
Taxes		**11,151**	9,116
Accrued expenses:			
Employee benefits		**1,747**	2,032
Interest	*16*	**179**	137
Others		**878**	1,198
Current portions of:			
Bill deposits and related interests	*17*	**2,149**	2,555
Deferred income		**987**	1,004
Meter deposits and related interests	*17*	**312**	424
Refundable service extension costs		**3,127**	2,261
Dividends payable on:			
Common stock	*15*	**1,247**	938
Redeemable preferred stock	*16*	**250**	250
Payable to customers		**7,766**	8,136
Universal charges payable	*31*	**2,986**	2,800
FiT-All payable	*31*	**1,313**	925
Regulatory fees payable		**196**	182
Other current liabilities		**4,035**	3,763
		₱90,456	₱83,950

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines ("*NGCP*") and Independent Electricity Market Operator of the Philippines Inc. ("*IEMOP*") for cost of power purchased and transmission charge. In September 2018, *IEMOP* assumed the market operation functions for the *WESM*. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which include transformers, poles, materials and supplies, and contracted services.

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

See *Note 22 – Related Party Transactions* and *Note 29 – Significant Contracts and Commitments.*

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities", requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2018 and 2017, the noncurrent portion of refundable service extension costs of ₱6,170 million and ₱6,012 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts paid by customers in advance and are applied to their current consumption.

22. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant year. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. ("*PLDT*")

MERALCO has a pole attachment contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups within the franchise area such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to all customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its wireless services. Such services are

covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSAs with Joint Ventures and Associates

As discussed in Note 29, *MERALCO* signed long-term *PSA*s with the following related parties: *SBPL*, *RP Energy*, *St. Raphael*, *Mariveles Power* and *PEDC*.

Following is a summary of related party transactions in 2018, 2017 and 2016 and the outstanding balances as at December 31, 2018 and 2017:

	Amount of Transactions			Outstanding Receivable (Liability)			
Category	**2018**	2017	2016	**2018**	2017	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
JG Summit Group	**₱3,336**	₱2,776	₱2,839	**₱434**	₱239	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**1,306**	958	1,240	**34**	39	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**538**	486	444	**47**	6	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**816**	1,058	678	**(100)**	(154)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – *Aclara Meters*	**190**	454	254	**–**	(51)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**369**	391	281	**81**	160	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	**100**	90	82	**(21)**	(21)	30-day; noninterest-bearing	Unsecured
Purchases of power:							
Panay Power Corportation ("*PPC*")	**–**	211	285	**–**	(10)	30-day; noninterest-bearing	Unsecured
Toledo Power Corporation ("*TPC*")	**69**	357	163	**–**	(46)	30-day; noninterest-bearing	Unsecured
PEDC	**2,258**	1,766	**–**	**(344)**	(378)	30-day; noninterest-bearing	Unsecured

Advances to FPM Power

FPM Power has a non-interest-bearing loan from *MPG Asia* amounting to ₱6,007 million and ₱5,703 million (US$114 million) as at December 31, 2018 and 2017, respectively, which is due and demandable. The loan remains outstanding as at December 31, 2018.

See *Note 14 – Other Current Assets*.

Transaction with MERALCO Retirement Benefits Fund ("*Fund*")

MERALCO's *Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial

market. As at December 31, 2018 and 2017, the fair value of the total assets being managed by the *Fund* amounted to ₱34.0 billion and ₱37.2 billion, respectively.

See *Note 25 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	2018	2017	2016
	(Amounts in millions)		
Short-term employee benefits	**₱758**	₱754	₱667
Long-term employee incentives and retirement benefits	**300**	288	285
Total compensation to key management personnel	**₱1,058**	₱1,042	₱952

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

In 2018, each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted of the equivalent cash value.

As at December 31, 2018, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

23. Revenues and Purchased Power

Revenues

The Company disaggregates its revenue information in the same manner as it reports its segment information.

See *Note 6 – Segment Information.*

Contract Assets and Contract Liabilities

The *MERALCO Group*'s contract balances are as follows:

	2018	2017
	(Amounts in millions)	
Trade:		
Electricity	**₱24,487**	₱23,505
Service contracts	**4,511**	4,196
Contract assets:		
Unbilled receivables	**1,220**	759
Net under-recoveries of pass-through charges	**5,185**	1,654
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	**745**	702
Over-recoveries from transmission and *SL* charges	**820**	614

The revenue recognized from the nonrefundable liability related to assets funded by customers amounted to ₱127 million, ₱66 million and ₱62 million in 2018, 2017 and 2016, respectively.

Purchased Power

The details of purchased power are as follows:

	2018	2017	2016
		(Amounts in millions)	
Generation costs	**₱196,489**	₱178,913	₱153,751
Transmission costs	**35,613**	35,645	36,102
	₱232,102	₱214,558	₱189,853

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* and *CEDC*, as *DU*s.

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

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees, and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a lease"*. The total fixed amounts billed by the suppliers included as part of "Purchased power" account in the consolidated statements of income amounted to ₱52,610 million, ₱50,380 million and ₱49,522 million in 2018, 2017 and 2016, respectively. These also include the actual *SL* incurred which is within the *SL* cap of 8.5%. *MERALCO*'s actual 12-month moving average *SL* rates are 5.67%, 5.91% and 6.35% in 2018, 2017 and 2016, respectively.

The details of purchased power follow:

	2018	2017	2016
	(Amounts in millions)		
First Gas Power Corporation ("*FGPC*") and FGP Corp. ("*FGP*")	**₱53,885**	₱46,492	₱39,472
NGCP	**35,509**	35,482	35,870
South Premiere Power Corporation ("*SPPC*")	**30,455**	29,606	28,416
PEMC/IEMOP/WESM	**29,127**	24,286	17,637
QPPL	**15,767**	14,640	13,817
San Miguel Energy Corporation ("*SMEC*")	**14,922**	14,563	13,063
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**12,959**	13,913	12,628
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**12,658**	11,391	10,020
Therma Luzon, Inc. ("*TLI*")	**12,176**	11,168	10,076
First NatGas Power Corp. ("*FNPC*")	**5,696**	–	–
PEDC	**2,258**	1,766	–
Southwest Luzon Power Generation Corporation	**2,076**	3,228	2,214
Phinma Energy Corporation ("*Phinma Energy*")	**1,954**	2,511	2,268
Therma Mobile, Inc. ("*TMO*")	**1,695**	3,112	2,892
Others	**965**	2,400	1,480
	₱232,102	₱214,558	₱189,853

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2018 and 2017, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱820 million and ₱614 million, respectively.

24. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2018	2017	2016
		(Amounts in millions)		
Salaries, wages and related employee benefits		**₱11,565**	₱11,687	₱11,576
Retirement benefits	*25*	**1,030**	798	1,157
Other long-term post-employment benefits	*25*	**102**	110	108
		₱12,697	₱12,595	₱12,841

Depreciation and Amortization

	Note	2018	2017	2016
		(Amounts in millions)		
Utility plant and others		**₱7,190**	₱6,929	₱6,828
Investment properties	*25*	**5**	4	5
Intangible assets	*25*	**632**	587	479
		₱7,827	₱7,520	₱7,312

Other Expenses

	Note	2018	2017	2016
			(Amounts in millions)	
Materials used	*13*	**₱2,967**	₱2,015	₱2,332
Rent and utilities		**764**	862	732
Transportation and travel		**384**	418	371
Insurance		**371**	348	350
Advertising		**349**	374	346
Communication	*22*	**140**	145	135
Others		**922**	2,029	1,356
		₱5,897	₱6,191	₱5,622

Interest and Other Financial Charges

	Note	2018	2017	2016
			(Amounts in millions)	
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	*7 and 16*	**₱930**	₱1,057	₱1,046
Interest expense on notes payable	*20*	**481**	348	171
Interest expense on bill deposits	*17*	**31**	65	65
Amortization of debt issuance costs	*16*	**26**	25	24
Others		**565**	35	37
		₱2,033	₱1,530	₱1,343

Interest and Other Financial Income

	2018	2017	2016
		(Amounts in millions)	
Interest income on cash in banks and cash equivalents	**₱1,517**	₱789	₱654
Income from debt and equity securities	**1,268**	1,300	1,238
Others	**46**	99	188
	₱2,831	₱2,188	₱2,080

25. Long-term Employee Benefits

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

	2018	2017
	(Amounts in millions)	
Long-term incentives	**₱3,467**	₱2,537
Retirement benefits liability	**343**	432
Other long-term post-employment benefits	**1,633**	1,590
	5,443	₱4,559
Less current portion	**3,463**	–
	₱1,980	₱4,559

Defined Benefit Retirement Plans

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2018	2017	2016
	(Amounts in millions)		
Current service costs	**₱979**	₱873	₱1,085
Net interest costs (income)	**18**	(101)	70
Past service costs	**–**	–	(16)
Net retirement benefits expense	**₱997**	₱772	₱1,139

Retirement Benefits Liability (Asset)

	2018	2017
	(Amounts in millions)	
Defined benefit obligation	**₱33,686**	₱37,676
Fair value of plan assets	**(34,042)**	(37,244)
Net retirement benefits liability (asset)	**(₱356)**	₱432

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

	2018	2017
	(Amounts in millions)	
Retirement surplus under other noncurrent assets	**(₱699)**	₱–
Retirement benefits liability	**343**	432
Net retirement benefits liability (asset)	**(₱356)**	₱432

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

	2018	2017
	(Amounts in millions)	
Retirement benefits liability (asset) at beginning of year	**₱432**	(₱1,553)
Net retirement benefits expense	**997**	772
Contributions by employer	**(26)**	(324)
Amounts recognized in *OCI*	**(1,759)**	1,537
Net retirement benefits liability (asset) at end of year	**(₱356)**	₱432

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

	2018	2017
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱37,676**	₱34,957
Interest costs	**1,815**	1,828
Current service costs	**979**	873
Benefits paid	**(2,450)**	(2,159)
Actuarial losses (gains) due to:		
Changes in financial assumptions	**(5,172)**	1,128
Experience adjustments	**838**	1,049
Defined benefit obligation at end of year	**₱33,686**	₱37,676

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

	2018	2017
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱37,244**	₱36,510
Benefits paid	**(2,450)**	(2,159)
Interest income	**1,797**	1,929
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**(2,575)**	640
Contributions by employer	**26**	324
Fair value of plan assets at end of year	**₱34,042**	₱37,244

The Board of Trustees ("*BoT*") which manages the *Fund*, is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, all of whom are not beneficiaries of the plan.

The *Fund* follows a conservative approach by investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Fund* to service its short-term and long-term obligations.

The net carrying amount and fair value of the assets of the *Fund* as at December 31, 2018 and 2017 amounted to ₱34,042 million and ₱37,244 million, respectively. The major categories of plan assets are as follows:

	2018	2017
	(Amount in millions)	
Cash and cash equivalents	**₱1,807**	₱1,715
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	**2,787**	3,607
Banks	**954**	924
Property	**733**	934

(Forward)

	2018	2017
	(Amount in millions)	
Telecommunication	₱688	₱937
Electricity, energy, power and water	655	893
Food, beverages and tobacco	484	653
Retail	349	367
Transportation services	213	212
Construction, infrastructure and allied services	151	223
Mining	127	232
Others	1,297	1,517
Quoted debt investments		
"AAA" rated securities	13,501	14,085
Government securities	7,964	8,517
Unquoted investments		
Receivables	1,317	1,473
Others	1	1
Real property	1,014	954
Fair value of plan assets	₱34,042	₱37,244

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2018	2017	2016
		(Amounts in millions)	
Interest costs	₱78	₱85	₱80
Current service costs	24	25	28
	₱102	₱110	₱108

Other Long-term Post-employment Benefits Liability

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

	2018	2017
	(Amounts in millions)	
Balance at beginning of year	₱1,590	₱1,568
Interest costs	78	85
Current service costs	24	25
Benefits paid	(95)	(55)
Actuarial losses (gains) due to change in assumptions	36	(33)
Balance at end of year	₱1,633	₱1,590

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

Actuarial Assumptions

The principal assumptions used as at December 31, 2018 and 2017 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2018	2017
Annual discount rate	**7.24%**	5.00%
Future range of annual salary increases	**5.00 %- 11.00%**	6.00% - 8.00%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2018**	2017
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱1,911)**	(₱2,661)
	-1.0%	**2,267**	2,658
Future range of annual salary increases	+1.0%	**1,270**	1,666
	-1.0%	**(1,153)**	(1,665)

Funding

MERALCO contributes to the *Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the Fund in a sound condition, subject to the provisions of the Plan.

The amount of the annual contributions to the *Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation:

	2018	2017
	(Amounts in millions)	
Less than one (1) year	**₱3,064**	₱1,841
One (1) year up to five (5) years	**13,132**	8,242
More than five (5) years up to 10 years	**22,306**	14,715
More than 10 years up to 15 years	**16,459**	19,271
More than 15 years up to 20 years	**14,448**	19,221
More than 20 years	**19,315**	56,428

Risk

The *Fund* is exposed to the following risks:

Credit Risk
The *Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Fund*.

Share Price Risk
The *Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The price share risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk
Liquidity risk is the risk that the *Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱33 million, ₱26 million and ₱18 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

	2018	2017	2016
		(Amounts in millions)	
Expense recognized for defined benefit plans	₱997	₱772	₱1,139
Expense recognized for defined contribution plan	33	26	18
Retirement benefits expense	₱1,030	₱798	₱1,157

Long-term Incentive Plan ("LTIP")

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

26. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advances to an associate, advance payments to a supplier, financial assets at *FVOCI* and debt securities at *amortized cost*. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2018				
Noncurrent				
Other noncurrent assets	₱32,990	₱3,890	₱–	₱36,880
Current				
Cash and cash equivalents	36,471	–	–	36,471
Trade and other receivables	30,123	–	–	30,123
Other current assets	38,156	–	–	38,156
Total assets	₱137,740	₱3,890	₱–	₱141,630
Liabilities as at December 31, 2018				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱24,745	₱24,745
Customers' deposits - net of current portion	–	–	27,024	27,024
Refundable service extension costs - net of current portion	–	–	6,170	6,170
Current				
Notes payable	–	–	13,428	13,428
Trade payables and other current liabilities	–	–	55,706	55,706
Customers' refund	–	–	4,359	4,359
Current portion of interest-bearing long-term financial liabilities	–	–	1,843	1,843
Total liabilities	₱–	₱–	₱133,275	₱133,275

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2017				
Noncurrent				
Other noncurrent assets	₱32,397	₱4,360	₱–	₱36,757
Current				
Cash and cash equivalents	45,937	–	–	45,937
Trade and other receivables	26,288	–	–	26,288
Other current assets	17,414	–	–	17,414
Total assets	₱122,036	₱4,360	₱–	₱126,396
Liabilities as at December 31, 2017				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱24,786	₱24,786
Customers' deposits - net of current portion	–	–	24,000	24,000
Refundable service extension costs - net of current portion	–	–	6,012	6,012
Current				
Notes payable	–	–	13,586	13,586
Trade payables and other current liabilities	–	–	50,665	50,665
Customers' refund	–	–	4,603	4,603
Current portion of interest-bearing long-term financial liabilities	–	–	1,884	1,884
Total liabilities	₱–	₱–	₱125,536	₱125,536

Fair Values

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group*'s financial instruments:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Financial assets at amortized cost -				
Advance payments to a supplier and others	**₱3,806**	**₱3,785**	₱3,741	₱3,451
Financial assets at *FVOCI*	**3,890**	**3,890**	4,360	4,360
Debt securities at at amortized cost	**39,564**	**33,043**	36,181	35,172
	₱47,260	**₱40,718**	₱44,282	₱42,983
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	**₱26,588**	**₱27,620**	₱26,670	₱27,806

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Advances to an Associate, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 6.71% and 4.74% as at December 31, 2018 and 2017, respectively.

Financial assets at FVOCI

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

Debt securities at amortized cost

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

Meter Deposits and Customers' Refund

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

Bill Deposits

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

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.12% to 4.03% as at December 31, 2018 and 0.11% to 4.09% as at December 31, 2017.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Advance payments to a supplier and others	₱–	₱3,785	₱–	₱3,785	₱–	₱3,451	₱–	₱3,451
Financial assets at *FVOCI*	3,846	44	–	3,890	4,321	39	–	4,360
Debt securities at amortized cost	33,043	–	–	33,043	35,172	–	–	35,172
	₱36,889	₱3,829	₱–	₱40,718	₱39,493	₱3,490	₱–	₱42,983

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(Amounts in millions)							
Financial liabilities								
Interest-bearing long-term financial liabilities	₱–	₱27,620	₱–	₱27,620	₱–	₱27,806	₱–	₱27,806

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

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

Interest Rate Risk

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

The *MERALCO Group* 's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2018 and 2017.

The following table demonstrate the sensitivity analysis to a reasonable possible change in the fair value of financial assets:

	2018		2017	
	Increase (decrease) in bps	Effect on Income before Income Tax	Increase (decrease) in bps	Effect on Income before Income Tax
	(In %)	*(In millions)*	(In %)	*(In millions)*
PHP				
Government securities	+100	(₱198.1)	+150	(₱297.1)
	–100	198.1	–150	297.1
Corporate bonds	+100	(₱36.1)	+150	(₱54.2)
	–100	36.1	–150	54.2
USD				
Corporate bonds	+100	(₱15.2)	+150	(₱22.9)
	–100	16.1	–150	22.9

BUREAU OF INTERNAL REVENUE
APR 15 2019

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an

insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial portion of the *MERALCO Group*'s expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2018 and 2017, translated to Philippine peso at ₱52.58 and ₱49.93 to US$1, respectively.

	2018		2017	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$127**	**₱6,693**	$218	₱10,876
Trade and other receivables	**2**	**104**	2	104
Short-term investments	**119**	**6,237**	50	2,497
Advances to an associate	**114**	**5,969**	114	5,668
Debt securities at amortized cost	**20**	**1,052**	–	–
Financial assets at *FVOCI*	**5**	**263**	5	250
Advance payments to a supplier	**55**	**2,872**	55	2,762
	442	**23,190**	444	22,157
Financial liabilities -				
Trade payables and other liabilities	**(7)**	**(360)**	(4)	(182)
	$435	**₱22,830**	$440	₱21,975

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

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the years ended December 31, 2018 and 2017 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

	2018		2017	
	Appreciation (Depreciation) of U.S. Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets and financial liabilities	**+5**	**₱1,142**	+5	₱1,099
	–5	**(1,142)**	–5	(1,099)

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

Commodity Price Risk

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

Credit Risk

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

Trade and Other Receivables and Contract Assets

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and *ECL*s is a significant estimate. The amount of *ECL*s is sensitive to changes in circumstances and of forecast economic conditions. The historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future.

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

Set out below is the information about the credit risk exposure of the *MERALCO Group*'s trade and other receivables and contract assets using a provision matrix:

	2018							
	Billed electric receivables							
		Days past due						
	Current	1-30 Days	31–60 Days	61–90 Days	Over 90 Days	Unbilled receivables	Other receivables	Total
	(Amounts in millions, except % of ECL)							
ECL Rate	0.32%	1.30%	4.78%	14.15%	79.26%	0.15%	3.75%	
Estimated total gross carrying amount at default	₱4,535	₱2,561	₱727	₱249	₱1,565	₱1,385	₱8,536	₱19,558
Expected credit loss	14	33	35	35	1,240	3	320	1,680

Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

The *MERALCO Group* invests only in quoted debt securities with very low credit risk. The *MERALCO Group*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2018	2017
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	₱8,483	₱6,118
Cash equivalents	27,897	39,759
Trade and other receivables:		
Electricity	23,127	20,198
Service contracts	4,202	3,973
Unbilled receivables	–	753
Nontrade receivables	2,803	1,364
Other current assets:		
Short-term investments	21,769	2,532
Advances to an associate	6,007	5,703
Debt securities at amortized cost	10,193	9,001
Current portion of advance payments to a supplier	187	178
Other noncurrent assets:		
Debt securities at amortized cost	29,371	27,180
Financial assets at *FVOCI*	3,890	4,360
Advance payment to a supplier and others	3,619	3,563
	₱141,548	₱124,682

The credit quality of financial assets is managed by *MERALCO* using "High Grade", "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due using internal credit rating policies.

The following tables show the credit quality by asset class:

	2018					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱36,380	₱–	₱–	₱–	₱–	₱36,380
Trade and other receivables:						
Electricity	5,921	2,660	11,811	2,735	1,360	24,487
Service contracts	1,787	–	149	2,266	309	4,511
Nontrade receivables	2,393	4	–	406	2	2,805
Other current assets:						
Short-term investments	21,769	–	–	–	–	21,769
Advances to an associate	6,007	–	–	–	–	6,007
Debt securities at amortized cost	10,193	–	–	–	–	10,193
Current portion of advance payments to a supplier	187	–	–	–	–	187
Other noncurrent assets:						
Debt securities at amotized cost	29,371	–	–	–	–	29,371
Financial assets at *FVOCI*	3,890	–	–	–	–	3,890
Advance payment to a supplier and others	3,619	–	–	–	–	3,619
	₱121,517	₱2,664	₱11,960	₱5,407	₱1,671	₱143,219

	2017					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱45,877	₱–	₱–	₱–	₱–	₱45,877
Trade and other receivables:						
Electricity	4,817	2,089	9,438	3,854	3,307	23,505
Service contracts	1,443	–	186	2,344	223	4,196
Unbilled receivables	–	–	453	300	6	759
Nontrade receivables	895	26	173	270	2	1,366
Other current assets:						
Debt securities at amortized cost	9,001	–	–	–	–	9,001
Advances to an associate	5,703	–	–	–	–	5,703
Short-term investments	2,532	–	–	–	–	2,532
Current portion of advance payments to a supplier	178	–	–	–	–	178
Other noncurrent assets:						
Debt securities at amortized cost	27,180	–	–	–	–	27,180
Financial assets at *FVOCI*	4,360	–	–	–	–	4,360
Advance payment to a supplier and others	3,563	–	–	–	–	3,563
	₱105,549	₱2,115	₱10,250	₱6,768	₱3,538	₱128,220

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks, cash equivalents, advances to associates, *HTC* investments, *FVOCI* financial assets and advance payments to a supplier to counterparties with good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's

billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

  Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

  Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2018				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amounts in millions)		
Notes payable	₱806	₱12,835	₱–	₱–	₱13,641
Trade payables and other current liabilities	50,118	–	–	–	50,118
Customers' refund	4,359	–	–	–	4,359
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	246	1,194	14,984	12,103	28,527
Redeemable preferred stock	1,487	–	–	–	1,487
Customers' deposits	607	1,854	5,768	21,256	29,485
Refundable service extension costs	345	2,782	3,539	2,631	9,297
Nonrefundable liability related to asset funded by customers	127	127	127	364	745
Over-recoveries from transmission and *SL* charges	–	–	–	820	820
Total undiscounted financial liabilities	₱58,095	₱18,792	₱24,418	₱37,174	₱138,479

	2017				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amounts in millions)		
Notes payable	₱1,080	₱12,867	₱–	₱–	₱13,947
Trade payables and other current liabilities	45,425	–	–	–	45,425
Customers' refund	4,603	–	–	–	4,603
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	324	1,202	16,423	13,032	30,981
Redeemable preferred stock	1,496	–	–	–	1,496
Customers' deposits	1,094	1,885	5,089	18,911	26,979
Refundable service extension costs	84	2,177	4,646	1,366	8,273
Total undiscounted financial liabilities	₱54,106	₱18,131	₱26,158	₱33,309	₱131,704

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,149 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2018.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2018	2017
	(Amounts in millions, except debt to equity ratio)	
Long-term debt	**₱25,101**	₱25,174
Redeemable preferred stock	**1,487**	1,496
Notes payable	**13,428**	13,586
Debt (a)	**₱40,016**	₱40,256
Equity attributable to the holders of the parent (b)	**₱82,002**	₱73,610
Debt to equity ratio(a)/(b)	**0.49**	0.55

27. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	2018	2017
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*18 and 21*	**₱26,503**	₱23,021
Accrued employee benefits	*25*	**488**	1,235
Unfunded retirement benefits cost and unamortized past service cost	*25*	**1,332**	1,056
Allowance for expected credit losses	*12*	**438**	615
Allowance for excess of cost over net realizable value of inventories	*13*	**58**	58
Others		**221**	166
		29,040	26,151
Deferred income tax liabilities:			
Revaluation increment in utility plant and others	*15*	**6,896**	6,994
Actuarial gains	*25*	**1,536**	1,035
Capitalized interest		**750**	733
Capitalized duties and taxes deducted in advance		**602**	631
Depreciation method differential		**249**	434
Others		**274**	230
		10,307	10,057
		₱18,733	₱16,094

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2018	2017
	(Amounts in millions)	
Deferred income tax assets - net	**₱18,800**	₱16,146
Deferred income tax liabilities - net	**(67)**	(52)
	₱18,733	₱16,094

Provision for (benefit from) income tax consists of:

	2018	2017	2016
		(Amounts in millions)	
Current	**₱10,522**	₱10,031	₱10,099
Deferred	**(3,079)**	(2,668)	(2,746)
	₱7,443	₱7,363	₱7,353

The deferred tax assets charged directly to *OCI* amounted to ₱525 million (expense), ₱443 million (benefit) and ₱1,009 million (expense) for the years ended December 31, 2018, 2017 and 2016, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2018, 2017 and 2016, and provision for income tax as shown in the consolidated statements of income is as follows:

	2018	2017	2016
	(Amounts in millions)		
Income tax computed at statutory tax rate	**₱9,163**	₱8,359	₱8,008
Income tax effects of:			
Interest income subjected to lower final tax rate	**(845)**	(652)	(602)
Nondeductible interest expense	**349**	269	248
Nontaxable income	**(251)**	(10)	(234)
Equity in net losses (earnings) of associates and joint ventures	**217**	(66)	503
Difference in tax due resulting from *OSD* availment	**(2,025)**	(1,064)	(217)
Unrecognized deferred tax assets	**449**	533	–
Others	**386**	6	(353)
	₱7,443	₱7,363	₱7,353

On December 18, 2009, the *BIR* issued Revenue Regulations ("*RR*") No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions ("*OSD*"). Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2018 and 2017, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in taxable year 2019, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result to any future tax consequence under the *OSD* method.

Meanwhile, certain deferred income tax assets and liabilities expected to be recovered or settled in taxable year 2019, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under *OSD* method. Hence, the tax base of these deferred income tax assets and liabilities is reduced by the 40% allowable deduction provided for under the *OSD* method resulting into an adjusted tax rate of 18% from 30%.

The deferred income tax assets and liabilities expected to recovered or settled in taxable years 2020 onwards are still measured at the tax rate of 30% since *MERALCO* is expecting to adopt itemized deductions in computing its income tax liabilities for the said taxable years.

Accordingly, *MERALCO*'s net deferred tax assets as at December 31, 2018 and 2017, which were not recognized due to the expected use of the *OSD* method in the taxable year 2019 and 2018 are as follows:

	2018	2017
	(Amounts in millions)	
Deferred tax assets:		
Provisions for various claims	₱1,177	₱287
Allowance for expected credit losses	–	375
Others	32	55
	1,209	717
Deferred tax liabilities:		
Depreciation method differential	86	66
Revaluation increment in utility plant and others	53	57
Allowance for expected credit losses	32	–
Capitalized interest	28	27
Capitalized duties and taxes deducted in advance	23	24
Others	5	10
	227	184
	₱982	₱533

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover ("*NOLCO*") amounting to ₱1,940 million and ₱1,401 million as at December 31, 2018 and 2017, respectively. These are not recognized because the Company does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱1,940 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2016	December 31, 2019	₱465
December 31, 2017	December 31, 2020	613
December 31, 2018	December 31, 2021	862
		₱1,940

NOLCO amounting to ₱322 million, ₱500 million and ₱402 million expired in 2018, 2017 and 2016, respectively.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The *IRR* issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

28. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

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

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

As at December 31, 2018 and 2017, the amount of unissued *TCC*s amounting to ₱181 million, is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

See *Note 10 – Other Noncurrent Assets.*

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 26, 2019, the case is pending resolution by the *SC*.

LFT Assessments of Municipalities

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

RPT Assessments

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

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

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass through cost in the light of the *SC* Decision. Hearings have been completed and *MERALCO* filed its intervention and submitted its comments. As at February 26, 2019, the Petition is pending before the *ERC*.

See Note 18 – Provisions.

Mediation with NPC

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

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

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

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

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

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

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

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

With the dismissal of the petition filed by the *OSG* with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at February 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

APR 15 2019
EXCISE LT REGULATORY DIVISION

Sucat-Araneta-Balintawak Transmission Line

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

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City "the *Plaintiffs*", filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 *kV* line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

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

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

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply

Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

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

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

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

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 26, 2019, *MERALCO*'s Manifestation and Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 26, 2019, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

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

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 26, 2019, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

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

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the

CA on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum. As at February 26, 2019, *PSALM*'s Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2019, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field, shutdown from November 11 to December 10, 2013.

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

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

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

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

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2019, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

ERC IU Complaint

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

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

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

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

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

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

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

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

APR 15 2019

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

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

SPPC vs. PSALM

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

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC*-Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC*-Mandaluyong issued an Order dated June 27, 2016 denying the *MR*s. *PSALM* has elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC*-Mandaluyong. As at February 26, 2019, hearings are ongoing before the new presiding judge.

Ombudsman Cases Against Directors

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

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being

violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. As at February 26, 2019, *MERALCO* is awaiting further action of the Office of the Ombusdman on the matter.

Others

Liabilities for certain local taxes amounting to ₱2,688 million and ₱2,810 million as at December 31, 2018 and 2017, respectively, are included in the "Other noncurrent liabilities" account in the consolidated company statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

29. Significant Contracts and Commitments

MERALCO

Contracts for the CSE and *PSAs with Privatized Plants* and *IPPAs*

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, separate *PSAs* with *TLI* and *SMEC* were executed on February 29 and June 26, 2012, respectively. These *PSAs* are for a period of seven (7) years, extendable for three (3) years upon agreement of the parties. Thereafter, applications for approval of the *PSAs* were filed with the *ERC*.

MPower likewise signed separate *PSAs* with *SPPC*, *MPPCL*, *Sem-Calaca*, and *TLI* on December 12, 2011, March 16, 2012, June 25, 2012, October 10, 2012 and October 19, 2012, respectively.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSAs* of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

MRs were filed regarding the *ERC* decisions on the *PSAs* with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MRs*. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order. In an Order dated May 29, 2018, the *ERC* partially granted the Motion for Partial Reconsideration on the *PSA* with *Sem-Calaca*. On July 25, 2018, *MERALCO* filed a motion for clarification of the said Order which, as at February 26, 2019, remains pending for resolution of the *ERC*. Meanwhile, the terms of the *PSA* with *Sem-Calaca* expired on December 25, 2018.

MERALCO entered into separate Supplemental Agreements with *MPPCL* and *TLI* on April 8 and 27, 2016, respectively, for the extension of the term of these *PSAs* for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the *ERC*.

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

Year	Contracted Capacity	Fixed Payment Amount
	(In Megawatt)	*(In millions)*
2019	2,894	₱35,695
2020	1,624	24,706
2021	1,114	14,984
2022	1,114	15,073
2023	1,714	27,090
2024-2030	13,774	243,296

On January 1, 2018, the *Tax Reform for Acceleration and Inclusion* ("*TRAIN*") Law became effective. Among other things, the *TRAIN* Law increased the excise tax on coal from ₱10.00 per metric ton to ₱50.00 per metric ton, effective January 1, 2018. This tax is to increase year on year, up to ₱150.00 per metric ton for coal, effective January 1, 2020. Under *MERALCO*'s *PSA* with *TLI*, should there be any increase in existing charges, fees, taxes, duties assessments, or other similar amounts, a party to the *PSA* may claim the same as a charge due to change in law, upon *ERC* approval thereof. On July 19, 2018, *MERALCO* and *TLI* filed a joint application for approval of recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law. On November 9, 2018, the parties filed their joint *FOE*. As at February 26, 2019, the parties await decision of the *ERC*.

FGPC and *FGP*

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

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

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

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

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. Under the terms of the amended *PPA*, *MERALCO* is committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 2025.

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

See *Note 10 – Other Noncurrent Assets.*

Committed Energy Volume to be Purchased

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

Year	MEQ	Equivalent Amount
	(In million kwh)	*(In Millions)*
2019	14,195	₱25,684
2020	14,195	25,835
2021	14,195	25,990
2022	14,195	26,148
2023	14,195	26,310
2024-2030	35,661	57,585

Philippine Power and Development Company ("Philpodeco")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. As at February 26, 2019, the case is pending decision by the *ERC*.

Bacavalley Energy Inc. ("*BEI*")

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 16, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for another extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 26, 2019, the contract term has expired and *MERALCO* is awaiting the *ERC*'s decision.

Pangea Green Energy Philippines, Inc. ("*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 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. As at February 26, 2019, the contract term has expired and the Decision remains pending with the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed the one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 26, 2019, the contract term has expired and the decision remains pending with the *ERC*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electric output with *SBPL*. *SBPL* will be constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Bacman Geothermal, Inc. ("*BGI*")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. As at February 26, 2019, the case is pending decision by the *ERC*.

RP Energy

On April 20, 2016, *MERALCO* signed a 20-year *PSA* with *RP Energy* for the purchase of 225 *MW* capacity and energy from the first 300 *MW* unit of 2 x 300 *MW* coal-fired power plant that *RP Energy* intends to construct, own, operate, manage and maintain in Subic, Zambales, within the Subic Bay Freeport Zone. On April 29, 2016, the Joint Application for approval of the said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *RP Energy* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s which the *ERC* likewise denied in an order dated November 17, 2017. On January 5, 2018, the *ERC* conducted a hearing for the purpose of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. However, despite the case having been submitted for decision, the *ERC* hearing officer allowed an oppositor to submit his written comment/opposition to the continuation of the proceedings. On January 15, 2018, a written comment/opposition was filed by oppositor and on January 19, 2018, *MERALCO* filed its opposition to the said comment/opposition. As at February 26, 2019, the case is pending decision by the *ERC*.

A1E

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *A1E* for the purchase of 1,200 *MW* of electric output from the 2 x 600 *MW* supercritical coal-fired power generating facility that *A1E* intends to construct, own, operate, manage and maintain in Atimonan, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After completion of the hearings and filing by *MERALCO* and *A1E* of their respective *FOE* on March 8, 2017, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On March 29, 2017, *MERALCO* and *A1E* filed their Joint Urgent Motion to Resolve. On May 22, 2017, *A1E* filed its Manifestation for Urgent Resolution. Thereafter, on May 23, 2017, *MERALCO* and *A1E* both filed separate letters for Urgent Resolution of the case. On October 19, 2017, *MERALCO* filed its Third Urgent Motion to Resolve. Then on November 8, 2017, *MERALCO* received *A1E's* Urgent Motion for Resolution. On August 30, 2018, *A1E* filed another Very Urgent Motion for Resolution of the case, and it was followed by *MERALCO*'s Extremely Urgent Motion to Resolve filed on September 10, 2018. Thereafter, on September 14, 2018, *MERALCO* and *A1E* filed a Joint Manifestation with Extremely Urgent Motion for Resolution. As at February 26, 2019, the case is pending decision by the *ERC*.

St. Raphael

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *St. Raphael* for the purchase of up to 400 *MW* of electric output from the 2 x 350 *MW* coal-fired power generating facility that *St. Raphael* intends to construct, own, operate, manage and maintain in Calaca, Batangas. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *St. Raphael* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On January 10, 2018, the *ERC* conducted a hearing for the purpose

of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. Nevertheless, on April 13, 2018, the *ERC* issued an Order directing *MERALCO* and *St. Raphael* to submit additional compliance documents (all to be provided by *St. Raphael*) in order to aid *ERC* in its evaluation of the present case. In a Compliance dated June 18, 2018, *St. Raphael*, from whom all of *ERC*'s requested documents are to come, completed its submissions. At the same time, per directive of the *ERC*, *MERALCO* and *St. Raphael* submitted their respective comments on *MSK's Manifestation and Prayer* on June 8, 2018 and July 3, 2018. As at February 26, 2019, the case is pending decision by the *ERC*.

Central Luzon Premiere Power Corp. ("*Central Luzon Power*")

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Central Luzon Power* for the purchase of up to 528 *MW* of electric output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Central Luzon Power* intends to construct, own and operate in Pagbilao, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated January 25, 2017, the *ERC* held the processing of the application in abeyance. On March 2, 2017, *MERALCO* received the *MR* of *Central Luzon Power* on of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Cental Luzon Power* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC*. *Central Luzon Power* filed a pleading explaining status of the *ECC* application. As at February 26, 2019, further *ERC* action is pending.

Mariveles Power

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Mariveles Power* for the purchase of up to 528 *MW* of electric output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Mariveles Power* intends to construct, own and operate in Mariveles, Bataan. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On September 30, 2016, *Mariveles Power* filed a *MR* of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Mariveles Power* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC*. *Mariveles Power* filed a pleading explaining status of the *ECC* application. As at February 26, 2019, further *ERC* action is pending.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility that *PEDC* owns and operates in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that *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 January 17, 2017, *MERALCO* received a letter dated November 23, 2016, informing *MERALCO* that

ERC provisionally approved the *PSA*. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 26, 2019, further *ERC* action is pending.

Meanwhile, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On January 15, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor, a consumer group, a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. On January 19, 2018, *MERALCO* received a motion filed by an oppositor before the *CA* seeking additional time to file a Petition for Review. On January 26, 2018, *MERALCO* received the Petition for Review. In a decision dated February 28, 2018, the *CA* denied the Petition, prompting the oppositor's filing of an *MR*. On December 3, 2018, *MERALCO* received the *CA*'s Notice of Resolution grating the oppositor's *MR* without necessarily giving due course to the oppositor's Petition for Review and requiring *MERALCO* and *PEDC* to file their respective comments thereto. *MERALCO* and *PEDC* have filed their respective comments. On December 7, 2018, *MERALCO* filed its Comment with Opposition to the *CA*'s Resolution. As at February 26, 2019, the case is awaiting further action from the *CA*.

Global Luzon Energy Development Corporation ("*GLEDC*")

On April 27, 2016, *MERALCO* signed a 20-year *PSA* with *GLEDC* for the purchase of 600 *MW* of electric output from the 2 x 335 *MW* coal-fired power generating facility that *GLEDC* intends to construct, own, operate, manage and maintain in Luna, La Union. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On October 21, 2016, *MERALCO* received *GLEDC*'s *MR* of the said Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a motion seeking the dismissal of the case, to which *MERALCO* filed an Opposition. On March 6, 2018, *GLEDC* filed a Manifestation updating the *ERC* of the status of its *ECC* Application. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *GLEDC* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC*. *GLEDC* initially filed a pleading explaining status of the *ECC* application. *GLEDC* thereafter filed a Compliance with the *ERC* submitting the *ECC* granted to it by the *DENR* and moved that the August 9, 2016 Order of the *ERC* be lifted so that the case can proceed. As at February 26, 2019, the case is still awaiting further action from the *ERC*.

First Bulacan

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *First Bulacan* for the purchase of 50 *MW* of electric output from its solar plant in San Miguel, Bulacan. On February 23, 2017, after conduct of a Competitive Selection Process ("*CSP*") wherein *First Bulacan* was declared as the winning power supplier, the application for approval of the *PSA* with *First Bulacan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In an Order dated November 28, 2017, the *ERC* resolved to grant interim relief for approval of the *PSA*. *First Bulacan* filed a Motion for Reconsideration and an Urgent Motion to Resolve the Motion for Reconsideration, which sought reconsideration of the Order of interim relief. As at February 26, 2019, both are pending resolution by the *ERC*.

Solar Philippines Tanauan Corporation ("*Solar Philippines Tanauan*")

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In a letter dated December 29, 2017, the *ERC* informed *MERALCO* and *Solar Philippines Tanauan* that the *ERC* resolved to grant an interim relief for approval of the *PSA*. However, such interim relief is not contemplated under the *PSA* and the parties have yet to implement the *PSA*.

Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")

On October 6, 2017, after being declared the winner power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order dated November 28, 2017, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* have agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration. As at February 26, 2019, the Motion for Partial Reconsideration is still pending resolution by the *ERC*.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. In an Order dated June 5, 2018, *ERC* granted interim relief to provisionally implement the *PSA*. On June 26, 2018, *MERALCO* and *FNPC* implemented the *PSA* based on the June 5, 2018 Order of the *ERC*. On August 8, 2018, a party filed an intervention to the case. *MERALCO* and *FNPC* filed their Comment/Opposition to said intervention. *FNPC* thereafter filed a Compliance with Motion for Confidential Treatment of Information. Thereafter, the pre-trial conference on the case was concluded. As at February 26, 2019, the parties are awaiting the order of the *ERC* resolving the intervention and *FNPC's* Compliance with Motion by the *ERC* and setting the case for another hearing.

Interim Power Supply Agreements ("IPSAs")

On January 19, 2016, after the conduct of a price challenge in compliance with *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 *MW* (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 215 *MW* bunker oil-fired diesel engine power plant in Bauang, La Union. The term of the *IPSA* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to two (2) times, unless terminated by either party prior to the expiration of its term. The *IPSA* was filed for approval by the *ERC* on February 10, 2016 and shall become effective upon the approval by the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved the *IPSA*. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed 1590 Energy Corporation that it is no longer interested in renewing the *IPSA*, thus, the *IPSA* will only be until February 25, 2017. As at

February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 21, 2016, after the conduct of a price challenge in compliance to *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two (2) separate *IPSAs* with the following wholly owned subsidiaries of *GBPC*, namely; (i) *TPC* for the 28 *MW* (firm) output from its 40 *MW* diesel-fired power plant in Carmen, Toledo City; and (ii) *PPC* for the 45 *MW* (firm) output from its 72 *MW* diesel-fired power plant in La Paz, Iloilo City. The term of the *IPSAs* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to four (4) times, unless terminated by either party prior to the expiration of its term. On February 10, 2016, both *IPSAs* were filed for approval of the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved these *IPSAs*.

On January 26, 2017, considering the imminent Malampaya shutdown from January 28 until February 16, 2017, *MERALCO* agreed to extend the *IPSAs* with *TPC* and *PPC* until February 25, 2018, provided that beginning January 28, 2017, (i) supply from *TPC* and *PPC* will be through replacement energy at a price lower than the contract price and (ii) supply from *PPC* will be on a firm basis until August 25, 2017, and on a non-firm basis from August 26, 2017 until end of the term thereof. All other terms and conditions under the *IPSAs*, as may be approved by the *ERC*, remain the same. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed *TPC* and *PPC* that it is no longer interested in renewing their respective *IPSAs*, thus, the *IPSAs* will only be until February 25, 2018. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

CEDC

SMEC

On March 20, 2013, *CEDC* and *SMEC*, as the Independent Power Producer Administrator of the Sual coal fired thermal power plant, entered into a *PSA* through December 25, 2019, unless terminated earlier in accordance with the terms of the Agreement. The initial contracted capacity from the plant was pegged at 55,000 *kWh* which may be increased up to 70,000 *kWh*.

On July 28, 2015, *CEDC* and *SMEC* filed a joint application for the amendment of the *PSA* for "*SMEC* to offer replacement contract capacity and associated energy form other sources, provided, such shall be lower than its forecast replacement power cost from *WESM*".

On September 30, 2016, the *ERC* approved an interim relief to allow *CEDC* to procure additional supply from *SMEC* in light of the planned outage of Sual Unit 1 from October 2016 to November 2016.

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

SPDC

On February 20, 2017, *CEDC* executed an agreement for the supply of Contract Electric Energy with *SPDC*, the Independent Power Producer Administrator of the 345 *MW* San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *CEDC* and *SPDC* agreed that the latter shall supply a total of 25 *MW*, consisting of 20 *MW* firm and 5 *MW* non-firm capacities during Mondays to Saturdays. This *PSA* was entered into by *CEDC* to diversify its source of capacity and also to mitigate its exposure to the *WESM* during the outages of its then lone power supplier, *SMEC*. The *PSA* was jointly filed by *CEDC* and *SPDC* on May 19, 2017 for *ERC* approval. As at February 26, 2019, no decision has been received from the *ERC* with regard to the application.

TransCo/ NGCP

CEDC entered into a Transmission Service Agreement ("*TSA*") with *TransCo* beginning March 30, 2006 until terminated, in accordance with the Open Access Transmission Service ("*OATS*") rules.

In January 2009, by virtue of *RA* No. 9511, *NGCP* has acquired the franchise to engage in *TransCo*'s business of conveying or transmitting electricity. *NGCP* eventually became *CEDC*'s transmission service supplier upon taking over the whole of *TransCo*'s regulated business.

With the termination of the previous *TSA*, *CEDC* executed a *TSA* on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules. The term of the *TSA* ends on December 25, 2018.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation ("Alternergy")

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for the latter's 90 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO's* Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2017. In the letter agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalize the extended use of said line.

Interconnection Agreement with Alternergy Sembrano Wind Corporation ("Alternergy Sembrano")

On March 23, 2017, *MERALCO* signed an Interconnection Agreement with *Alternergy Sembrano* for the latter's 81 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall also interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy Sembrano* is also an embedded generator. On May 4, 2018, *Alternergy Sembrano* filed an Application with the *ERC* to develop, own and/or operate a dedicated point-to-point 115 *kV* line connecting its generating facility to *MERALCO*'s system. On November 15, 2018, the said case was submitted for decision by the *ERC*.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for the latter's 20 *MW* (with maximum capacity of 40 *MW*) geothermal facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*'s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115*kV* line connecting its generating facility to *MERALCO*'s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*'s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter's 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*'s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*'s system. In its Decision dated June 8, 2015, the *ERC* approved *ATN's* application for authority to develop, own and operate a dedicated point-to-point lines and facilities.

Lease Agreement with CDC

On June 23, 2004, *CEDC* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succedding six (6) years.

Investment and Management Agreement with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO* II for a period of 20 years. *PELCO* II is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO* II's electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO* II.

Agreement and Registration with PEZA

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Phinma Energy* for the sale of power to *CEZ* and its locators beginning January 26, 2013. Said tripartite agreement was extended several times. The last extension was through the letter dated December 22, 2017, extending the tripartite agreement until December 25, 2019.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

30. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2018	2017	2016
		(Amounts in millions)	
Net income attributable to equity holders of the Parent (a)	**₱23,017**	₱20,384	₱19,176
Weighted average common shares outstanding (b)	**1,127**	1,127	**1,127**
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱20.42**	₱18.09	₱17.01

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2018 and 2017.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

31. Other Matters

Revised SL Caps

On December 8, 2008, the *ERC* promulgated resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting their January 2010 billing. The said cap is one (1) percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme ("*PIS*") under the *PBR*.

On October 4, 2016, a legislator proposed a bill to lower the current cap of *SL* rate from 8.5% to 5% for private *DU*s and from 13% to 10% for electric cooperatives and to exclude non-technical *SL* and electricity used by the private *DU*s and electrical cooperatives from what may be passed on to

consumers as *SL* charges. As at February 26, 2018, this proposed bill is still subject for deliberation of the Senate.

On May 9, 2017, the *ERC* posted on its website the draft rules on the Proposed Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The *ERC* engaged a third party consultant to conduct the study on the *SL* of *DU*s and propose new caps. Said rules proposed different *SL* caps according to four (4) clusters. Electric cooperatives ("*EC*") were grouped in clusters 1 to 3 and private *DU*s in cluster 4. *EC*s and *DU*s in clusters 1 to 4 have proposed system loss caps of 11.5%, 10%, 7.75%, and 4%, respectively. These caps, which include feeder technical loss and nontechnical loss but exclude sub- transmission and substation technical losses are proposed to be implemented based on the *DU*'s next regulatory reset schedule. For *MERALCO*, the proposed implementation date is July 2019. A series of public consultations and focus group discussions followed, the latest of which was a public consultation for Mindanao stakeholders held in Pasig City on August 9, 2017. In said public consultation, the third party consultant proposed a graduated reduction in system loss caps per cluster. Beginning 2018, *EC*s in clusters 1 to 3 shall have a cap of 12% and *DU*s in cluster 4 shall have a cap of 8%, all of which exclude subtransmission and substation system losses. The caps of cluster 1 to 3 will remain/be lowered to 12%, 10.25%, 8.25% by 2022, respectively. For private *DU*s, the cap will be reviewed based on their submission of annual feeder data to the *ERC*. If private *DU*s fail to submit one (1) year data (from 2018-2020), its cap in 2022, shall be set at 4.75% excluding subtransmission and substation *SL*. The latest proposal of the third party consultant also includes a 1% cap on subtransmission and substation *SL* which was not previously capped in the original draft rules.

On February 23, 2018, the *ERC* posted in its website its Rules for Setting the Distribution System Loss ("*DSL*") Cap and Establishing Performance Incentive Scheme for Distribution Efficiency.

The Rules allow for a gradual reduction of Feeder System (Primary and Secondary Distribution System) Loss caps as follows:

Year of Implementation	*EC* Cluster 1	*EC* Cluster 2	*EC* Cluster 3	Cluster 4 (Private *DU*s)
		(in percentage)		
2018	12.00	12.00	12.00	6.50
2019	12.00	11.00	11.00	6.25
2020	12.00	10.25	10.00	6.00
2021	12.00	10.25	9.00	5.50
2022 and onwards	12.00	10.25	8.25	4.75*

*if no annual submission of feeder data.

On May 7, 2018, the *ERC* posted on its website Resolution No. 10, Series of 2018, or "A Resolution Clarifiying the System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap". The Resolution was issued in response to the request for clarification of *EC*s on certain issues regarding the Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency was published on the same day. Accordingly, the prescribed system loss cap shall be effective on the next billing cycle of the *DU*s customers.

Subtransmission and substation loss is fully recoverable. However, if *DUs* do not submit monthly metered subtransmission and substation distribution loss data, such losses, as well as distribution feeder losses, will be set to zero in the computation of the recoverable system loss charge. The *DU* may also elect for an individualized *DSL* cap.

Benefit-Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with *PEPOA* and Philippine Rural Electric Cooperative Association ("*PHILRECA*"), filed a joint petition to the *ERC* to initiate rule-making to adopt the Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users. This was aimed to encourage the *DUs* to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower *SL* charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities. As at February 26, 2019, the Joint Petition is pending further action or decision by the *ERC*.

RCOA

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

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

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

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

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

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

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

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

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

4. Imposes upon all *RES*s, including *DU*-affiliate *RES*s, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,

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

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

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

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

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

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

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

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

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at February 26, 2019, the *ERC* has yet to respond to *MERALCO*'s letter.

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average generated weighted average price ("*GWAP*") of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or secondary cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (i) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (ii) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such resolution; and (iii) extend the effectivity of the secondary cap mechanism for a period of 120 days from August 10, 2014 or until the *ERC* establishes a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure which shall be applied in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold ("*CPT*") amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*'s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 26, 2019, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, "A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*". They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5) -day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

PEZA – ERC Jurisdiction

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

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

Purchase of Subtransmission Assets ("*STAs*")

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

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015. During the hearing, *TransCo* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

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

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015,

Labrador and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which is pending resolution. In a Letter dated December 27, 2017, *Labrador* denied *TransCo*'s request for settlement of the warrant of distraints issued by said city against *TransCo*'s properties, including the subject properties for local business tax claims. As at February 26, 2019, *MERALCO* is awaiting for *CA*'s decision before any action may be taken in relation to the contract to sell.

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

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board ("*NREB*") filed its Petition to Initiate Rule Making for the Adoption of *FiT*. The Petition proposed a specific *FiT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FiT* Rates lower than the rates applied by the *NREB*.

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

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

On July 30, 2014, *TransCo* filed its Application for Approval of the *FiT-All* for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FiT-All* of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. The parties have been directed to submit their respective memoranda.

On April 30, 2014, the *DOE* issued a certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its certification, the *DOE* stated that "solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016".

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FiT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, the *ERC* issued a Decision dated March 27, 2015 setting the new solar *FiT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FiT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FiT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FiT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FiT*. In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a *MR* on the Decision. As at February 26, 2019, the *MR* is pending further action of the *ERC*.

On December 22, 2015, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2016. In an Order dated February 16, 2016, the *ERC* provisionally approved a *FiT-All* of ₱0.1240 per *kWh* effective in the succeeding billing period after *TransCo* received the Order. The *FiT-All* was implemented starting April 2016 billing month. In a Decision dated May 9, 2017, the *ERC* approved the final *FiT-All* for calendar year 2016 of ₱0.1830 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FiT-All* rate was implemented starting June 2017 billing.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FIT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*.

On December 1, 2016, *TransCo* filed for an application with the *ERC* seeking to collect a *FiT-All* rate of ₱0.2291 per *kWh* for 2017. In a Decision docketed May 11, 2018, the *ERC* approved the final *FiT-All* for calendar year 2017 of ₱0.2563 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FiT-All* rate was implemented starting June 2018 billing.

On August 30, 2017, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2018 seeking to collect a *FiT-All* rate of ₱0.2932 per *kWh*. The case has been submitted for decision of the *ERC*.

On July 27, 2018, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2019 seeking to collect a *FiT-All* rate of ₱0.2780 per *kWh*, effective January 2019 billing. As at February 26, 2019, proceedings in the case are on going.

On November 23, 2018, the *ERC* issued an Order and Notice of Proposed Rule Making to review and re-adjust the Run-of-River ("*ROR*") Hydro and Biomass *FiT* rates due to the extension by the *DOE* of the *FiT* eligibility of of *ROR* Hydro and Biomass for an additional 2 years, or from January 1, 2018 up to December 31, 2019, or upon successful commissioning of the remaining balance of their respective installation targets, whichever comes first. The petition for rule making stemmed from the endorsement by the *NREB* of submissions from PhilHydro Associations, Inc. and Biomass Renewable Energy Alliance ("*BREA*"), which sought for the currently degressed *FiT* rates of ₱5.8705 per *kWh* for ROR Hydro and ₱6.5969 per *kWh* for Biomass. The public consulations by the *ERC* concluded last January 18, 2019 and parties await further action by the *ERC*.

Recovery of National Power Corporation's ("NPC") Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*'s petition for the recovery of *NPC*'s stranded contract costs portion of the universal charge. Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

Net Metering Program

The *RE* Act mandates the *DU*s to provide the mechanism for the "physical connection and commercial arrangements necessary to ensure the success of the *RE* programs", specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DU*s.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the *ERC* in due course. In the meantime, the *DU*s' blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. As at December 31, 2018, *MERALCO* has already installed 1,831 meters and energized 1,695 net metering customers.

Interruptible Load Program ("*ILP*")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program" and *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program".

As at December 31, 2018, there are 162 companies with a total committed de-loading capacity of 584 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

Prepaid Retail Electricity Service ("PRES")

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2018, there are 101,844 customers availing of *PRES*.

CSP for PSAs

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DU*s to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy ("*DASAP*"). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, "Providing Policies for Further Enhancement of the *WESM* Design and Operations", prescribing *DU*s to procure all its uncontracted demand through *CSP*, through the participation of a third party and which may be done by *DU*s on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines ("*IG*"). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and the *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On the same date, the *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

- All *DU*s are required to undergo *CSP*. Pending the *ERC's* issuance of a prescribed process, *DU*s may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.

- A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.

- The *CSP* requirement shall apply to *PSA*s that although executed, have not yet been filed for approval before the *ERC*.

On March 15, 2016, the *ERC* released Resolution No. 1, Series of 2016 entitled, "A Resolution Clarifying the Effectivity of *ERC* Resolution No. 13, Series of 2015". In this new Resolution, the *ERC* clarified that after judicious study and due consideration of views raised by different industry stakeholders, it has resolved that:

- The effectivity of *ERC* Resolution No. 13, Series of 2015 is hereby restated to be April 30, 2016.

- On the other forms of *CSP* referred to in Section 2 of the *ERC* Resolution No. 13, Series of 2015, these should likewise comply with the minimum terms of reference and the requirement of at least two (2) qualified bids for the *CSP* to be considered successful.

In reference to *PSA*s with provisions allowing the automatic renewal or extension of their term, *PSA*s that were previously approved by the *ERC* or filed with the *ERC* before the effectivity of this Resolution may have one (1) automatic renewal or extension for a period not exceeding one (1) year from the end of their respective terms. Upon effectivity of this Resolution, automatic renewal clauses or extension of *PSA*s shall no longer be permitted.

On November 18, 2016, *MERALCO* received a copy of the Petition dated April 28, 2016 filed by a consumer group in the *SC* against the *ERC*, *DOE*, *MERALCO*, *Central Luzon Power*, *St. Raphael*, *PEDC*, *Mariveles Power*, *A1E*, *RP Energy* and the Philippine Competition Commission which sought to declare as void Resolution No. 1, Series of 2016 and to mandate the *ERC* to disapprove all *PSA* applications for failing to comply with the *CSP* requirement. In a Resolution dated November 16, 2016, the *SC* directed all parties to comment on the Petition. *MERALCO* has filed its comments to the Petition. In a Resolution dated June 17, 2017, the petitioners were directed to file their replies to the comments filed by respondents.

On February 9, 2018, the *DOE* published *DOE* Circular No. DC2018-02-0003, entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market". Upon effectivity of the Circular, all prospective *PSA*s in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the Circular involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

i. Generation project owned by the *DU* funded by grant or donations
ii. Negotiated procurement of emergency supply
iii. Provision of supply in off-grid areas prior to the entry of New Power Providers
iv. Provision of supply by PSALM through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*

*PSA*s that were granted exemption from *CSP* shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). Each *CSP* shall be completed within five (5) months from the time of the publication of the Invitation to Bid until submission of the *PSA* to the *ERC*.

Direct negotiations may be made by the *DU*s after at least two (2) failed *CSP*s and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

i. No proposal was received by the *DU*
ii. Only one (1) generator submitted an offer
iii. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

Within 60 days upon effectivity of the Circular, the *ERC* shall develop rules and procedures to: (i) support the Circular, including guidelines for *TPA* accreditation and a *PSA* template, and (ii) address disputes arising from the conduct of the *CSP*. On April 26, 2018, the *ERC* posted in its website the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements ("*PSA*") Entered into by Distribution Utilities for the Supply of their Captive Market". *ERC* has conducted a public consultation and received comments thereon. On September 28, 2018, the *ERC* posted on its website the second draft of the said Rules. *ERC* has conducted another round of public consultations and received comments thereon. As at February 26, 2019, *MERALCO* is awaiting the rules and procedures to be promulgated by the *ERC*.

True-up Adjustments of Fuel and Purchased Power Costs ("TAFPPC") and Foreign Exchange-Related Costs ("TAFxA")

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether or they were covered or not during the relevant test periods. As at February 26, 2018, The *ERC* has yet to act on the Motion.

32. Event After the Financial Reporting Date

On February 26, 2019, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.59 a share to all shareholders of record as at March 22, 2019, payable on April 15, 2019.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and Subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this SEC Form 17-A and have issued our report thereon dated February 26, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332621, January 3, 2019, Makati City

February 26, 2019

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2018
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2018	Additions	Collections	Amount written off	Current	Noncurrent	December 31, 2018
Comstech Integration Alliance, Inc.	254	-	(2)	-	252	-	252
Meralco Energy Inc.	25	2	(18)	-	9	-	9
Miescor Builders, Inc.	16	1	(13)	-	4	-	4
Miescor Logistics, Inc.	13	10	(18)	-	5	-	5
Meralco Industrial Engineering Services Corporation	7	16	(18)	-	5	-	5
Radius Telecoms, Inc.	9	22	(28)	-	3	-	3
MRAIL, Inc.	4	-	(1)	-	3	-	3
eSakay, Inc.	-	1	-	-	1	-	1
Corporate Information Solutions, Inc.	1	-	(1)	-	-	-	-
	329	**52**	**(99)**	**-**	**282**	**-**	**282**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule D: The Movement of Intangible Assets (Included under Other Noncurrent Assets)

As at December 31, 2017

(Amounts In Millions Pesos)

Description	January 1, 2018	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	December 31, 2018
Software	2,050	435	(614)	-	-	1,871
Land and leasehold rights	155	-	(18)	-	-	137
Franchise	49	-	-	-	-	49
TOTAL	**2,254**	**435**	**(632)**	**-**	**-**	**2,057**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule E: Interest Bearing Long-term Financial Liabilities

As at December 31, 2018

(Amounts In Million Pesos)

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Fixed Rate Bonds:			
P11,500 Million, 7-Year Bonds	11,500	-	11,500
P7,000 Million , 12-Year Bonds	7,000	-	7,000
Fixed Rate Loans:			
P7,200 Million, 10-Year Note Facility	7,200	360	5,400
P600 Million, 10-Year Term Loan Facility	600	-	540
P350 Million, 5-Year Note Facility	350	-	350
P130 Million, 7-Year Term Loan Facility	130	23	35
Redeemable Preferred Stock		1,487	-
Total		1,870	24,825
Less Unamortized debt issue cost		27	80
Balance at the end of the year		**1,843**	**24,745**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule H. Capital Stock
As at December 31, 2018
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	1,250	1,127	-	890	1	236

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I. List of Effective Standards and Interpretations
As at December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (issued as of December 31, 2016)		ADOPTED	NOT ADOPTED	NOT APPLICABLE
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	X		
PFRS 2	Share-based Payment	X		
	Amendment to PFRS 2: Classification and Measurement of Share-based Payment Transactions	X		
PFRS 3 (Revised)	Business Combinations	X		
	Amendment to PFRS 3: Definition of a Business		Not Early Adopted	
	Amendment to PFRS 3: Previously Held Interest in a Joint Operation	X		
PFRS 4	Insurance Contracts	X		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			X
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	X		
PFRS 6	Exploration for and Evaluation of Mineral Resources			X
PFRS 7	Financial Instruments: Disclosures	X		
PFRS 8	Operating Segments	X		
PFRS 9	Financial Instruments	X		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		Not Early Adopted	
PFRS 10	Consolidated Financial Statements	X		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Not Early Adopted	
PFRS 11	Joint Arrangements	X		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	X		
	Amendments to PFRS 11: Previously Held Interest in a Joint Operation	X		
PFRS 12	Disclosure of Interests in Other Entities	X		
PFRS 13	Fair Value Measurement	X		
PFRS 14	Regulatory Deferral Accounts	X		
PFRS 15	Revenue from Contracts with Customers	X		
PFRS 16	Leases		Not Early Adopted	
PFRS 17	Insurance Contracts		Not Early Adopted	
Philippine Accounting Standards				
PAS 1 (Revised)	Amendments to PAS 1: Presentation of Financial Statements	X		
	Amendments to PAS 1: Definition of Material		Not Early Adopted	
PAS 2	Inventories	X		
PAS 7	Statement of Cash Flows	X		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material	X		
PAS 10	Events after the Reporting Date	X		
PAS 12	Income Taxes	X		
	Amendment to PAS 12: Income Tax Consequences of Payments on Financial Instruments Classified as Equity		Not Early Adopted	
PAS 16	Property, Plant and Equipment	X		
PAS 17	Leases	X		
PAS 19 (Amended)	Employee Benefits	X		
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement		Not Early Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			X
PAS 21	The Effects of Changes in Foreign Exchange Rates	X		
PAS 23 (Revised)	Borrowing Costs	X		
	Amendments to PAS 23: Borrowing Costs Eligible for Capitalization		Not Early Adopted	
PAS 24 (Revised)	Related Party Disclosures	X		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			X
PAS 27 (Amended)	Separate Financial Statements	X		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	X		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Not Early Adopted	
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value	X		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		Not Early Adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies			X
PAS 32	Financial Instruments: Presentation	X		
PAS 33	Earnings per Share	X		
PAS 34	Interim Financial Reporting	X		
PAS 36	Impairment of Assets	X		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X		
PAS 38	Intangible Assets	X		
PAS 39	Financial Instruments: Recognition and Measurement	X		
PAS 40	Investment Property	X		
	Amendment to PAS 40: Transfer of Investment Property	X		
PAS 41	Agriculture			X
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	X		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			X
IFRIC 4	Determining Whether an Arrangement Contains a Lease	X		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			X
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			X
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			X
IFRIC 10	Interim Financial Reporting and Impairment	X		
IFRIC 12	Service Concession Arrangements	X		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	X		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			X
IFRIC 17	Distributions of Non-cash Assets to Owners	X		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			X
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			X
IFRIC 21	Levies	X		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	X		
IFRIC 23	Uncertainty over Income Tax Treatments		Not Early Adopted	
SIC-7	Introduction of the Euro			X
SIC-10	Government Assistance – No Specific Relation to Operating Activities			X
SIC-15	Operating Leases – Incentives	X		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (issued as of December 31, 2016)		ADOPTED	NOT ADOPTED	NOT APPLICABLE
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			X
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	X		
SIC-29	Service Concession Arrangements: Disclosures.	X		
SIC-32	Intangible Assets - Web Site Costs			X

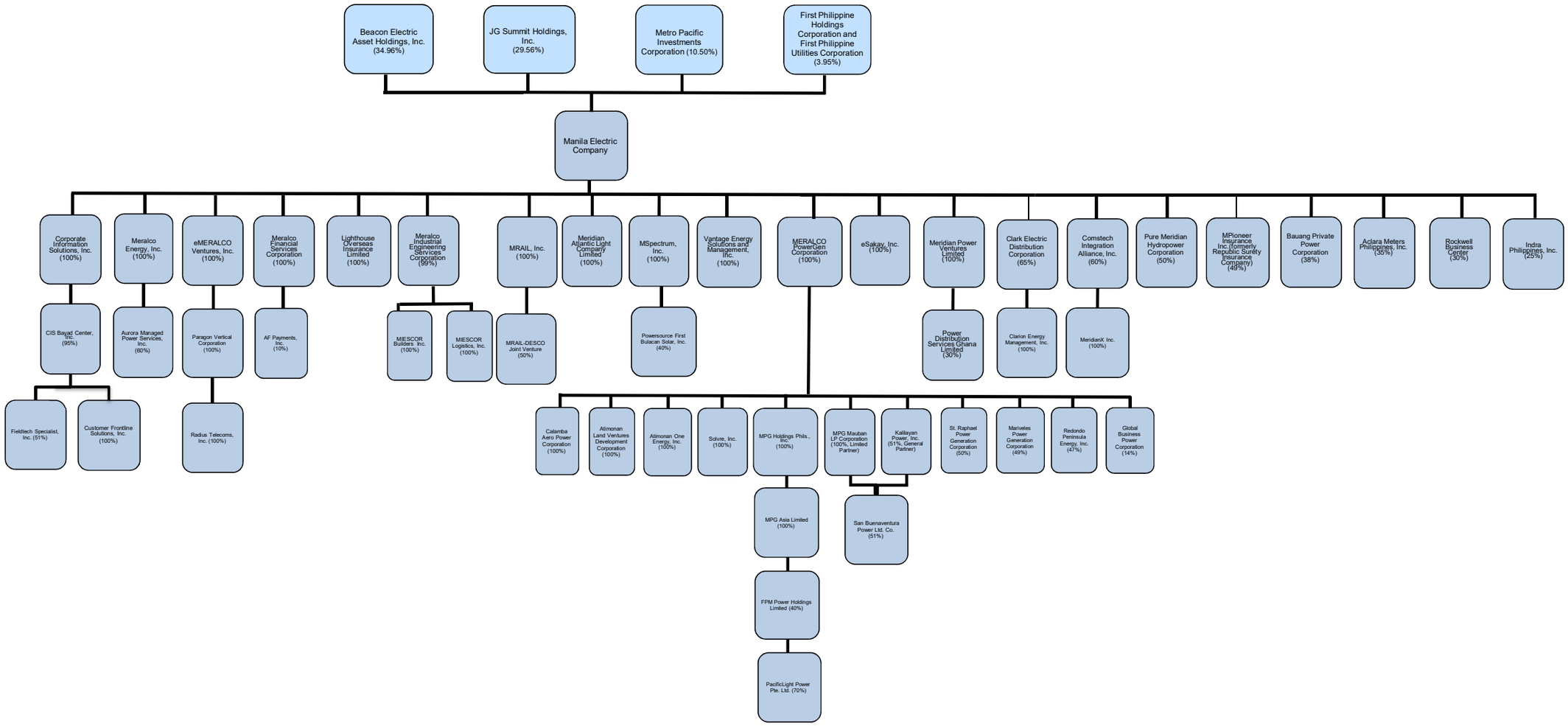
MANILA ELECTRIC COMPANY
Schedule J: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2018
(Amounts in millions)

Unappropriated retained earnings as at December 31, 2017	₱	52,794
Adjustments in previous year's reconciliation:		
Unrealized foreign exchange gain		(208)
Deferred tax assets		(25,983)
Revaluation increment on utility plant and others		(16,454)
Retained earnings available for dividends declaration as at December 31, 2017		10,149
Net income based on the face of annual parent company financial statements		24,253
Reconciling items:		
Dividends declared during the year		(15,075)
Unrealized foreign exchange gain		(39)
Movement of deferred tax assets		(2,840)
Depreciation of revaluation increment on utility plant and others - net of tax		240
		6,539
Retained earnings available for dividend declaration as at December 31, 2018	₱	16,688

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule K: Map Showing the Relationships among the Companies within the Group

As at December 31, 2018



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Financial Soundness Indicators
December 31, 2018, 2017 and 2016

	2018	2017	2016
Current Ratio[(1)]	1.00 : 1.00	0.93 : 1.00	0.84 : 1.00
Debt to Equity Ratio[(2)]	0.49 : 1.00	0.55 : 1.00	0.54 : 1.00
Asset to Equity Ratio[(3)]	4.10x	4.12x	3.98x
Interest Coverage Ratio[(4)]	14.63x	17.78x	19.33x
Profit margin Ratio[(5)]	0.08x	0.07x	0.07x
Return on Assets[(6)]	0.07x	0.07x	0.06x
EBITDA Margin[(7)]	12.21%	12.20%	13.24%

(1) Current ratio is measured as current assets divided by current liabilities.

(2) Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

(3) Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

(4) Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

(5) Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

(6) Return on assets is measured as net income attributable to equity holders of the parent with total assets.

(7) EBITDA margin is measured as EBITDA divided by total revenues.
EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if any.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	1	0	2						

Company Name

MANILA ELECTRIC COMPANY

Principal Office (No./Street/Barangay/City/Town/Province)

LOPEZ BUILDING, ORTIGAS AVENUE
PASIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
N/A	6312222/ 16220	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
42,687	Last Tuesday of May	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. William Pamintuan	wspamintuan@meralco.com.ph	632-8014	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.

SUBMITTED/RECEIVED
APR 15 2019

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Electric Company
Lopez Building, Ortigas Avenue,
Barangay Ugong, Pasig City, Metro Manila

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Manila Electric Company (the Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE ... DIVISION

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

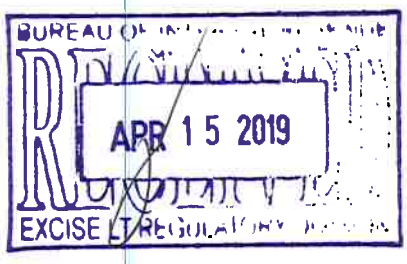
Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 31 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila Electric Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332621, January 3, 2019, Makati City

February 26, 2019



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	2017
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	*6*	**₱135,621**	₱130,330
Investments in subsidiaries and associates and interests in joint ventures	*7 and 21*	**26,962**	24,184
Investment properties	*8 and 14*	**1,469**	1,473
Deferred tax assets - net	*26*	**18,575**	15,978
Other noncurrent assets	*2, 9, 11, 13, 24, 25 and 27*	**47,806**	40,555
Total Noncurrent Assets		**230,433**	212,520
Current Assets			
Cash and cash equivalents	*10 and 25*	**31,519**	41,037
Trade and other receivables	*9, 11, 21 and 25*	**24,773**	20,898
Inventories	*12 and 23*	**3,432**	2,820
Other current assets	*9, 13, 21 and 25*	**36,140**	15,947
Total Current Assets		**95,864**	80,702
Total Assets		**₱326,297**	₱293,222
EQUITY AND LIABILITIES			
Equity			
Common stock	*14*	**₱11,273**	₱11,273
Additional paid-in capital		**4,111**	4,111
Employee stock purchase plan	*14*	**1,049**	1,049
Unrealized fair value losses on fair value through other comprehensive income ("*FVOCI*") financial assets	*9*	**(336)**	(193)
Remeasurement adjustments on retirement and other post-employment liabilities	*24*	**3,598**	2,415
Treasury shares	*14*	**(11)**	(11)
Retained earnings	*14*	**61,972**	52,794
Total Equity		**81,656**	71,438
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*15, 23 and 25*	**23,825**	24,158
Customers' deposits - net of current portion	*16, 20, 23 and 25*	**26,570**	23,639
Refundable service extension costs - net of current portion	*20 and 25*	**6,170**	6,012
Long-term employee benefits	*24*	**1,637**	4,235
Provisions	*17, 20 and 27*	**17,442**	18,456
Other noncurrent liabilities	*2, 5, 6, 22 and 27*	**60,185**	45,234
Total Noncurrent Liabilities		**135,829**	121,734
Current Liabilities			
Note payable	*19, 23 and 25*	**12,656**	12,656
Trade payables and other current liabilities	*14, 15, 16, 17, 20, 21, 22, 25 and 27*	**88,076**	79,269
Customers' refund	*2, 18 and 25*	**4,359**	4,603
Income tax payable		**1,901**	1,692
Current portion of interest-bearing long-term financial liabilities	*15, 23 and 25*	**1,820**	1,830
Total Current Liabilities		**108,812**	100,050
Total Liabilities		**244,641**	221,784
		₱326,297	₱293,222

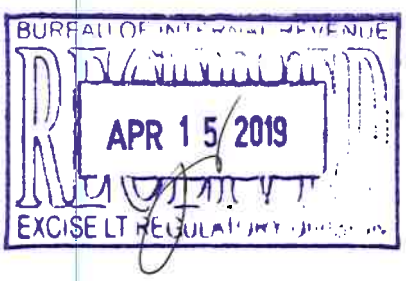
See accompanying Notes to Parent Company Financial Statements

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF INCOME

	Note	Years Ended December 31 2018	2017
		(Amounts in millions, except per share data)	
REVENUES			
Sale of electricity	*21, 22, 28 and 30*	**₱291,798**	₱271,904
Lease income	*8 and 21*	**913**	810
		292,711	272,714
COSTS AND EXPENSES			
Purchased power	*21, 22 and 28*	**229,114**	211,872
Provisions for probable losses and expenses from claims	*9, 17, 20, 22 and 27*	**10,154**	8,533
Salaries, wages and employee benefits	*23 and 24*	**9,712**	9,775
Depreciation and amortization	*6, 8 and 9*	**7,221**	7,039
Contracted services		**5,968**	5,606
Taxes, fees and permits		**667**	664
Other expenses	*21 and 23*	**2,075**	3,234
		264,911	246,723
OTHER INCOME (EXPENSES)			
Interest and other financial income	*2 and 23*	**3,578**	2,305
Interest and other financial charges	*6, 15, 16, 19 and 23*	**(1,632)**	(1,434)
Foreign exchange gains (losses) - net		**801**	(7)
Others	*2, 21 and 28*	**875**	401
		3,622	1,265
INCOME BEFORE INCOME TAX		**31,422**	27,256
PROVISION FOR (BENEFIT FROM) INCOME TAX	*26*		
Current		**10,281**	9,693
Deferred		**(3,112)**	(2,672)
		7,169	7,021
NET INCOME		**₱24,253**	₱20,235
Earnings Per Share - Basic and Diluted	*29*	**₱21.52**	₱17.95

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2018	2017
		(Amounts in millions)	
NET INCOME		**₱24,253**	₱20,235
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent years:			
Unrealized fair value gains (losses) on financial assets at *FVOCI*	*9*	**(204)**	103
Income tax effect		**61**	(2)
		(143)	101
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement adjustments on retirement and other post-employment liabilities	*24*	**1,691**	(1,491)
Income tax effect		**(508)**	447
		1,183	(1,044)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**1,040**	(943)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱25,293**	₱19,292

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

MANILA ELECTRIC COMPANY

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock (Note 14)	Additional Paid-in Capital	Employee Stock Purchase Plan (Note 14)	Unrealized Fair Value Gains (Losses) on Financial assets at *FVOCI* (Note 9)	Remeasurement Adjustments on Retirement and Other Post-Employment Liabilities (Note 24)	Treasury Shares (Note 14)	Unappropriated Retained Earnings (Note 14)	Total Equity
				(Amounts in millions)				
At January 1, 2018	**₱11,273**	**₱4,111**	**₱1,049**	**(₱193)**	**₱2,415**	**(₱11)**	**₱52,794**	**₱71,438**
Net income	–	–	–	–	–	–	**24,253**	**24,253**
Other comprehensive income (loss)	–	–	–	**(143)**	**1,183**	–	–	**1,040**
Total comprehensive income (loss)	–	–	–	**(143)**	**1,183**	–	**24,253**	**25,293**
Dividends	–	–	–	–	–	–	**(15,075)**	**(15,075)**
At December 31, 2018	**₱11,273**	**₱4,111**	**₱1,049**	**(₱336)**	**₱3,598**	**(₱11)**	**₱61,972**	**₱81,656**
At January 1, 2017	₱11,273	₱4,111	₱1,049	(₱294)	₱3,459	(₱11)	₱53,100	₱72,687
Net income	–	–	–	–	–	–	20,235	20,235
Other comprehensive income (loss)	–	–	–	101	(1,044)	–	–	(943)
Total comprehensive income (loss)	–	–	–	101	(1,044)	–	20,235	19,292
Dividends	–	–	–	–	–	–	(20,541)	(20,541)
At December 31, 2017	₱11,273	₱4,111	₱1,049	(₱193)	₱2,415	(₱11)	₱52,794	₱71,438

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
EXCISE LT
APR 15 2019

MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF CASH FLOWS

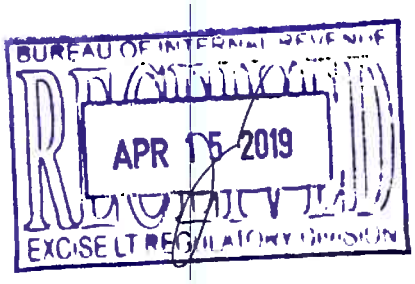
	Note	Years Ended December 31 2018	2017
		(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱31,422**	₱27,256
Adjustments for:			
Provisions for probable losses and expenses from claims - net	*17, 20, 22 and 27*	**10,118**	7,296
Depreciation and amortization	*6, 8 and 9*	**7,221**	7,039
Interest and other financial income	*23*	**(3,578)**	(2,305)
Interest and other financial charges	*6, 15, 16 and 23*	**1,632**	1,434
Gain on disposal of utility plant and others		**(273)**	(206)
Others		**(252)**	821
Operating income before working capital changes		**46,290**	41,335
Increase in:			
Trade and other receivables		**(8,636)**	(2,724)
Inventories		**(612)**	(438)
Other current assets		**244**	(3,331)
Increase (decrease) in:			
Trade payables and other current liabilities		**11,005**	(2,454)
Customers' deposits		**4,731**	3,985
Long-term employee benefits		**(1,600)**	1,793
Customers' refund		**(244)**	(385)
Cash generated from operations		**51,178**	37,781
Income tax paid		**(10,072)**	(7,839)
Net cash provided by operating activities		**41,106**	29,942
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Short-term investments		**(19,337)**	–
Debt securities at amortized cost	*9 and 25*	**(12,067)**	(1,374)
Utility plant and others	*6*	**(11,706)**	(10,841)
Financial assets at *FVOCI*	*9 and 25*	**(10,017)**	(25,324)
Investments in subsidiaries and associatesand interests in joint ventures	*7*	**(2,826)**	(205)
Intangible assets	*9*	**(347)**	(139)
Interest and other financial income received		**2,766**	1,245
Return of capital received		**48**	43
Proceeds from disposal of:			
Financial assets at *FVOCI*	*9 and 25*	**10,056**	31,248
Debt securities at amortized cost	*9 and 25*	**9,098**	1,353
Utility plant and others		**305**	210
Increase in other noncurrent assets		**(1,556)**	(6,047)
Net cash used in investing activities		**(35,583)**	(9,831)

(Forward)

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019

	Note	Years Ended December 31 2018	2017
		(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Dividends	*14*	**(₱15,055)**	(₱20,372)
Interest-bearing long-term financial liabilities		**(369)**	(2,803)
Interest and other financial charges		**(1,488)**	(1,480)
Proceeds from availment of notes payable	*19*	**–**	2,478
Increase in other noncurrent liabilities		**1,871**	2,318
Net cash used in financing activities		**(15,041)**	(19,859)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(9,518)**	252
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**41,037**	40,785
CASH AND CASH EQUIVALENTS AT END OF YEAR	*10*	**₱31,519**	₱41,037

See accompanying Notes to Parent Company Financial Statements.



1. Corporate Information

Manila Electric Company ("*MERALCO*") holds a congressional franchise under Republic Act ("*RA*") No. 9209 effective June 28, 2003. *RA* No. 9209 grants *MERALCO* a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*'s congressional franchise. *MERALCO*'s participation in retail electricity supply ("*RES*") is directly through its local *RES* unit, *MPower*.

MERALCO is owned directly by two (2) major stockholder groups, Metro Pacific Investments Corporation ("*Metro Pacific*") and JG Summit Holdings, Inc. ("*JG Summit*"). *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*'s combined direct and indirect ownership interests in *MERALCO* totaled 45.46% as at December 31, 2018 and 2017. *JG Summit* has 29.56% direct ownership interest in *MERALCO* as at December 31, 2018 and 2017. First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation, also have direct equity ownership in *MERALCO*. The balance of *MERALCO*'s common shares is held by institutional investors and the public.

On January 29, 2018, the Board of Directors ("*BOD*") approved the amendment of the Fourth Article of the Articles of Incorporation of *MERALCO* to extend the corporate term for another 50 years from May 7, 2019. The amendment was approved by the stockholders on May 29, 2018. On December 19, 2018, the *SEC* approved the Amended Articles of Incorporation of *MERALCO*.

The common shares of *MERALCO* are listed and traded in the Philippine Stock Exchange ("*PSE*") with ticker symbol, *MER*.

The registered office address of *MERALCO* is Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, Philippines.

The parent company financial statements were approved and authorized for issue by the *BOD* on February 26, 2019.

2. Rate Regulations

As a distribution utility ("*DU*"), *MERALCO* is subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* to customers are itemized or "unbundled" into a number of bill components that reflect the various activities and costs incurred in providing electricity distribution services. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities", which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss ("*SL*") charge, (d) lifeline and inter-class rate subsidies, and (e) local franchise tax ("*LFT*"); and [ii] the "Rules for the Setting of

Distribution Wheeling Rates" ("*RDWR*"), as modified by the *ERC* on December 1, 2009, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

The following is a discussion of matters related to rate-setting:

Performance-Based Regulations ("PBR")

MERALCO is among the Group A entrants to the *PBR*, together with two (2) other private *DU*s.

Rate-setting under *PBR* is governed by the *RDWR*. The *PBR* scheme sets tariffs once every Regulatory Period ("*RP*") based on the regulated asset base ("*RAB*") of each *DU*, and the required operating and capital expenditures ("*OPEX*" and "*CAPEX*", respectively) to meet operational performance and service level requirements responsive to the 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 ("*RY*s"). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The 4th *RP* for Group A *DU*s began on July 1, 2015 and shall end on June 30, 2019.

Maximum Average Price ("MAP") for the 3rd RP

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process for each *RY* within the *RP*. In each of *RY*s 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC* on the following dates:

RY	*MERALCO*'s application date	*ERC* provisional approval date	Date rate translation was implemented and reflected in customer bills
2012	June 21, 2011	October 3, 2011	October 2011
2013	March 30, 2012	June 11, 2012	July 2012
2014	April 1, 2013	June 10, 2013	July 2013
2015	March 31, 2014	May 5, 2014	July 2014

The *ERC* has provisionally approved the distribution *MAP*s for each of the *RY*. However, as at February 26, 2019, *MERALCO* continues to await for the final approval of the *ERC*.

4th RP Reset Application

MERALCO's 3rd *RP* ended on June 30, 2015 and is currently operating in the 4th *RP*. Under *ERC* Resolution No. 25, Series of 2016 dated July 12, 2016, the *ERC* promulgated a Resolution modifying the *RDWR* for privately-owned *DU*s entering the *PBR*. The *ERC* has directed *MERALCO* and Private Electric Power Operators Association ("*PEPOA*") to publish the Resolution. However, *MERALCO* is seeking clarification from the *ERC* on certain issues in the Resolution, including the need to await the final decision of the *ERC* on the Petition for Rule Making filed by a consumer group to amend the *PBR*. Hearings have been conducted and parties are awaiting the *ERC* Order for the date of the next public consultation.

In a Notice dated November 16, 2016, the *ERC* approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Handbook*") for posting in its website. All interested parties were asked to submit their respective comments to the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its

initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group's Petition as referred in the foregoing has been resolved. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*'s Omnibus Motion.

Interim Average Rate for RY 2016

On June 11, 2015, *MERALCO* filed its application for the approval of a proposed Interim Average Rate of ₱1.3939 per *kWh* and translation thereof into rate tariffs by customer category. On July 10, 2015, the *ERC* provisionally approved an Interim Average Rate of ₱1.3810 per *kWh* and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence ("*FOE*") after the *ERC* rules on pending motions. As at February 26, 2019, the *ERC*'s ruling on these motions is pending.

MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the "Other noncurrent liabilities" account in the parent company statements of financial position substantially represent these provisions, consistent with the limited disclosure as allowed in *PFRSs*.

CAPEX for 4th RP

Absent the release by the *ERC* of the final rules to govern the filing of its 4th *RP* reset, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

RY	*MERALCO*'s application date	Proposed *CAPEX* amount	Status of applications as at February 26, 2019
2016	February 9, 2015	₱17.7 billion	On June 15, 2016, *MERALCO* received a copy of the *ERC* Decision dated April 12, 2016 which partially approved *MERALCO*'s *CAPEX* program for *RY* 2016 amounting to ₱15.5 billion out of the total *RY* 2016 *CAPEX* of ₱17.7 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration ("*MR*") on the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* filed its opposition to the *MR*. As at February 26, 2019, the *ERC* ruling on the *MR*s is pending.
2017	March 8, 2016	₱15.4 billion	On July 26, 2016, *MERALCO* received the Order dated May 5, 2016, which partially approved *MERALCO*'s *CAPEX* program for *RY* 2017 amounting to ₱8.8 billion, subject to certain conditions. On August 10, 2016, *MERALCO* filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, *MERALCO* filed a Motion for Resolution. Subsequently, on April 25, 2017, *MERALCO* filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, *MERALCO* filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, *MERALCO* filed a Manifestation with Third Urgent Motion to Resolve the Application. *MERALCO* is awaiting the final decision of the *ERC*.

RY	*MERALCO*'s application date	Proposed *CAPEX* amount	Status of applications as at February 26, 2019
2018	April 3, 2017	₱18.8 billion	On May 26, 2017, *MERALCO* received the Order dated May 15, 2017, which set the case for initial hearing. Hearings were conducted on June 22 and August 1, 2017, August 25, 2017 and September 22, 2017. On November 9, 2017, *MERALCO* filed its *FOE*. *MERALCO* also filed Manifestations on November 9, 2017 and March 28, 2018, informing the *ERC* that it was constrained to implement several projects in order to avert service interruptions to its customers and maintain a robust distribution infrastructure. The case has been submitted for decision.
2019	April 30, 2018	₱21.0 billion	Hearings on the case are ongoing.

5th RP Reset Application

As *MERALCO* is approaching the end of its 4th *RP* on June 30, 2019, it filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the 5th *RP* of the First Entry Group Under *PBR* on December 21, 2018. As at February 26, 2019, the *ERC* has yet to act on *MERALCO*'s Petition.

SC Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*'s ruling filed by certain consumer and civil society groups before the Court of Appeals ("*CA*"). On July 22, 2004, the *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC*. Further, the *CA* opined that the *ERC* should have asked the Commission on Audit ("*COA*") to audit the books of *MERALCO*. The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility's rates. However, while the *SC* affirmed *ERC*'s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*'s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed with the submission to the *ERC* of its report on November 12, 2009.

On February 15, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA* report.

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The

intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* acknowledged receipt of the respective Memoranda from parties and declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DU*s that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. As at February 26, 2019, further action of the *SC* on the matter is pending.

Applications for the Confirmation of Under- or Over-recoveries of Pass-through Charges

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities". These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, *LFT* and business tax. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the *SL* true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *DU*s in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter. On December 15, 2010, the *ERC* promulgated Resolution No. 23, Series of 2010 to govern the recovery of Senior Citizen Discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On June 1, 2015, the *ERC* approved with modification *MERALCO*'s applications for the confirmation of its over- or under-recoveries in its pass-through costs for the periods June 2003 to December 2010 and January to December 2011. The Decision directed *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2018, the recovery of the net under-recovery is ongoing.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its under- or over-recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net senior citizen discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. As at February 26, 2019, hearings are ongoing.

On January 29, 2016, *MERALCO* filed its application to confirm its under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at February 26, 2019, the application is pending before the *ERC*.

On March 31, 2017, *MERALCO* filed its application with the *ERC* to confirm its net generation charge over-recoveries of ₱4,919 million, net transmission charge over-recoveries of ₱632 million, net lifeline subsidy over-recoveries of ₱131 million, net *SL* over-recoveries of ₱1,243 million, net senior citizen discount over-recoveries of ₱2 million from January 2014 to December 2016 and real property tax ("*RPT*") payments under-recoveries of ₱1,090 million from June 2014 to December 2016. On May 11, 2017, the *ERC* provisionally approved *MERALCO*'s application to refund the over-recoveries of pass-through charges (generation costs, transmission costs, system loss, life line subsidies and senior citizen discount) for the period January 2014 to December 2016 amounting to ₱6,927 million. The Order deferred action on *MERALCO*'s application for the recovery of *RPT* payments, citing the absence of any rule or guideline providing for the process of confirmation, approval and recovery of *RPT*. The ₱6,927 million refund was included in the June 2017 until August 2017 billings to customers. On September 7, 2017, *MERALCO* filed a Manifestation and Motion informing the *ERC* that the absolute amounts of the remaining over/under recoveries were applied to the September 2017 billing in order to zero out the refund as directed by the *ERC*. *MERALCO* filed its *FOE* on April 27, 2018. As at February 26, 2019, the application is pending final approval by the *ERC*

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 billings to customers until May 2017. As at February 26, 2019, the hearings are ongoing.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation cost for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation cost for recovery to ₱1,310 million, following the receipt of Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at February 26, 2019, the proceedings remain suspended.

Deferred Purchased Price Adjustment ("*Deferred PPA*")

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of Deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s Deferred *PPA* under-recoveries of ₱106 million, which is not a

transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 26, 2019, the *MR* is still pending resolution by the *ERC*.

Applications for Recovery of LFT

In a Decision dated February 27, 2012, the *ERC* approved with modifications *MERALCO*'s application for recovery of *LFT* paid but not yet billed to customers for the period beginning the first quarter of 1993 up to the second quarter of 2004 for five (5) provinces, namely: Bulacan, Batangas, Cavite, Laguna and Rizal; and 14 cities, namely: San Jose Del Monte, Batangas, San Pablo, Tagaytay, Lucena, Mandaluyong, Marikina, Quezon, Caloocan, Pasay, Las Piñas, Manila, Pasig and Calamba. The *ERC* approved the recovery of *LFT* amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the *ERC*, the recovery was reflected as a separate item in *MERALCO* billing statement to its customers beginning April 2012. In 2017, the *LFT* plus carrying charges have been fully recovered.

Following is the summary of *MERALCO*'s applications with the *ERC* related to *LFT*:

City	Date of filing	Status
City of Trece Martires	July 3, 2015	Application for the authority to recover the difference between the previous and new *LFT* rate of ₱0.0105 per *kWh* for the calendar years 2012 to 2014, under the *TRAC* formula with prayer for provisional authority to collect the *LFT* which it had previously paid and the corresponding carrying cost. Hearings have been completed. On September 29, 2015, *MERALCO* filed its *FOE* with Manifestation and Compliance and thereby submitted the case for resolution. In a decision dated May 10, 2016, the *ERC* approved the application with modification.
Cities of Manila and Quezon	December 5, 2016	Application for authority to implement the new *LFT* rates of ₱0.0043 per *kWh* and ₱0.0048 per *kWh* in the City of Manila and Quezon City, resepectively, as well as for authority to refund the differential *LFT* for 2014 to 2016 under the *TRAC* formula. Hearings have been completed and *MERALCO* filed its *FOE* on June 2, 2017. However, a consumer filed a motion to intervene after the termination of the proceedings. On June 23, 2017, *MERALCO* filed its opposition thereto. On March 16, 2018, *MERALCO* filed a motion for resolution. As at February 26, 2019, the *ERC* resolution of the motion to intervene is pending.
City of Biñan	October 19, 2017	Application for a provisional authority to recover the new *LFT* at the rate of 75% of 1% beginning on the date of effectivity thereof, or on January 1, 2017 and to recover the differential *LFT* and carrying cost from the customers. Hearings have been completed and *MERALCO* filed its *FOE* on August 30, 2018. As at February 26, 2019, *MERALCO* is awaiting the final decision of the *ERC*.

City	Date of filing	Status
Cities of Makati and Sta. Rosa, Laguna	March 23, 2006	Application to implement and recover the new *LFT* rate of 50% of 1%. In a Decision dated June 30, 2008, the *ERC* approved the application with modification. On September 11, 2008, *MERALCO* filed a Motion for Partial Reconsideration. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Partial Reconsideration. The *ERC* has yet to act on *MERALCO*'s Motion.
City of Valenzuela	June 23, 2004	Application to recover and implement the *LFT* rate of 75% of 1%. On March 31, 2005, *MERALCO* received a copy of the Decision dated March 1, 2005, approving the application with modification. *MERALCO* filed a Motion for Clarification dated April 8, 2005. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Clarification. The *ERC* has yet to act on *MERALCO*'s Motion.
City of Taguig	January 16, 2008	Application to recover and implement the *LFT* rate of 50% of 1%. On September 1, 2008, *MERALCO* received a copy of the Decision dated June 30, 2008, approving the application with modification. *MERALCO* filed a Motion for Partial Reconsideration on September 11, 2008. On December 17, 2017, *MERALCO* filed a Motion for Urgent Resolution of *MERALCO*'s Motion for Partial Reconsideration. The *ERC* has yet to act on *MERALCO*'s Motion.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 19, 2018, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers.

See Note 18 – Customers' Refund.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The parent company 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 parent company financial statements of *MERALCO* have been prepared in compliance with Philippine Financial Reporting Standards ("*PFRS*"). *MERALCO* also prepares and issues consolidated financial statements in compliance with *PFRS*. These are available publicly and may be downloaded from www.meralcomeralco.com.ph.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2018.

Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions

The amendments to *PFRS 2* address three (3) main areas: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (iii) the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight. The adoption of the amendments do not have an impact on the parent company financial statements of *MERALCO* as it has no share-based payment transactions.

Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts

The amendments address concerns arising from implementing *PFRS 9*, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying *PFRS 9* and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies *PFRS 9* and apply that approach retrospectively to financial assets designated on transition to *PFRS 9*. The entity

restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying *PFRS 9*.

The amendments are not applicable to *MERALCO* since *MERALCO* has no activities that are predominantly connected with insurance or issue insurance contracts.

PFRS 9, Financial Instruments

PFRS 9 replaces *PAS 39, Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

MERALCO has applied *PFRS 9* using the modified retrospective approach, with the initial application date of January 1, 2018.

Under *PFRS 9*, debt instruments are subsequently measured at fair value through profit or loss, amortized cost or *FVOCI*. The classification is based on two criteria: *MERALCO*'s business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of *MERALCO*'s business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018.

The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The classification and measurement requirements of *PFRS 9* did not result in changes in the carrying value of *MERALCO*'s financial instruments.

MERALCO continues measuring at fair value all financial assets previously held at fair value under *PAS 39*.

The following are the changes in the classification of *MERALCO*'s financial assets:

- Cash and cash equivalents, trade and other receivables, short-term investments and advances to a supplier previously classified as loans and receivables are hold-to-collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost.
- Investments in government and private debt securities previously classified as held-to-maturity ("*HTM*") financial assets are hold-to-collect contractual cash flows and are now classified as financial assets at amortized cost.
- Quoted debt instruments previously classified as available-for-sale ("*AFS*") financial assets are now classified and measured as financial assets at *FVOCI* with recycling. *MERALCO* expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.
- Equity investments in non-listed companies previously classified as *AFS* financial assets are now classified and measured as financial assets at *FVOCI* without recycling. *MERALCO* elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss for these investments in prior years.
- Listed equity investments previously classified as *AFS* financial assets are now classified and measured as financial assets at *FVOCI*.

In summary, upon the adoption of *PFRS 9*, *MERALCO* had the following required or elected reclassifications:

	PFRS 9 measurement category	
	Financial Assets at Amortized Cost	*FVOCI*
IAS 39 measurement category	*(Amounts in millions)*	
Loans and receivables		
Cash and cash equivalents	₱41,037	₱–
Trade and other receivables	20,898	–
Other noncurrent assets	3,563	–
Other current assets	2,710	–
Available-for-sale financial assets		
Investment in debt securities	–	4,116
Investment in quoted equity securities	–	203
Held-to-maturity		
Investment in debt securities	36,181	–
	₱104,389	₱4,319

The adoption of *PFRS 9* has also changed *MERALCO*'s accounting for impairment losses for financial assets by replacing *PAS 39* incurred losses approach with a forward-looking expected credit loss ("*ECL*") approach. *PFRS* 9 requires *MERALCO* to recognize allowance for *ECLs* for all debt instruments not held at fair value through profit or loss and contract assets.

MERALCO has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for *MERALCO*'s financial liabilities.

The adoption of *PFRS 9* does not have a significant impact on *MERALCO*'s trade and other receivables and other treasury assets.

PFRS 15, Revenue from Contracts with Customers

PFRS 15 supersedes *PAS 11, Construction Contracts*, *PAS 18, Revenue* and related interpretations and it applies, with limited exceptions, to all revenues arising from contracts with customers. *PFRS 15* establishes a new five (5)-step model that applies to revenue arising from contracts with customers. Under *PFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *PFRS 15* provide a more structured approach to measuring and recognizing revenue. *PFRS 15* establishes a new five (5)-step model that applies to revenue arising from contracts with customers.

The five (5)-step model is as follows:

1. Identify the contracts with customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue as the entity satisfies a performance obligation.

PFRS 15 requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling the contract. In addition, the standard requires relevant disclosures.

MERALCO adopted *PFRS 15* using the modified retrospective method of adoption with the date of the initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of the application or only to contracts that are not completed at this date. *MERALCO* elected to apply the standards to all contracts as at January 1, 2018.

MERALCO has concluded that it is acting as principal in all of its revenue arrangements because *MERALCO* is the primary obligor who is responsible for providing the services to the customers and *MERALCO* bears the credit risk.

The adoption of *PFRS 15* does not have a significant impact on *MERALCO*'s parent company financial statements.

Amendments to PAS 28, Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

The amendments do not have an impact on *MERALCO*'s financial statements.

Amendments to PAS 40, Investment Property, Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments have no impact on the parent company financial statements of *MERALCO*.

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the

advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

The amendments have no impact on the parent company financial statements of *MERALCO*.

Future Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standards and interpretation that are already issued but will become effective subsequent to December 31, 2018.

Effective Beginning on or after January 1, 2019

Amendments to PFRS 9, Prepayment Features with Negative Compensation

Under *PFRS 9*, a debt instrument can be measured at amortized cost or at *FVOCI*, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the *SPPI* criterion) and the instrument is held within the appropriate business model for that classification. The amendments to *PFRS 9* clarify that a financial asset passes the *SPPI* criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments will be applied retrospectively and are effective starting January 1, 2019, with earlier application permitted.

These amendments are not expected to have an impact on the parent company financial statements of *MERALCO*.

PFRS 16, Leases

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under *PAS 17, Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under *PFRS 16* is substantially unchanged from today's accounting under *PAS 17*. Lessors will continue to classify all leases using the same classification principle as in *PAS 17* and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under *PAS 17*.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The adoption of *PFRS 16* is not expected to have a significant impact on the parent company financial statements of *MERALCO*.

Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement

The amendments to *PAS 19* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting year. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting year, an entity is required to:

- Determine current service cost for the remainder of the year after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting year that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of *MERALCO*.

Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies *PFRS 9* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in *PFRS 9* applies to such long-term interests.

The amendments also clarified that, in applying *PFRS 9*, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying *PAS 28, Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. *MERALCO* is currently assessing the impact of adopting the amendments.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of *PAS 12, Income Taxes,* and does not apply to taxes or levies outside the scope of *PAS 12*, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. *MERALCO* is currently assessing the impact of adopting the interpretation.

Annual Improvements to PFRSs 2015-2017 Cycle

Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in *PFRS 3*. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting year beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to *MERALCO* but may apply to future transactions.

Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments are not relevant to *MERALCO* because dividends declared by *MERALCO* do not give rise to tax obligations under the current tax laws.

Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting year in which the entity first applies those amendments. An entity applies those amendments for annual reporting year beginning on or after January 1, 2019, with early application permitted.

Since *MERALCO*'s current practice is in line with these amendments, *MERALCO* does not expect any effect on its parent company financial statements upon adoption.

Effective beginning on or after January 1, 2020

Amendments to PFRS 3, Definition of a Business

The amendments to *PFRS 3* clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply to future business combinations of *MERALCO*.

Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material

The amendments refine the definition of material in *PAS 1* and align the definitions used across *PFRS*s and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity shall apply those amendments prospectively for annual reporting year beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

PFRS 17, Insurance Contracts

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, *PFRS 17* shall replace *PFRS 4, Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions shall apply.

The overall objective of *PFRS 17* is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in *PFRS 4*, which are largely based on grandfathering previous local accounting policies, *PFRS 17* provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of *PFRS 17* is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The adoption of the new standard is not expected to have impact on the parent company financial statements.

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.

MERALCO is currently assessing the impact of adopting the amendments.

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the parent company financial statements are as follows:

Utility Plant and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the parent company 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.

MERALCO'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 14 – Equity* for the related discussion.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGIONAL

Depreciation and amortization of utility plant and others are computed using the straight-line method over the following estimated useful lives:

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Buildings and improvements	15-40 years
Communication equipment	5-10 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	5-20 years

An item of utility plant and others is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising as a result of the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively if appropriate, at each reporting year to ensure that the residual values, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of utility plant and others.

Construction in Progress

Construction in progress is stated at cost, which includes cost of construction, plant and equipment, capitalized borrowing costs and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the qualifying asset for its intended use or sale have been undertaken and expenditures and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as any exchange differences arising from any foreign currency denominated borrowings used to finance the projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Investments in Subsidiaries and Associates and Interest in Joint Ventures

Investments in subsidiaries (entities over which *MERALCO* has control) and associates (entities over which *MERALCO* has significant influence) and interests in joint ventures (entities over which *MERALCO* has joint control) are accounted for under the cost method of accounting in the parent company financial statements. Investments in subsidiaries and associates and interests in joint ventures are carried in the parent company statement of financial position at cost less any impairment in value. *MERALCO* recognizes income from the investments only to the extent that *MERALCO*

receives distributions from accumulated profits of the subsidiaries, associates and joint venture arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Control is achieved when *MERALCO* is exposed, or has the right, to variable returns from its involvement with the investee. Specifically, *MERALCO* controls an investee if and only if *MERALCO* 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 *MERALCO* 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) *MERALCO*'s voting rights and potential voting rights.

MERALCO 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.

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.

Investment properties acquired before January 1, 2004 are stated at deemed cost.

See *Note 14 – 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 are recognized in the parent company statement of income in the year these are disposed or retired.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. If owner-occupied property becomes an investment property, *MERALCO* accounts for such property in accordance with the policy stated under utility plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by 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 at the date of change in use.

APR 15 2019

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 parent company 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 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 parent company statement of income.

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the year these are incurred.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions 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 *MERALCO*.

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.

MERALCO 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 parent company 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 parent company financial statements on a recurring basis, *MERALCO* determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, *MERALCO* 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

MERALCO assesses at each reporting date whether there is an indication that a nonfinancial asset (utility plant and others, investment properties, investments in subsidiaries, associates and interests in joint ventures, receivable from the Bureau of Internal Revenue ("*BIR*"), and intangible assets), other than intangible assets with indefinite useful life, may be impaired. If any such indication exists, *MERALCO* 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 parent company 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 such indication exists, *MERALCO* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company 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.

BUREAU OF INTERNAL REVENUE
APR 15 2019

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 parent company statement of income. Impairment losses relating to intangible assets may be reversed in future years.

Financial Instruments - Initial Recognition and Subsequent Measurement (Applicable starting January 1, 2018 upon adoption of PFRS 9)

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and *MERALCO*'s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which *MERALCO* has applied the practical expedient, *MERALCO* initially measures a financial asset at its fair value, and in the case of a financial asset not at fair value through profit or loss, plus transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through *OCI*, it needs to give rise to cash flows that are *SPPI* on the principal amount outstanding. This assessment is referred to as the *SPPI* test and is performed at an instrument level.

MERALCO'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 *MERALCO* commits to purchase or sell the asset.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at *FVOCI* with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at *FVOCI* with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value thorugh profit or loss (*"FVPL"*)

Financial Assets at Amortized Cost (debt instruments)

This category is the most relevant to *MERALCO*. *MERALCO* 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. *MERALCO*'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)

MERALCO 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 parent company 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. *MERALCO*'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, *MERALCO* 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 parent company statement of profit or loss when the right of payment has been established, except when *MERALCO* 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.

MERALCO 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 *MERALCO*'s statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- *MERALCO* 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) *MERALCO* has transferred substantially all the risks and rewards of the asset, or (b) *MERALCO* has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When *MERALCO* 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, *MERALCO* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, *MERALCO* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that *MERALCO* 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 *MERALCO* could be required to repay.

Impairment of Financial Assets

MERALCO 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 *MERALCO* 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, *MERALCO* applies a simplified approach in calculating *ECLs*. Therefore, *MERALCO* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (residential, commercial, industrial, etc.) at each reporting date. *MERALCO* 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.

APR 15 2019

For debt instruments, *MERALCO* applies the low credit risk simplification. At every reporting date, *MERALCO* 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, *MERALCO* reassesses the internal credit rating of the debt instrument. In addition,

MERALCO considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

MERALCO'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 *MERALCO*'s policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime.

Credit losses are recognized based on 12-month *ECL* for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term, may but will not necessary, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

At each reporting date, *MERALCO* 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. *MERALCO* 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 *MERALCO*'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 *MERALCO* 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*.

MERALCO considers a financial asset in default when contractual payments are 300 days past due. However, in certain cases, *MERALCO* may also consider a financial asset to be in default when internal or external information indicates that *MERALCO* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by *MERALCO*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

MERALCO's financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by *MERALCO* 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 parent company statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. *MERALCO* has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to *MERALCO*. 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 profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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 parent company statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial

charges" account in the parent company statement of income. Dividends no longer accrue when such shares have been called for redemption.

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018

Financial Assets

Initial Recognition

Financial assets are classified as at *FVPL*, loans and receivables, *HTM* investments, *AFS* financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of financial assets is determined at initial recognition and, where allowed and appropriate, re-evaluated at each reporting date.

Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets, except for financial instruments measured at *FVPL*.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchase) are recognized on the trade date, which is the date *MERALCO* commits to purchase or sell the asset.

MERALCO's financial assets include cash and cash equivalents, trade and non-trade receivables, advance payments to a supplier, short-term investments, investments in Unit Investment Trust Funds ("*UITF*s"), investments in government securities and quoted and unquoted equity securities.

Subsequent Measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial Assets at FVPL

Financial assets at *FVPL* include financial assets held-for-trading and financial assets designated upon initial recognition as at *FVPL*. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Financial assets may be designated at initial recognition as at *FVPL* if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the financial assets are part of a group of financial assets, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets contain one (1) or more embedded derivatives that would need to be recorded separately.

Financial assets at *FVPL* are carried in the parent company statement of financial position at fair value with gains or losses on fair value changes recognized in the parent company statement of income under "Interest and other financial income" or "Interest and other financial charges" accounts. Interest earned and dividends received from investment at *FVPL* are also recognized in the parent company statement of income under "Interest and other financial income" account.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains and losses arising from changes in fair value recognized in the parent company statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains or losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as when these are amortized. Interest earned or incurred is recorded in "Interest and other financial income" or "Interest and other financial charges" accounts, in the parent company statement of income. Assets in this category are included under current assets except assets with maturities beyond 12 months from reporting date, which are classified as noncurrent assets.

HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as *HTM* when *MERALCO* has the positive intention and ability to hold these assets to maturity. After initial measurement, *HTM* investments are measured at amortized cost using the effective interest method. Gains or losses are recognized in the parent company statement of income. Assets in this category are included in the current assets except for maturities beyond 12 months from the reporting date, which are classified as noncurrent assets.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as *AFS* or are not classified in any of the three (3) foregoing categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, *AFS* financial assets are measured at fair value with unrealized gains or losses recognized in *OCI* until the investment is derecognized, at which time the cumulative gain or loss recorded in *OCI* is recognized in the parent company statement of income, or determined to be impaired, at which time the cumulative loss recorded in *OCI* is recognized in the parent company statement of income. Interest earned from *AFS* debt securities is included under "Interest and other financial income" account in the parent company statement of income. Dividends earned from *AFS* equity are likewise recognized in the parent company statement of income under "Interest and other financial income" account when the right to receive payment has been established. These are included under noncurrent assets unless there is an intention to dispose of the investment within 12 months from the reporting date.

Financial Liabilities

Initial Recognition

Financial liabilities are classified as financial liabilities at *FVPL*, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of the financial liability is determined at initial recognition.

Financial liabilities are recognized initially at fair value inclusive of directly attributable transaction costs, except for financial liabilities at *FVPL*.

MERALCO's financial liabilities include notes payable, interest-bearing long-term financial liabilities, trade payables and other current liabilities [excluding output value added tax ("*VAT*"), accrued taxes, reinsurance liabilities and deferred lease income], customers' deposits, refundable service extension costs, and customers' refund.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial Liabilities at FVPL

Financial liabilities at *FVPL* include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at *FVPL*. Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term. Derivative liabilities, including separated embedded liabilities are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial liabilities at *FVPL* are carried in the parent company statement of financial position at fair value with gains or losses recognized in the parent company statement of income under "Interest and other financial income" or "Interest and other financial charges" accounts. Interest incurred on financial liabilities designated as at *FVPL* is recognized in the parent company statement of income under "Interest and other financial charges" account.

Financial liabilities may be designated at initial recognition as at *FVPL*, if any of the following criteria is met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the financial liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain one (1) or more embedded derivatives that would need to be recorded separately.

Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the parent company statement of income when the liabilities are derecognized as well as when these are amortized. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest amortization is included under "Interest and other financial charges" account in the parent company statement of income.

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

Derivative instruments, including separated embedded derivatives, are initially recognized at fair value on the date at which a derivative transaction is entered into or separated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments, other than those accounted for as effective hedges, are recognized immediately in the parent company statement of income. Changes in fair value of derivative instruments accounted for as effective hedges are recognized in *OCI*. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. *MERALCO* does not have derivatives accounted for under hedge accounting.

An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not recognized as at *FVPL*.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed.

See *Note 25 – Financial Assets and Financial Liabilities.*

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. *MERALCO* assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of *MERALCO* and all of the counterparties.

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment, plus or minus the cumulative amortization of premium or discount. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of effective interest.

'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, *MERALCO* recognizes the difference between the transaction price and fair value ('Day 1' profit or loss) in the parent company statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in the parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, *MERALCO* determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets

MERALCO assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one (1) or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable

data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, *MERALCO* first assesses whether objective evidence of impairment exists individually. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment based on historical loss experience. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. *MERALCO* considers termination or disconnection of service and significant financial difficulties of debtors as objective evidence that a financial asset or group of financial assets is impaired. For both specific and collective assessments, any deposits, collateral and credit enhancement are considered in determining the amount of impairment loss.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan is subject to variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the parent company statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial asset, together with associated allowance, is written off when there is no realistic prospect of future recovery and all collateral or deposits have been realized or have been transferred to *MERALCO*.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an asset written off is recovered, the recovery is recognized in the parent company statement of income. Any reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets

In the case of equity instruments classified as *AFS*, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an *AFS* financial asset has been recognized in *OCI* and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in *OCI* is reclassified from equity to profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on the financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for investment in equity instruments are not reversed in the parent company statement of income. Subsequent increases in fair value after impairment are recognized directly in *OCI*.

In the case of debt instruments classified as *AFS*, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest and other financial

income" in the parent company statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the parent company statement of income, the impairment loss is reversed in the parent company statement of income.

Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial Assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- *MERALCO* has transferred its right to receive cash flows from the asset or has assumed an obligation to receive cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- either *MERALCO* (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where *MERALCO* has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of *MERALCO* continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that *MERALCO* could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the parent company statement of income.

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to *MERALCO*; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If *MERALCO* does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Inventories

Inventories are stated at the lower of cost or 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.

VAT

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on local purchase of goods or services.

Output *VAT* pertains to the 12% tax due on the local sale of goods or services.

If at the end of any taxable month, the output *VAT* exceeds the input *VAT*, the outstanding balance is included under "Trade payables and other current liabilities" account. If the input *VAT* exceeds the output *VAT*, the excess shall be carried over to the succeeding months and included under "Other current assets" account.

Provisions

Provisions are recognized when *MERALCO* 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 *MERALCO* 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 parent company statement of income, net of any reimbursement. If the effect of the time value of money is

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX REGULATORY DIVISION

material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.

Retirement Benefits

MERALCO has distinct, funded, noncontributory defined benefit retirement plan 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 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 commencing 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 period 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 cost; (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 parent company statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the parent company statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the year in which they arise. Remeasurements are not reclassified to profit or loss in subsequent years.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of *MERALCO*, nor can they be paid directly to *MERALCO*. 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.

APR 15 2019

MERALCO's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

The retirement costs under the defined contribution plan are recorded based on *MERALCO*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting year is recognized for services rendered by employees up to the end of the reporting date.

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 defined benefit 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.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

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 *MERALCO*'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, reduced by dividends declared on common stock. Dividends are recognized as a liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting date are disclosed as events after the financial reporting date.

Revenue Recognition

Prior to January 1, 2018, revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to *MERALCO* and the revenue can be reliably measured. In addition, collectibility is reasonably assured and the delivery of the goods or rendering of the service has occurred. *MERALCO* assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. *MERALCO* concluded that it is acting as principal in all of its revenue arrangements.

Beginning January 1, 2018, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which *MERALCO* expects to be entitled in exchange for those goods or services. *MERALCO* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO* 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 is recognized:

Sale of Electricity

Revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements ("*UFR*") on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment ("*CERA*") I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance ("*FiT-All*") are also separately presented in the customer's billing statement. *VAT* billed and collected on behalf of the national governments, universal charges and *FiT-All* [billed and collected on behalf of *PSALM* and National Transmission Corporation ("*TransCo*"), respectively] do not form part of *MERALCO*'s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

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.

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If *MERALCO* 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.

MERALCO's contract assets include under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which *MERALCO* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before *MERALCO* 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 *MERALCO* 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 parent company statement of financial position, and is recognized as income over the average duration of relationship with the customer. Net assets funded by customers do not form part of *MERALCO*'s regulatory asset base until amounts are fully refunded.

Net Over-recoveries of Pass-through Charges

Transmission and *SL* over-recoveries which result from the difference in the power suppliers' billings and recovery of such pass-through costs from consumers are included in "Other noncurrent liabilities" account in the parent company statement of financial position.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

Company as Lessee

Operating lease payments are recognized as expense in the parent company statement of income on a straight-line basis over the lease term.

Company as Lessor

Leases where *MERALCO* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Foreign Currency-Denominated Transactions and Translations

The parent company 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 *MERALCO* operates. This is also the currency that mainly influences the revenue from and cost of rendering services.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting year. All differences are recognized in the parent company statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Non-monetary 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.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior year 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.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

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 year when the asset is realized or the liability is 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 offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year 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 parent company financial statements. These are disclosed in the notes to parent company 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 parent company financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post reporting date events that provide additional information about *MERALCO*'s financial position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post reporting date events that are not adjusting events are disclosed in the notes to parent company financial statements, when material.

5. Management's Use of Judgments, Estimates and Assumptions

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

In the process of applying *MERALCO*'s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the parent company financial statements.

Determination of Functional Currency

The functional currency of *MERALCO* is the currency of the primary economic environment in which *MERALCO* 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* is the Philippine peso.

Operating Lease Commitments

As Lessor

MERALCO has several lease arrangements as 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 *MERALCO*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

Principal Vs. Agent

MERALCO's revenue recognition requires *MERALCO* to make certain judgments on its revenue arrangements such as on *PPA*s and *PSA*s with power generation companies. *MERALCO* has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* to bill customers based various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPA*s and *PSA*s. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of judgment. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC* Resolution No. 16, *A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.*

Moreover, *MERALCO* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the period when the services are expected to be provided.

Arrangement that Contains a Lease

MERALCO's Purchased Power Agreements ("*PPAs*") and Power Supply Agreements ("*PSAs*") with certain power generating companies qualify as leases on the basis that *MERALCO* and these power generating companies have 'take or pay' ("*ToP*") arrangements where payments for purchased power or for contracted capacity are made on the basis of the availability of the power plant and not based solely on actual consumption. In determining the lease classification, it is judged that substantially all the risks and rewards incident to the ownership of the power plants are with these power generating companies. Thus, the *PPA*s and *PSA*s are classified as operating leases. Accordingly, capacity fees,

fixed operating and maintenance fees, and transmission line fees that form part of purchased power expense are accounted for similar to a lease.

Components of purchased power cost, which have been accounted for similar to a lease, amounted to ₱52,610 million and ₱50,380 million for the years ended December 31, 2018 and 2017, respectively. These are recognized as "Purchased Power" in the parent company statements of income.

See *Note 22 – Purchased Power.*

Contingencies

MERALCO 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 27 – 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 year are discussed as follows:

Estimating Useful Lives of Utility Plant and Others, Intangible Assets with Finite Lives and Investment Properties

MERALCO estimates the useful lives of utility 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 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 year-end 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 and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱6,620 million and ₱6,472 million for the years ended December 31, 2018 and 2017, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱135,621 million and ₱130,330 million as at December 31, 2018 and 2017, respectively.

Total depreciation of investment properties amounted to ₱4 million and ₱4 million for the years ended December 31, 2018 and 2017, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,469 million and ₱1,473 million as at December 31, 2018 and 2017, respectively.

Total amortization of intangible assets with finite lives amounted to ₱597 million and ₱563 million for the years ended December 31, 2018 and 2017, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱1,863 million and ₱2,113 million as at December 31, 2018 and 2017, respectively.

See *Note 6 – Utility Plant and Others, Note 8 – Investment Properties* and *Note 9 – Other Noncurrent Assets*.

Impairment of Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. Such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant and others, intangible assets with finite life, investment properties, investments in subsidiaries and associates and interest in joint ventures, 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 parent company financial statements. Future events may cause management to conclude that utility plant and others, intangible assets with finite life, construction in progress, investment properties, investments in subsidiaries and interest in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on *MERALCO*'s parent company financial position and results of operations.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRS*.

The carrying values of nonfinancial assets as at December 31, 2018 and 2017 subject to impairment review are as follows:

Account	**2018**	2017
	(Amounts in millions)	
Utility plant and others	**₱135,621**	₱130,330
Investments in subsidiaries and associates and interests in joint ventures	**26,962**	24,184
Intangible assets	**1,863**	2,113
Investment properties	**1,469**	1,473
Receivable from the *BIR*	**181**	181

See *Note 6 – Utility Plant and Others, Note 7 – Investments in Subsidiaries, Associates and Interest in Joint Ventures, Note 8 – Investment Properties and Note 9 – Other Noncurrent Assets.*

Realizability of Deferred Tax Assets

MERALCO reviews the carrying amounts of deferred tax assets at the end of each reporting year and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Assessment on the recognition of deferred tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting date. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized. The amounts of the deferred tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised. The recognized deferred tax assets as of December 31, 2018 and 2017 amounted to ₱28,823 million and ₱25,983 million, respectively.

See *Note 26 – Income Taxes and Local Franchise Taxes*.

Estimating Allowance for Doubtful Accounts (Applicable until December 31, 2017 prior to adoption of PFRS 9)

If there is objective evidence that an impairment loss has been incurred in the trade and other receivables balance of *MERALCO*, an estimate of the allowance for doubtful accounts related to trade and other receivables that are specifically identified as doubtful of collection is made. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In such case, use of judgment based on the best available facts and circumstances, including but not limited to, the length of *MERALCO*'s relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce *MERALCO*'s receivables to amounts that management expects to collect is applied. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, an assessment for collective impairment allowance against credit exposures of the customers, which were grouped based on common credit characteristics, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers is done. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Provision for ECL of Receivables and Contract Assets (Applicable starting January 1, 2018 upon adoption of PFRS 9)

MERALCO applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

To measure the expected credit losses, trade and other receivables and contract assets have been grouped based on share credit risk characteristics and the days past due. The contract assets relate to under-recoveries of pass-through charges and have substantially the same risk characteristics as the trade and other receivables. *MERALCO* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the collection profiles of receivables over the period of 36 months before December 31, 2018 and the corresponding historical credit losses experience within the period. The historical rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

MERALCO incorporates forward-looking information into both its assessment whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. *MERALCO* has considered a range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECL*s.

Reversal of expected credit losses for trade and other receivables amounted to ₱1,841 million for the year ended December 31, 2018 and the expected credit losses for trade and other receivables, net of recoveries, recognized in the parent statement of income amounted to ₱649 million for the year ended December 31, 2017. Trade and other receivables, net of asset impairment, amounted to ₱24,773 million and ₱20,898 million as at December 31, 2018 and 2017, respectively.

See *Note 11 – Trade and Other Receivables.*

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the power distribution and services segments, and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes. The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and unusable are written-off and charged as expense in the parent company statement of income.

The carrying values of inventories amounted to ₱3,432 million and ₱2,820 million as at December 31, 2018 and 2017, respectively.

See *Note 12 – Inventories.*

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other long-term 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 pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The retirement and other post-employment benefits expense amounted to ₱1,055 million and ₱871 million for the years ended December 31, 2018 and 2017, respectively. The retirement asset as at December 31, 2018 amounted to ₱699 million and the retirement liability as at December 31, 2017 amounted to ₱108 million. The other long-term post-employment benefit liability as at December 31, 2018 and 2017 amounted to ₱1,633 million and ₱1,590 million, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and

those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

See *Note 23 – Expenses and Income* and *Note 24 – Long-term Employee Benefits*.

Provisions

MERALCO has various claims, assessments and cases as discussed in *Note 27 – Contingencies and Legal Proceedings*. *MERALCO*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external (if any) and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

MERALCO, in consultation with its external legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the parent company 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.

MERALCO recognized provisions on various claims and assessments amounting to ₱10,154 million and ₱8,533 million for the years ended December 31, 2018 and 2017, respectively.

See *Note 17 – Provisions* and *Note 20 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

MERALCO'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 are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost in the accounts is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by the generators is taken up in the subsequent year. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

Management believes that such use of estimates will not result in material adjustments in future years.

Utility Plant and Others

The movements in utility plant and others are as follows:

	2018								
	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
	(Amounts in millions)								
Cost:									
Balance at beginning of year	₱166,581	₱15,196	₱6,104	₱1,262	₱3,108	₱2,987	₱3,034	₱13,367	₱211,639
Additions	3,351	–	–	5	130	116	103	8,217	11,943
Disposals/retirements	(1,359)	–	–	(18)	(535)	(192)	(4)	–	(2,129)
Transfers from construction in progress	11,409	–	201	22	–	–	54	(11,686)	–
Reclassification	–	21	(25)	–	–	4	–	–	–
Balance at end of year	179,982	15,217	6,280	1,271	2,703	2,915	3,187	9,898	221,453
Less accumulated depreciation and amortization:									
Balance at beginning of year	72,257	–	2,512	627	2,409	1,884	1,620	–	81,309
Depreciation and amortization	5,805	–	150	81	256	214	114	–	6,620
Disposals/retirements	(1,359)	–	–	(18)	(535)	(184)	(1)	–	(2,097)
Reclassifications	–	–	(1)	–	–	1	–	–	–
Balance at end of year	76,703	–	2,661	690	2,130	1,915	1,733	–	85,832
	₱103,280	₱15,217	₱3,619	₱581	₱573	₱999	₱1,454	₱9,898	₱135,621

		2017							
	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
		(Amounts in millions)								
Cost:										
Balance at beginning of year		₱159,490	₱15,196	₱5,996	₱1,204	₱3,014	₱3,012	₱2,886	₱10,296	₱201,094
Additions		68	–	–	6	135	183	93	10,519	11,004
Transfers from construction in progress		7,226	–	132	27	–	–	63	(7,448)	–
Disposals/retirements		(203)	–	(24)	–	(46)	(208)	(8)	–	(489)
Reclassification and others	*9*	–	–	–	25	5	–	–	–	30
Balance at end of year		166,581	15,196	6,104	1,262	3,108	2,987	3,034	13,367	211,639
Less accumulated depreciation and amortization:										
Balance at beginning of year		66,841	–	2,374	545	2,170	1,876	1,514	–	75,320
Depreciation and amortization		5,619	–	162	82	284	213	112	–	6,472
Disposals/retirements		(203)	–	(24)	–	(45)	(205)	(6)	–	(483)
Balance at end of year		72,257	–	2,512	627	2,409	1,884	1,620	–	81,309
		₱94,324	₱15,196	₱3,592	₱635	₱699	₱1,103	₱1,414	₱13,367	₱130,330

As at December 31, 2018 and 2017, the net book values of customer-funded assets included in "Utility plant and others" account amounted to ₱3,231 million and ₱2,922 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2018 and 2017 are included in "Other noncurrent liabilities" account in the parent company statements of financial position.

See *Note 22 – Revenues and Purchased Power.*

Construction in progress mainly pertains to on-going electric capital projects ("*ECP*s") and non-*ECP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱237 million and ₱161 million for the years ended December 31, 2018 and 2017, respectively.

The average annual range of interest rates used for capitalization for the years ended December 31, 2018 and 2017 ranged from 4.60% to 4.83% and 4.45% to 4.70%, respectively.

7. Investments in Subsidiaries and Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2018 and 2017:

	Place of Incorporation	Principal Business Activities	2018 Percentage of Ownership		2017 Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
Corporate Information Solutions, Inc. ("*CIS*")	Philippines	e-Transactions	100	–	100	–
CIS Bayad Center, Inc. ("*Bayad Center*")	Philippines	Bills payment collection	–	95	–	95
Customer Frontline Solutions, Inc. ("*CFSI*")	Philippines	Tellering services	–	100	–	100
Fieldtech Specialist, Inc. ("*Fieldtech*")	Philippines	Bills payment collection	–	51	–	51
MERALCO Energy, Inc. ("*MEI*")	Philippines	Energy systems management	100	–	100	–
Aurora Managed Power Services, Inc. ("*AMPSI*")	Philippines	Energy systems management	–	60	–	60
eMERALCO Ventures, Inc. ("*e-MVI*")	Philippines	e-Business development	100	–	100	–
Paragon Vertical Corporation ("*Paragon*")	Philippines	Information technology *("IT")* and multi-media services	–	100	–	100
Radius Telecoms, Inc. ("*Radius*")	Philippines	*IT* and multi-media services	–	100	–	100
MERALCO PowerGen Corporation ("*MGen*")	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation [2]	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. ("*AIE*") [1]	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. ("*Solvre*") [2]	Philippines	Retail electricity supplier	–	100	–	100
MERALCO Financial Services Corporation ("*Finserve*")	Philippines	Financial services provider	100	–	100	–
Lighthouse Overseas Insurance Limited ("*LOIL*")	Bermuda	Insurance	100	–	100	–
MRAIL, Inc. ("*MRail*")	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
Meridian Atlantic Light Company Limited [2]	Nigeria	Management of power distribution	100	–	100	–
MSpectrum, Inc. ("*Spectrum*")	Philippines	Renewable energy	100	–	100	–
Vantage Energy Solutions and Management, Inc. ("*Vantage*") [2]	Philippines	Retail electricity supplier	100	–	100	–
eSakay, Inc. ("*eSakay*") [3]	Philippines	Maintenance and operation of transport service networks	100	–	–	–

(Forward)

	Place of Incorporation	Principal Business Activities	2018 Percentage of Ownership Direct	2018 Indirect	2017 Direct	2017 Indirect
Meridian Power Ventures Limited[4] ("*MPV Limited*")	Hongkong	Investment holdings	100	–	–	–
Meralco Industrial Engineering Services Corporation ("*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 Distribution Corporation ("*CEDC*")	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. ("*Clarion*")[2]	Philippines	Retail electricity supplier	–	65	–	65
Comstech Integration Alliance, Inc. ("*Comstech*")	Philippines	Management of power distribution	60	–	60	–
MeridianX, Inc. ("*MeridianX*")[2]	Philippines	Retail electricity supplier	–	60	–	60
Associates						
Bauang Private Power Corporation ("*BPPC*")	Philippines	Power generation	38	–	38	–
Aclara Meters Philippines, Inc. ("*Aclara Meters*")	Philippines	Sale of metering products and services	35	–	35	–
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	24	–	24	–
Joint Ventures						
Pure Meridian Hydropower Corporation ("*Pure Meridian*")	Philippines	Renewable Energy	50	–	50	–
MPioneer Insurance, Inc, ("*MPioneer*"), formerly Republic Surety and Insurance Company, Inc.	Philippines	Insurance	49	–	49	–
Rockwell Business Center Joint Venture ("*RBC JV*")	Philippines	Real estate	30	–	30	–

[1] *In development stage as at December 31, 2018.*
[2] *Has not started commercial operations as at December 31, 2018.*
[3] *Incorporated on March 1, 2018 and started commercial operations in June 2018.*
[4] *Incorporated in June 6, 2018 and has not started commercial operations as at December 31, 2018.*

The movements of investments in subsidiaries and associates and interest in joint ventures are as follows:

	2018	2017
	(Amounts in millions)	
Balance at beginning of year	**₱24,184**	₱23,844
Additions	**2,880**	366
Return of capital	**(102)**	(26)
Balance at end of year	**₱26,962**	₱24,184

CIS

CIS was incorporated in 1974 to provide information technology services and integrated business solutions to enterprise clients. In 1997, *CIS* engaged in the business of bills payment collection, which was spun off as *Bayad Center*. *Bayad Center* offers a network of bills payment collection services in the Philippines operating nationwide with brand name "*Bayad Center*". *Bayad Center* also provides outsourced tellering services through *CFSI*.

Bayad Center has 51% interest in *Fieldtech*, which is engaged in the business of meter reading, courier, field order, and collection services and solutions.

MEI

MEI was established as a wholly owned subsidiary of *MERALCO* in June 2000 to provide demand-side energy services to *MERALCO*'s key accounts. It offers integrated energy efficiency solutions including marketing, engineering design capability, turnkey installation management, project financing development, monitoring and performance assurance of energy management projects.

MEI has 60% equity interest in *AMPSI,* which is engaged in providing energy system management services.

e-MVI

e-MVI was established on June 22, 2000. Its wholly owned subsidiary, *Paragon,* wholly owns *Radius*, which, in turn, holds a congressional telecommunications franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunications services in the Philippines, and between the Philippines and other countries and territories.

MGen

MGen is engaged in the planning and development of projects, investing and funding management-related services to project companies for the development, building and operation of power plant and related facilities.

MGen is currently developing a 2 x 600 MegaWatt ("*MW*") (net) ultra-supercritical pulverized coal-fired power plant in Atimonan, Quezon through *A1E*. The selected Engineering, Procurement and Construction ("*EPC*") contractors for the project is awaiting the issuance of a "Notice to Proceed" and is engaged in early site preparation works in the interim. Financing has been arranged by the Mandate Lead Arrangers with a madate letter signed with a consortium of eight (8) local banks. A *PSA* has been executed between *A1E* and *MERALCO* for the full capacity. The regulatory hearing process at the *ERC* for the *PSA* had long been completed and *A1E* has filed its *FOE* on March 8, 2017. The expected completion of the first unit is third quarter of 2023 and the second 600 *MW* by first quarter of 2024.

MGen is also developing a 2 x 300 *MW* (net) Circulating Fluidized Bed ("*CFB*"), coal-fired power plant in the Subic Freeport Zone through Redondo Peninsula Energy, Inc. ("*RP Energy*"). The development of the 2 x 300 *MW* project shall be implemented in two (2) phases. On October 13, 2016, the *EPC* for the first 300 *MW* was signed.

In April 2016, *RP Energy* signed separate *PSA*s with *MERALCO* and Aboitiz Energy Solutions, Inc. ("*Aboitiz Energy*"). *RP Energy* is awaiting the approval of its *PSA* with *MERALCO* by the *ERC*.

On December 22, 2016, *RP Energy* signed a loan agreement with three (3) local banks for the ₱31.5 billion project financing. The approval of the *PSA* between *RP Energy* and *Aboitiz Energy* by the *ERC* is a condition precedent to the first loan drawdown. As at February 26, 2019, the *PSA* was not yet approved by the *ERC* which restricted *RP Energy* to issue a notice to proceed to the *EPC* contractor and led to *RP Energy*'s inability to achieve financial close. The management will reassess the project technology when the pending case with respect to the *ERC*'s restatement of the effectivity of the *CSP* is resolved.

Site preparation of the first 300 *MW* unit has been completed, with expected commercial operations in the second half of 2021. The second phase shall follow within 12 months, subject to progress of *NGCP*'s Right of Way ("*RoW*") acquisition for the new transmission line that will connect the second phase to the grid.

On April 27, 2016, *MGen* and Semirara Mining and Power Corporation entered a joint venture agreement to develop a 2 x 350 *MW* sub-critical pulverized coal-fired power plant in Calaca, Batangas. The development and operations shall be undertaken by St. Raphael Power Generation Corporation ("*St. Raphael*"), the joint venture entity. A *PSA* was signed by *St. Raphael* and *MERALCO* in April 2016 for the 400 *MW* of the plant's capacity. The *PSA* is pending approval by the *ERC*. Development activities for the project are ongoing and target commercial operations of the power plant is in June 2024. *MGen* also has a 14% equity interest in Global Business Power Corporation ("*GBPC*") effective June 30, 2016. *GBPC* currently operates a total of 854 *MW* (gross) of coal and diesel-fired power plants.

MGen also owns an effective 28% equity in PacificLight Power Pte. Ltd. ("*PacificLight*") and operates a 2 x 400 *MW* liquefied natural gas ("*LNG*") power plant in Jurong Island, Singapore which began commercial operations in February 2014.

MGen, through *SBPL*, a 51% owned joint venture entity, is constructing a 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon. The *PSA* with *MERALCO* was approved by the *ERC* on May 19, 2015. Target commercial operations date is third quarter of 2019.

MGen has 49% equity interest in Mariveles Power Generation Corporation ("*Mariveles Power*") which is developing a 4 x 132 *MW* coal-fired power plant in Bataan.

On April 26, 2016, *Mariveles Power* signed a *PSA* with *MERALCO* for 528 *MW* of its capacity. The *PSA* is still pending approval by the *ERC*.

On January 25, 2019, *Mariveles Power* issued a capital call to its shareholders. However, *MGen* waived its right to subscribe additional shares thereby reducing its ownership interest from 49% to 15%.

Solvre, a wholly owned subsidiary of *MGen*, was incorporated to engage as a retail electricity supplier and energy aggregator. On February 9, 2017, the *ERC* granted *Solvre* a *RES* license to operate as retail electricity supplier.

Finserve

Finserve has embarked on investing and managing commercial center operations with *The Strip* along Ortigas Avenue as its flagship project. *Finserve* also has in its portfolio the Integrated Direct Marketing business, which offers targeted advertising and marketing services utilizing nontraditional channels.

Finserve has a 10% equity interest in AF Payments, Inc. ("*AF Payments*") since its incorporation in February 2014. *AF Payments* was incorporated primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It 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.

LOIL

LOIL, a captive reinsurer, is registered as a Class 1 insurer under The Bermuda Insurance Act 1978 and Related Regulations. *LOIL* was incorporated in Bermuda in 2007 and received its license to operate in the territory in 2008.

MRail

MRail, incorporated in 2009, is engaged in the business of engineering, construction and maintenance of mass transit system.

On June 2, 2014, *MRail* and *DESCO* entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways ("*PNR*"). Two (2) units were completed and turned over on January 10, 2017 and one (1) unit on April 19, 2017. The Joint Venture Agreement is on its two-year warranty period that will end in April 2019.

Spectrum

Spectrum's primary purpose is to harness renewable energy ("*RE*") such as but not limited to, solar, wind, biomass, geothermal and/or hydropower.

Vantage

Vantage is a wholly owned subsidiary of *MERALCO* with the primary purpose of providing retail energy services which involve energy sourcing and trading, wholesale contracting, and aggregating of electricity. On January 10, 2017 the *ERC* granted *Vantage* a *RES* license to operate as retail electricity supplier.

ESakay

eSakay is a wholly owned subsidiary of *MERALCO* and was incorporated in 2018 to focus on propagating green and sustainable mobility - from the supply of electric vehicles ("*EV*") and charging infrastructure to the provision of *EV* operatorship services. *eSakay* aims to be an end-to-end *EV* transport solutions provider, modernizing and electrifying transport systems for private and public sector customers throughout the country.

MPV Limited

MPV Limited is a wholly owned subsidiary and was incorporated in June 2018. *MPV Limited*, has 30% equity in Pure Distribution Services Ghana Limited ("*PDS Ghana*"). *PDS Ghana* is part of the consortium that won and was awarded a 25-year concession for the operations covering the area served by the Electricity Company of Ghana ("*ECG*"). The *ECG* serves nearly 85% of the total energy requirement in Ghana.

MIESCOR

MIESCOR is a contractor - specialist engaged in engineering, construction and maintenance activities related to power generation, transmission and distribution, as well as industrial plants, water resources and telecommunications.

MIESCOR's services are complemented by its two wholly owned subsidiaries – *MBI* and *MLI*. *MBI* serves as the general construction business unit. It also offers testing, commissioning and distribution utility operation and maintenance services, while *MLI* handles architectural and fit-out construction works including building and facilities logistics management services like warehouse management, fleet management and manpower service management.

CEDC

CEDC is a registered private distribution utility granted by Clark Development Corporation ("*CDC*") a franchise 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 as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and *MIESCOR*, dated February 19, 1997.

CEDC's wholly owned subsidiary, *Clarion*, was incorporated with the primary purpose of providing retail energy sourcing and trading, wholesale contracting and aggregating of electricity.

Comstech

MERALCO has a 60% equity interest in *Comstech*. *Comstech* is a company based in Clark Freeport Zone, Pampanga which is engaged in the development, operation and management of electricity generation and/or distribution, hydropower plants or related businesses.

MeridianX, a wholly owned subsidiary of *Comstech*, was incorporated in November 21, 2016 as a retail electricity supplier and providing retail energy services. On February 9, 2017, the *ERC* granted *MeridianX* a *RES* license to operate as retail electricity supplier.

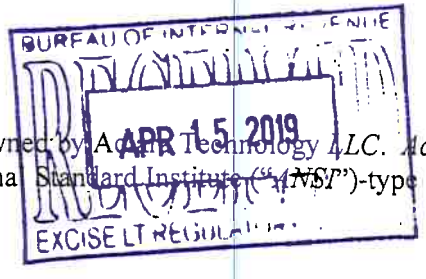
BPPC

BPPC was incorporated and registered with the *SEC* on February 3, 1993 to engage in the power generation business.

In accordance with the Build-Operate-Transfer ("*BOT*") Agreement signed in 1993, First Private Power Corporation ("*FPPC*"), then parent company, constructed the 215 *MW* Bauang Power Plant ("*Bauang Plant*"), and operated the same under a 15-year Cooperation Period up to July 25, 2010.

The *Bauang Plant* has since been turned over to the *NPC* without any compensation and free of any liens. In 2010, the *SEC* approved the merger of *FPPC* and *BPPC*, with *BPPC* as the surviving entity. *BPPC* management continues to evaluate its investment options in power generation and allied industries.

On November 24, 2017, *BPPC*'s *BOD* and stockholders approved a resolution to amend its articles of incorporation shortening the term of its existence from "50 years from the date of incorporation hereof" to "until June 30, 2019". As at December 31, 2018, *BPPC* is still in the process of obtaining the related necessary regulatory approvals.



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.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("*IS*") and *IT* operations and management consulting.

Pure Meridian

MERALCO and Repower Energy Development Corporation ("*REDC*") have a joint venture through *Pure Meridian*, which shall undertake the development of various mini-hydroelectric power projects.

MPioneer

In accordance with the Agreement of Shareholders and Subscription of Shares among *MERALCO*, Pioneer Insurance and Surety Corporation ("*Pioneer Insurance*") and *MPioneer*, *MPioneer* issued common shares to *Pioneer Insurance* and *MERALCO*, resulting in a dilution of *MERALCO*'s ownership interest in *MPioneer* to 49%. Under the Agreement, *MERALCO* has the right to sell to *Pioneer Insurance*, and *Pioneer Insurance* has the obligation to buy, *MERALCO*'s 49% stake in *MPioneer* which is exercisable by *MERALCO* at any time during the period from January 1, 2023 to December 31, 2023.

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*.

8. Investment Properties

The movements in investment properties are as follows:

	2018		
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
Cost	₱1,427	₱155	₱1,582
Less accumulated depreciation:			
Balance at beginning of year	–	109	109
Depreciation	–	4	4
Balance at end of year	–	113	113
	₱1,427	₱42	₱1,469

	2017		
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
Cost	₱1,427	₱155	₱1,582
Less accumulated depreciation:			
Balance at beginning of year	–	105	105
Depreciation	–	4	4
Balance at end of year	–	109	109
	₱1,427	₱46	₱1,473

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in millions)	
Land	**₱4,501**	₱1,863
Buildings and improvements	**194**	135

Land pertains primarily to properties where the *BPO* buildings and "Strip" mall are located and other non-regulatory asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱155,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

   Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the factors of 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.

9. Other Noncurrent Assets

This account consists of:

	Note	2018	2017
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*13 and 25*	**₱29,371**	₱27,180
Financial assets at *FVOCI*	*25*	**3,846**	4,319
Advance payments to a supplier and others	*25*	**3,619**	3,563
Nonfinancial assets:			
Net under recoveries of pass-through charges and others	*2 and 11*	**5,185**	1,654
Intangible assets		**1,863**	2,113
Deferred input VAT		**1,471**	1,490
Retirement surplus	*24*	**699**	–
Receivable from the *BIR*	*27*	**181**	181
Others		**1,571**	55
		₱47,806	₱40,555

Debt Securities at Amortized Cost

The details of debt securities at amortised cost are as follows:

	2018			2017		
	Current Portion (see *Note 13*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 13*)	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱10,193**	**₱25,099**	**₱35,292**	₱9,001	₱26,245	₱35,246
Private debt securities	**–**	**4,272**	**4,272**	–	935	935
	₱10,193	**₱29,371**	**₱39,564**	₱9,001	₱27,180	₱36,181

This account represents investments in government securities issued by the Republic of the Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at FVOCI

The details of financial assets at *FVOCI* are as follows:

	2018	2017
	(Amounts in millions)	
Investments in government securities	**₱2,946**	₱3,233
Investments in corporate bonds and other investments	**613**	883
Investments in shares of stock and club shares	**287**	203
	₱3,846	₱4,319

The rollforward of unrealized gains (losses) on quoted *FVOCI* financial assets, net of tax, included in the parent company statements of financial position follows:

	2018	2017
	(Amounts in millions)	
Balance at beginning of year	**(₱193)**	(₱294)
Unrealized gains (losses) on change in fair value	**(143)**	101
Balance at end of year	**(₱336)**	(₱193)

Intangible Assets

The movements of intangible assets are as follows:

		2018			
	Note	**Software**	**Franchise**	**Land and Leasehold Rights**	**Total**
			(Amounts in millions)		
Cost:					
Balance at beginning of year		**₱4,612**	**₱49**	**₱431**	**₱5,092**
Additions		**346**	**–**	**1**	**347**
Balance at end of year		**4,958**	**49**	**432**	**5,439**
Less accumulated amortization:					
Balance at beginning of year		**2,703**	**–**	**276**	**2,979**
Amortization		**579**	**–**	**18**	**597**
Balance at end of year		**3,282**	**–**	**294**	**3,576**
		₱1,676	**₱49**	**₱138**	**₱1,863**

		2017			
	Note	Software	Franchise	Land and Leasehold Rights	Total
			(Amounts in millions)		
Cost:					
Balance at beginning of year		₱4,504	₱49	₱431	₱4,984
Additions		138	–	–	138
Reclassifications	*6*	(30)	–	–	(30)
Balance at end of year		4,612	49	431	5,092
Less accumulated amortization:					
Balance at beginning of year		2,158	–	258	2,416
Amortization		545	–	18	563
Balance at end of year		2,703	–	276	2,979
		₱1,909	₱49	₱155	₱2,113

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 in *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.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX REGULATORY DIVISION

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* as a *DU*, which are still to be billed covered by an approved recovery mechanism of the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through

charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*.

Allowance for expected credit losses on net under-recoveries of pass-through charges amounted to ₱4,720 million and ₱4,436 million as at December 31, 2018 and December 31, 2017, respectively.

10. Cash and Cash Equivalents

This account consists of:

	2018	2017
	(Amounts in millions)	
Cash on hand and in banks	**₱6,382**	₱4,140
Cash equivalents	**25,137**	36,897
	₱31,519	₱41,037

Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods of up to three (3) months depending on *MERALCO*'s immediate cash requirements, and earn interest at the prevailing short-term investment rates.

11. Trade and Other Receivables

This account consists of:

	2018	2017
	(Amounts in millions)	
Trade receivables	**₱24,058**	₱23,195
Nontrade receivables	**2,068**	1,004
	26,126	24,199
Less allowance for expected credit losses	**1,353**	3,301
	₱24,773	₱20,898

Movements in allowance for expected credit loss for trade and other receivables are as follows:

	2018	2017
	(Amounts in millions)	
Balance at beginning of year	**₱3,301**	₱2,986
Provisions (reversals)	**(1,841)**	649
Write-offs	**(107)**	(334)
Balance at end of year	**₱1,353**	₱3,301

Trade Receivables

Trade receivables include charges for pass-through costs. Pass-through costs consist of generation, transmission and *SL* charges, which represent 57%, 9% and 4%, respectively, of the total billed amount in 2018 and 55%, 10% and 4%, respectively, of the total billed amount in 2017. Billed receivables are due 10 days after bill date. Trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-offs, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 16 – Customers' Deposits* and *Note 25 – Financial Assets and Financial Liabilities.*

12. Inventories

	2018	2017
		(Amounts in millions)
Materials and supplies (at lower fo cost or net realizable value ("*NRV*"):		
At cost	**₱3,624**	₱3,013
At *NRV*	**3,432**	2,820
Materials and supplies at *NRV*	**₱3,432**	₱2,820

13. Other Current Assets

This account consists of:

	Note	2018	2017
			(Amounts in millions)
Financial assets:			
Short-term investments	*25*	**₱21,769**	₱2,532
Debt securities at amortized cost	*9 and 25*	**10,193**	9,001
Current portion of advance payments to a supplier		**187**	178
Nonfinancial assets:			
Prepayments		**1,966**	1,909
Prepaid tax		**881**	925
Pass-through *VAT* - net		**520**	846
Input *VAT*		**332**	403
Others		**292**	153
		₱36,140	₱15,947

Short-term investments are temporary cash placements which are made for varying periods beyond three (3) months but not exceeding 12 months, and earn interest at the prevailing short-term placement investment rates.

Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such deferred *VAT* to the generation companies is based on collection of billed receivables from the customers.

14. Equity

Common Stock

	2018	2017
	(In millions, except par value)	
Authorized number of shares - ₱10 par value a 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 in the *PSE* on January 8, 1992. There are 42,687 and 43,449 shareholders of *MERALCO*'s common shares as at December 31, 2018 and 2017, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include the balance of revaluation increment in utility plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱45,284 million and ₱42,645 million as at December 31, 2018 and 2017, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.

The following are cash dividends declared on common shares in 2018 and 2017:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 30, 2018	August 29, 2018	September 24, 2018	₱5.31	₱5,985
February 26, 2018	March 28, 2018	April 25, 2018	8.07	9,090
August 3, 2017	August 30, 2017	September 22, 2017	8.93	10,059
February 27, 2017	March 27, 2017	April 21, 2017	9.30	10,482

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of consolidated core net income ("*CCNI*") for the year, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

15. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2018	2017
	(Amounts in millions)	
Long-term portion of interest-bearing long-term financial liabilities -		
Long-term debt	**₱23,825**	₱24,158
Current portion of interest-bearing long-term financial liabilities:		
Long-term debt	**333**	334
Redeemable preferred stock	**1,487**	1,496
	1,820	1,830
	₱25,645	₱25,988

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2018 and 2017. Interest is no longer accrued when the preferred shares are called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	2018	2017
	(Amounts in millions)	
Fixed Rate Loans		
₱11.5 Billion 7-year Bonds	**₱11,500**	₱11,500
₱7.0 Billion 12-year Bonds	**7,000**	7,000
₱7.2 Billion Note Facility Agreement	**5,760**	6,120
Total long-term debt	**24,260**	24,620
Less unamortized debt issuance costs	**102**	128
	24,158	24,492
Redeemable Preferred Stock	**1,487**	1,496
	25,645	25,988
Less current portion	**1,820**	1,830
Long-term portion of interest-bearing financial liabilities	**₱23,825**	₱24,158

All of the interest-bearing long-term financial liabilities as at December 31, 2018 and 2017 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2018 are as follows:

	Amount
	(In millions)
Less than one (1) year	₱360
One (1) year up to two (2) years	11,860
More than two (2) years to three (3) years	360
More than three (3) years to four (4) years	360
More than four (4) years to five (5) years	360
More than five (5) years	10,960
	₱24,260

₱18.5 Billion Fixed Rate Puttable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion and with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, where *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

On December 12, 2013, the ₱11.5 billion fixed rate puttable bonds due in 2020 and ₱7.0 billion fixed rate puttable bonds due in 2025, were listed on the Philippine Dealing and Exchange Corporation.

The net proceeds of the bonds were utilized for refinancing certain loans including principal payments, accrued interest, prepayment penalties and other financing costs.

₱7.2 Billion Note Facility Agreement

In February 2014, *MERALCO* entered into a ₱7,200 million, 10-year Fixed Rate Note Facility Agreement due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

The annual interest rates for the interest-bearing financial liabilities range from 4.38% to 4.88% as at December 31, 2018 and 2017.

Debt Covenants

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 the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2018 and 2017, *MERALCO* is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

The following presents the changes to the unamortized debt issuance costs:

	Note	**2018**	2017
		(Amounts in millions)	
Balance at beginning of year		**₱128**	₱153
Amortization charged to interest and other financial charges	*23*	**(26)**	(25)
Balance at the end of year		**₱102**	₱128

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2018	2017
Balance at beginning of year	**149,615,014**	150,157,797
Redemptions	**(913,690)**	(542,783)
Balance at end of year	**148,701,324**	149,615,014

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

16. Customers' Deposits

This account consists of:

	2018			2017		
	Current Portion (see *Note 20*)	Noncurrent Portion	Total	Current Portion (see *Note 20*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,143**	**₱26,570**	**₱28,713**	₱2,549	₱23,639	₱26,188
Meter deposits	**310**	**–**	**310**	422	–	422
	₱2,453	**₱26,570**	**₱29,023**	₱2,971	₱23,639	₱26,610

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU*, equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

On February 22, 2010, the amended *DSOAR*, which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR*, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*.

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

The following are the movements of the bill deposits account:

	Note	2018	2017
		(Amounts in millions)	
Balance at beginning of year		**₱26,188**	₱25,695
Additions		**5,093**	4,398
Refunds		**(2,568)**	(3,905)
Balance at end of year		**28,713**	26,188
Less portion maturing within one year	*20*	**2,143**	2,549
Noncurrent portion of bill deposits and related interests		**₱26,570**	₱23,639

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective June 17, 2004) and *DSOAR* (effective January 18, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of the said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

In May 2014, *MERALCO* implemented automatic crediting or offsetting of the remaining unclaimed meter deposit refund ("*MDR*") as approved by *ERC*, including all accrued interests to the corresponding existing and active service contracts. This was done after releasing a "Final Notice" to advice our customers, particularly those who have not yet claimed their *MDR*, to claim the same prior to *MERALCO*'s implementation of auto-crediting. Thus, all remaining unclaimed *MDR* as reported to the *ERC* as at December 31, 2014 are only for terminated services.

In May 2016, the *ERC* promulgated *ERC* Resolution No. 12, Series of 2016 entitled, "Amended Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Consumers," directing all *DU*s to deposit all unclaimed meter deposits including all accrued interests in a government or commercial bank under a single savings account and in the name of the *DU* strictly intended for the claimants of meter deposits. Further, customers were given until December 31, 2017 within which to claim their *MDR*, to be facilitated by the *DU*; otherwise, all unclaimed meter deposits, including accrued interest will be subject to an escheat proceeding in favor of the government.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE TAX

In compliance with said *ERC* directive, in July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. In May 2017, *MERALCO* submitted the required reports to the *ERC* in compliance with the *ERC*'s directive to all *DU*s pursuant to *ERC* Resolution No. 13, Series of 2016, entitled, "Guidelines to Govern the Audit Process of Meter Deposit Refund to Residential and Non-Residential Customers."

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at February 26, 2019, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposit refund.

17. Provisions

Provisions consist of amounts recognized for probable losses and expenses relating to claims against *MERALCO*, among others. The movements follow:

	2018	2017
	(Amounts in millions)	
Balance at beginning of year	**₱34,111**	₱38,224
Reversals for the year - net	**(1,265)**	(2,539)
Settlements	**(296)**	(1,574)
Balance at end of year	**32,550**	34,111
Less current portion	**15,108**	15,655
Noncurrent portion	**₱17,442**	₱18,456

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 27 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

18. 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 ₱0.17 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval to continue refunding to eligible accounts or customers under Phases I to IV, for three (3) years from January 1, 2016 or until December 31, 2018.

In an Order dated February 4, 2019, the *ERC* authorized *MERALCO* to continue with the implementation of the refund to eligible customers until June 30, 2019. The *ERC* also required *MERALCO* to submit information and documents related to the customers' refund.

19. Note Payable

Notes payable represents unsecured interest-bearing working capital loan obtained from a local bank. Annual interest rates ranged from 2.90% to 3.50% and 2.80% to 2.90% for the years ended December 31, 2018 and 2017, respectively.

Interest expense on note payable amounted to ₱449 million and ₱326 million for the years ended December 31, 2018 and 2017, respectively.

See *Note 23 – Expenses and Income.*

20. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2018**	2017
		(Amounts in millions)	
Trade accounts payable	*21 and 22*	**₱34,376**	₱30,696
Provisions	*17 and 27*	**15,108**	15,655
Taxes payable		**10,476**	8,630
Accrued expenses:			
Employee benefits		**1,642**	1,911
Interest	*15*	**136**	124
Others		**810**	1,198
Current portions of:			
Refundable service extension costs		**3,127**	2,261
Bill deposits and related interests	*16*	**2,143**	2,549
Deferred income		**981**	972
Meter deposits and related interests	*16*	**310**	422
Dividends payable on:			
Common stock	*14*	**959**	930
Redeemable preferred stock	*15*	**250**	250
Payable to customers		**7,766**	8,136
Universal charges payable		**2,948**	2,758
Feed-in tariff allowance		**1,313**	925
Regulatory fees payable		**191**	177
Other current liabilities		**5,540**	1,675
		₱88,076	₱79,269

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines ("*NGCP*") and Independent Electricity Market Operator of the Philippines Inc. ("*IEMOP*") for cost of power purchased and transmission charge. In September 2018, *IEMOP* assumed the market operation functions for the *WESM*. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which include transformers, poles, materials and supplies, and contracted services.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See *Note 21 –Related Party Transactions* and *Note 28 – Significant Contracts and Commitments.*

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities", requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2018 and 2017, the noncurrent portion of refundable service extension costs of ₱6,170 million and ₱6,012 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the parent company statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DU*s. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DU*s remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts paid by customers in advance and are applied to their current consumption.

21. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by *MERALCO* to/with related parties for the relevant years. The outstanding balances are unsecured, non-interest bearing and are to be settled in cash.

Pole Attachment Contract with PLDT, Inc. ("PLDT")

MERALCO has a pole attachment contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups within the franchise area such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

MERALCO'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 *MERALCO*.

See *Note 23 – Expenses and Income.*

Technical Service Agreement ("TSA") with Comstech

MERALCO has a *TSA* with *Comstech.* Under the terms of the *TSA, MERALCO* shall provide technical services needed to enable *Comstech* to operate and maintain Pampanga Electric Cooperative II's electric distribution facilities in accordance with the terms and conditions of the Investment and Management Agreement.

MERALCO granted a loan to *Comstech* amounting to ₱280 million. The loan shall be for a period of 10 years, payable in nine (9) annual installments of ₱14 million beginning December 31, 2016 with a bullet payment on December 31, 2025. The outstanding balance as at December 31, 2018 and 2017 amounted to ₱252 million and ₱266 million, respectively.

Purchase of Goods and Services

In the ordinary course of business, *MERALCO* purchases goods and services from its affiliates and sells power to such affiliates.

PSAs with Joint Ventures and Associates

As discussed in Note 29, *MERALCO* signed long-term *PSAs* with the following related parties: *SBPL, RP Energy, St. Raphael, Mariveles Power* and Panay Energy Development Corporation ("*PEDC*").

Following is the summary of related party transactions for the years ended December 31, 2018 and 2017 and the outstanding balances as at December 31, 2018 and 2017:

Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	2018	2017	2018	2017		
	(Amounts in millions)					
Sale of electricity:						
JG Summit Group	₱3,336	₱2,776	₱434	₱239	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	1,306	958	34	39	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	538	486	47	6	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	816	1,058	(100)	(154)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – *Aclara Meters*	190	454	–	(51)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	369	391	81	160	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	100	90	(21)	(21)	30-day; noninterest-bearing	Unsecured
Purchases of services:						
MIESCOR and subsidiaries	1,855	1,718	(197)	(287)	30-day; noninterest-bearing	Unsecured
CIS and subsidiaries	716	677	66	65	30-day; noninterest-bearing	Unsecured
MPioneer	567	355	–	(1)	30-day; noninterest-bearing	Unsecured
Others	245	325	(103)	(10)	30-day; noninterest-bearing	Unsecured
Purchases of power:						
Panay Power Corporation ("*PPC*")	–	211	–	(10)	30-day; noninterest-bearing	Unsecured
Toledo Power Corporation ("*TPC*")	69	357	–	(46)	30-day; noninterest-bearing	Unsecured
PEDC	2,258	1,766	(344)	(378)	–	30-day; noninterest-bearing
Income from *TSA*						
Comstech	20	2	18	2	30-day; noninterest-bearing	Unsecured

Transaction with MERALCO Retirement Benefits Fund ("Fund")

MERALCO's Fund holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2018 and 2017, the fair value of the total assets being managed by the *Fund* amounted to ₱34.0 billion and ₱37.2 billion, respectively.

See *Note 24 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of *MERALCO* by benefit type is as follows:

	2018	2017
	(Amounts in millions)	
Short-term employee benefits	**₱758**	₱754
Long-term employee incentives and retirement benefits	**300**	288
Total compensation to key management personnel	**₱1,058**	₱1,042

All directors are entitled to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

In 2018, each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted of the equivalent cash value.

As at December 31, 2018, there are no agreements between *MERALCO* 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.

22. Revenues and Purchased Power

Revenues

The revenues from sale of electricity is from the distribution and supply of electricity to customers within its franchise area.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE TAX REGULATORY DIVISION

Contract Assets and Contract Liabilities

The contract assets and contract liabilities are as follows:

	2018	2017
	(Amounts in millions)	
Contract assets:		
Net under-recoveries of pass-through charges	**₱5,185**	₱1,654
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	**745**	702
Over-recoveries from transmission and *SL* charges	**820**	614

The revenue recognized from the nonrefundable liability related to assets funded by customers amounted to ₱127 million and ₱66 million in 2018 and 2017, respectively.

Purchased Power

The details of purchased power are as follows:

	2018	2017
	(Amounts in millions)	
Generation costs	**₱193,882**	₱176,710
Transmission costs	**35,232**	35,162
	₱229,114	₱211,872

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* as a *DU*.

Generation costs include line rentals, market fees and must-run unit charges billed by *PEMC*.

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees, and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a lease"*. The total amounts billed by the suppliers presented as part of "Purchased power" account in the parent company statements of income are ₱52,610 million and ₱50,380 million for years ended December 31, 2018 and 2017, respectively. These also include the actual *SL* incurred which is within the *SL* cap of 8.5%. *MERALCO*'s actual 12 months moving average *SL* rates are 5.67% and 5.91% in 2018 and 2017, respectively.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

The details of purchased power are as follows:

	2018	2017
	(Amounts in millions)	
First Gas Power Corporation ("*FGPC*") and FGP Corp. ("*FGP*")	**₱53,885**	₱46,492
NGCP	**35,127**	34,999
South Premiere Power Corporation ("*SPPC*")	**30,773**	29,606
PEMC/IEMOP/WESM	**28,292**	23,724
QPPL	**15,767**	14,640
San Miguel Energy Corporation ("*SMEC*")	**13,727**	13,017
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**12,959**	13,913
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**12,658**	11,391
Therma Luzon, Inc. ("*TLI*")	**12,176**	11,168
First Nat Gas Power Corporatio ("*FNPC*")	**5,696**	–
PEDC	**2,258**	1,766
Therma Mobile, Inc. ("*TMO*")	**1,695**	3,112
Southwest Luzon Power Generation Corporation	**1,806**	3,151
Phinma Energy Corporation ("*Phinma Energy*")	**1,954**	2,511
1590 Energy Corporation	–	1,135
Others	**341**	1,247
	₱229,114	₱211,872

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2018 and 2017, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the parent statements of financial position amounted to ₱820 million and ₱614 million, respectively.

23. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2018	2017
		(Amounts in millions)	
Salaries, wages and related employee benefits		**₱8,657**	₱8,904
Retirement benefits	*24*	**953**	761
Other long-term post-employment benefits expense	*24*	**102**	110
		₱9,712	₱9,775

Other Expenses

	Note	2018	2017
		(Amounts in millions)	
Rent and utilities		**₱521**	₱480
Materials used	*12*	**347**	361
Insurance		**327**	341
Advertising		**314**	339
Transportation and travel		**198**	182
Communication	*21*	**97**	104
Others		**271**	1,427
		₱2,075	₱3,234

Interest and Other Financial Charges

	Note	2018	2017
		(Amounts in millions)	
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	*6 and 15*	**₱872**	₱1,002
Interest expense on note payable	*19*	**449**	326
Interest expense on bill deposits	*16*	**31**	64
Amortization of debt issuance costs	*15*	**26**	25
Others		**254**	17
		₱1,632	₱1,434

Interest and Other Financial Income

	Note	2018	2017
		(Amounts in millions)	
Interest income on cash in banks and cash equivalents	*10*	**₱1,439**	₱728
Income from debt and equity securities		**1,268**	979
Dividend income		**837**	193
Others		**34**	405
		₱3,578	₱2,305

24. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2018	2017
	(Amounts in millions)	
Other long-term post-employment benefits	**₱1,633**	₱1,590
Long-term incentives	**4**	2,537
Retirement benefit liability	**–**	108
	₱1,637	₱4,235

Defined Benefit Retirement Plan

The features of *MERALCO*'s defined benefit plan are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

Actuarial valuation is prepared annually by an independent actuary engaged by *MERALCO.*

Expense recognized for defined benefit plan (included in "salaries, wages and employee benefits" account in the parent company statements of income)

	2018	2017
	(Amounts in millions)	
Current service costs	**₱915**	₱844
Net interest costs	**5**	(109)
Net retirement benefits expense	**₱920**	₱735

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
EXCISE LT REGULATORY DIVISION

Retirement Benefits Liability (Asset)

	2018	2017
	(Amounts in millions)	
Defined benefit obligation	**₱33,225**	₱37,260
Fair value of plan assets	**(33,924)**	(37,152)
Retirement benefits liability (asset)	**(₱699)**	₱108

Retirement benefit asset is presented in the 2018 parent company statement of financial position as retirement surplus under other noncurrent assets.

Changes in the net retirement benefits liability are as follows:

	2018	2017
	(Amounts in millions)	
Retirement benefits liability (asset) at beginning of year	**₱108**	(₱1,860)
Net retirement benefits expense	**920**	735
Contributions by employer	**–**	(291)
Total amounts recognized in *OCI*	**(1,727)**	1,524
Retirement benefits liability (asset) at end of year	**(₱699)**	₱108

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱37,260**	₱34,591
Interest costs	**1,802**	1,820
Benefits paid	**(2,450)**	(2,159)
Current service costs	**915**	844
Actuarial losses (gains) due to:		
Changes in financial assumptions	**(5,140)**	1,115
Experience adjustments	**838**	1,049
Defined benefit obligation at end of year	**₱33,225**	₱37,260

Changes in the fair value of plan assets are as follows:

	2018	2017
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱37,152**	₱36,451
Interest income	**1,797**	1,929
Benefits paid	**(2,450)**	(2,159)
Return on plan assets, excluding amount included in net interest on the net defined obligation	**(2,575)**	640
Contributions by employer	**–**	291
Fair value of plan assets at end of year	**₱33,924**	₱37,152

The Board of Trustees ("*BoT*") which manages the *Fund*, is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, all of whom are not beneficiaries of the plan.

The *Fund* follows a conservative approach by investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Fund* to service its short-term and long-term obligations.

Net carrying amount and fair value of the assets of the fund as at December 31, 2018 and 2017 amounted to ₱33,924 million and ₱37,152 million, respectively. The major categories of plan assets are as follows:

	2018	2017
	(Amount in millions)	
Cash and cash equivalents	**₱1,807**	₱1,715
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	**2,787**	3,607
Banks	**954**	924
Property	**733**	934
Telecommunication	**688**	937
Electricity, energy, power and water	**655**	893
Food, beverages and tobacco	**484**	653
Retail	**349**	367
Transportation services	**213**	212
Construction, infrastructure and allied services	**151**	223
Mining	**127**	232
Others	**1,297**	1,517
Quoted debt instruments:		
"AAA" rated securities	**13,501**	14,085
Government securities	**7,964**	8,517
Unquoted investment:		
Receivables	**1,199**	1,381
Others	**1**	1
Property	**1,014**	954
Fair value of plan assets	**₱33,924**	₱37,152

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits Expense (included in "Salaries, wages and employee benefits" account in the parent company statements of income)

	2018	2017
	(Amounts in millions)	
Interest costs	**₱78**	₱85
Current service costs	**24**	25
	₱102	₱110

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2018	2017
		(Amounts in millions)
Balance at beginning of year	**₱1,590**	₱1,568
Interest costs	**78**	85
Actuarial losses (gains) due to change in assumptions	**36**	(33)
Current service costs	**24**	25
Benefits paid	**(95)**	(55)
Balance at end of year	**₱1,633**	₱1,590

Actuarial Assumptions

The principal assumptions used as at December 31, 2018 and 2017 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2018	2017
Annual discount rate	**7.24%**	5.00%
Future range of annual salary increases	**5.00 %- 11.00%**	6.00% - 8.00%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2018**	2017
			(Amounts in millions)
Annual discount rate	+1.0%	**(₱1,911)**	(₱2,233)
	-1.0%	**2,267**	2,230
Future range of annual salary increases	+1.0%	**1,270**	1,264
	-1.0%	**(1,153)**	(1,263)

Funding

MERALCO contributes to the *Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Fund* in a sound condition, subject to the provisions of the Plan.

The amount of the annual contributions to the *Fund* is determined through an annual valuation report performed by the actuary.

The following is the maturity profile of the undiscounted benefit obligation:

	2018	2017
	(Amounts in millions)	
Less than one (1) year	**₱3,064**	₱1,841
One (1) year up to five (5) years	**13,132**	8,242
More than five (5) years up to 10 years	**22,306**	14,715
More than 10 years up to 15 years	**16,459**	19,271
More than 15 years up to 20 years	**14,448**	19,221
More than 20 years	**19,315**	56,428

Risk

The Fund is exposed to the following risks:

Credit Risk
The *Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Fund*.

Share Price Risk
The *Fund*'s exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The share price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk
Liquidity risk is the risk that the *Fund* is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATORY DIVISION

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 on a voluntary basis. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱33 million and ₱26 million for the years ended December 31, 2018 and 2017, respectively.

Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the parent company statements of income)

	2018	2017
	(Amounts in millions)	
Expense recognized for defined benefit plan	**₱920**	₱735
Expense recognized for defined contribution plan	**33**	26
Retirement benefits expense	**₱953**	₱761

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO'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 executives' 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.

25. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at amortized cost. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities as at December 31, 2018 and 2017:

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2018				
Noncurrent				
Other noncurrent assets	**₱32,990**	**₱3,846**	**₱–**	**₱36,836**
Current				
Cash and cash equivalents	**31,519**	**–**	**–**	**31,519**
Trade and other receivables	**24,773**	**–**	**–**	**24,773**
Other current assets	**32,149**	**–**	**–**	**32,149**
Total assets	**₱121,431**	**₱3,846**	**₱–**	**₱125,277**
Liabilities as at December 31, 2018				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱23,825**	**₱23,825**
Customers' deposits - net of current portion	**–**	**–**	**26,570**	**26,570**
Refundable service extension costs - net of current portion	**–**	**–**	**6,170**	**6,170**
Current				
Notes payable	**–**	**–**	**12,656**	**12,656**
Trade payables and other current liabilities	**–**	**–**	**52,592**	**52,592**
Customers' refund	**–**	**–**	**4,359**	**4,359**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**1,820**	**1,820**
Total liabilities	**₱–**	**₱–**	**₱127,992**	**₱127,992**

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2017				
Noncurrent				
Other noncurrent assets	₱30,743	₱4,319	₱–	₱35,062
Current				
Cash and cash equivalents	41,037	–	–	41,037
Trade and other receivables	20,898	–	–	20,898
Other current assets	11,711	–	–	11,711
Total assets	₱104,389	₱4,319	₱–	₱108,708
Liabilities as at December 31, 2017				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱24,158	₱24,158
Customers' deposits - net of current portion	–	–	23,639	23,639
Refundable service extension costs - net of current portion	–	–	6,012	6,012
Current				
Notes payable	–	–	12,656	12,656
Trade payables and other current liabilities	–	–	45,160	45,160
Customers' refund	–	–	4,603	4,603
Current portion of interest-bearing long-term financial liabilities	–	–	1,830	1,830
Total liabilities	₱–	₱–	₱118,058	₱118,058

Fair Values

The fair values of the financial assets and financial liabilities are prices 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 *MERALCO*'s financial instruments as at December 31, 2018 and 2017.

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Financial assets at amortized cost -				
Advance payments to a supplier and others	**₱3,806**	**₱3,785**	₱3,741	₱3,451
Financial assets at *FVOCI*	**3,846**	**3,846**	4,319	4,321
Debt securities at amortized cost	**39,564**	**33,043**	36,181	35,172
	₱47,216	**₱40,674**	₱44,241	₱42,944
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing long-term financial liabilities	**₱25,645**	**₱26,672**	₱25,988	₱24,620

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investment, 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 rate of 6.71% and 4.74% as at December 31, 2018 and 2017, respectively.

Financial assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting year.

Debt securities at amortized cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.12% to 4.03% as at December 31, 2018 and 0.11% to 4.09% as at December 31, 2017.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by such shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Loans and receivable -								
Advance payments to a supplier	₱–	₱3,785	₱–	₱3,785	₱–	₱3,451	₱–	₱3,451
Financial assets at *FVOCI*	3,846	–	–	3,846	4,285	36	–	4,321
Debt securities at amortized cost	33,043	–	–	33,043	35,172	–	–	35,172
	₱36,889	₱3,785	₱–	₱40,674	₱39,457	₱3,487	₱–	₱42,944
Financial liabilities								
Financial liabilities carried at amortized cost - Interest-bearing long-term financial liabilities	₱–	₱26,672	₱–	₱–	₱–	₱24,620	₱–	₱24,620

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and 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

MERALCO's exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2018 and 2017.

The following table demonstrate the sensitivity analysis to a reasonable possible change in the fair value of financial assets:

	2018		2017	
	Increase (decrease) in bps	**Effect on Income before Income Tax**	Increase (decrease) in bps	Effect on Income before Income Tax
	(In %)	*(In millions)*	(In %)	*(In millions)*
PHP				
Government securities	**+100**	**(₱198.1)**	+150	(297.1)
	–100	**198.1**	–150	297.1
Corporate bonds	**+100**	**(36.1)**	+150	(54.2)
	–100	**36.1**	–150	54.2
USD				
Corporate bonds	**+100**	**(16.1)**	+150	(22.9)
	–100	**16.1**	–150	22.9

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of *MERALCO*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial portion of *MERALCO*'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 *MERALCO*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses as well as *U.S.* dollar-denominated revenues.

The following table shows the parent company foreign currency-denominated financial assets and financial liabilities as at December 31, 2018 and 2017, translated to Philippine peso at ₱52.58 and ₱49.93 to US$1, respectively.

	2018		2017	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$127**	**₱6,693**	$268	₱13,373
Trade and other receivables	**2**	**104**	2	104
Short-term investments	**119**	**6,237**	50	2,497
Debt securities at amortized cost	**20**	**1,052**	–	–
Financial assets at *FVOCI*	**5**	**263**	5	250
Advance payments to suppliers	**55**	**2,872**	55	2,762
	328	**17,221**	380	18,986
Financial liabilities -				
Trade payables and other liabilities	**(7)**	**(360)**	(4)	(182)
	$321	**₱16,861**	$376	₱18,804

All of *MERALCO*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables is 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 *MERALCO*'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 *MERALCO's* income before income tax for the years ended December 31, 2018 and 2017 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on *MERALCO*'s equity other than those already affecting the parent company statements of income.

	2018		2017	
	Appreciation (Depreciation) of *U.S.* Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of *U.S.* Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets and financial liabilities	+5	**₱843**	+5	₱814
	–5	**(843)**	–5	(814)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/– 5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables, financial assets at *FVOCI*, advance payments to suppliers 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. *MERALCO*'s exposure to price risk is minimal. The cost of fuel is part of *MERALCO*'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. *MERALCO* 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

Customer credit risk is managed by each business segment subject to *MERALCO*'s procedures and controls relating to customer credit risk management. *MERALCO* 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.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LT REGULATION

The provision matrix is initially based on *MERALCO* business segment's historical observed default rates. Each business segment of *MERALCO* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and *ECLs* is a significant estimate. The amount of *ECLs* is sensitive to changes in circumstances and of forecast economic conditions. The historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future.

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Set out below is the information about the credit risk exposure of *MERALCO*'s trade and other receivables using a provision matrix:

	2018						
	Billed electric receivables						
	Days past due						
	Current	1-30 Days	31-60 Days	61-90 Days	Over 90 Days	Unbilled receivables	Total
	(Amounts in millions, except % of ECL)						
ECL rate	0.39%	1.31%	4.78%	14.15%	79.43%	0.15%	
Estimated total gross carrying amount at default	3,633	2,543	727	249	1,552	1,385	10,089
Expected credit loss	14	33	35	35	1,233	2	1,353

Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to *MERALCO*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. *MERALCO* transacts derivatives only with similarly accredited financial institutions. In addition, *MERALCO*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

MERALCO invests only in quoted debt securities with very low credit risk. *MERALCO*'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. *MERALCO*'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 in *MERALCO*.

The table below shows the maximum exposure to credit risk for the components of the parent company statements of financial position as at December 31, 2018 and 2017. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2018	2017
	(Amounts in millions)	
Cash in banks and cash equivalents	**₱31,428**	₱40,977
Trade and other receivables:		
Electricity	**22,705**	19,894
Nontrade receivables	**2,068**	1,004
Other current assets:		
Short-term investments	**21,769**	2,532
Debt securities at amortized cost	**10,193**	9,001
Current portion of advance payments to a supplier	**187**	178
Other noncurrent assets:		
Debt securities at amortized cost	**29,371**	27,180
Financial assets at *FVOCI*	**3,846**	4,319
Advance payments to a supplier and others	**3,619**	3,563
	₱125,186	₱108,648

The credit quality of financial assets is managed using "High Grade", "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due as internal credit ratings. The following tables show the credit quality by asset class:

	2018					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱31,428**	**₱–**	**₱–**	**₱–**	**₱–**	**₱31,428**
Trade and other receivables:						
Electricity	**5,668**	**2,660**	**11,653**	**2,724**	**1,353**	**24,058**
Nontrade receivables	**1,844**	**4**	**–**	**220**	**–**	**2,068**
Other current assets:						
Short-term investments	**21,769**	**–**	**–**	**–**	**–**	**21,769**
Debt securities at amortized cost	**10,193**	**–**	**–**	**–**	**–**	**10,193**
Advance payments to a supplier	**187**	**–**	**–**	**–**	**–**	**187**
Other non-current assets:						
Debt securities at amortized cost	**29,371**	**–**	**–**	**–**	**–**	**29,371**
Financial assets at *FVOCI*	**3,846**	**–**	**–**	**–**	**–**	**3,846**
Advance payments to a supplier and others	**–**	**–**	**3,619**	**–**	**–**	**3,619**
	₱104,306	**₱2,664**	**₱15,272**	**₱2,944**	**₱1,353**	**₱126,539**

	2017					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱40,977	₱–	₱–	₱–	₱–	₱40,977
Trade and other receivables:						
Electricity	6,911	2,089	9,346	1,548	3,301	23,195
Nontrade receivables	843	26	5	130	–	1,004
Other current assets:						
Debt securities at amortized cost	9,001	–	–	–	–	9,001
Short-term investments	2,532	–	–	–	–	2,532
Advance payments to a supplier	178	–	–	–	–	178
Other non-current assets:						
Debt securities at amortized cost	27,180	–	–	–	–	27,180
Financial assets at *FVOCI*	4,319	–	–	–	–	4,319
Advance payments to a supplier and others	–	–	3,563	–	–	3,563
	₱91,941	₱2,115	₱12,914	₱1,678	₱3,301	₱111,949

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks, cash equivalents, debt securities at amortized cost, *FVOCI* financial assets and advance payments to a supplier to counterparties with good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

  Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

  Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that *MERALCO* will be unable to meet its payment obligations when these fall due. *MERALCO* manages this risk through monitoring of cash flows in consideration of future payment of obligation and collection of its trade receivables. *MERALCO* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

MERALCO maintains an adequate amount of cash, cash equivalents and financial assets at *FVOCI*, which may be readily converted to cash in any unforeseen interruption of its cash collections. *MERALCO* also maintains accounts with several relationship banks to avoid significant concentration of cash with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2018				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amounts in millions)		
Note payable	₱35	₱12,835	₱–	₱–	₱12,870
Trade payables and other current liabilities	47,013	–	–	–	47,013
Customers' refund	4,359	–	–	–	4,359
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings		520	1,440	4,005	5,965
Bonds payable	211	633	13,332	7,637	21,813
Redeemable preferred stock	1,487	–	–	–	1,487
Customers' deposits	599	1,854	5,314	21,256	29,023
Refundable service extension costs	345	2,782	4,405	1,735	9,267
Nonrefundable liability related to asset funded by customers	127	127	127	364	745
Over-recoveries from transmission and *SL* charges	–	–	–	820	820
Total undiscounted financial liabilities	₱54,176	₱18,751	₱24,618	₱35,817	₱133,362

	2017				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amounts in millions)		
Note payable	₱151	₱12,867	₱–	₱–	₱13,018
Trade payables and other current liabilities	43,428	–	–	–	43,428
Customers' refund	4,603	–	–	–	4,603
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	69	529	2,327	4,545	7,470
Bonds payable	211	633	13,818	7,973	22,635
Redeemable preferred stock	1,496	–	–	–	1,496
Customers' deposits	1,086	1,885	4,728	18,911	26,610
Refundable service extension costs	84	2,177	4,646	1,366	8,273
Total undiscounted financial liabilities	₱51,128	₱18,091	₱25,519	₱32,795	₱127,533

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 a portion of bill deposits (including related interest) of ₱2,143 million and ₱2,549 million will be refunded within the following year. This is shown as part of "Trade payables and other current liabilities" account in the parent company statements of financial position as at December 31, 2018 and 2017, respectively.

Capital Management

The primary objective of *MERALCO*'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.

MERALCO monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. *MERALCO* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2018	2017
	(Amounts in millions, except debt to equity ratio)	
Consolidated long-term debt	**₱25,101**	₱25,174
Redeemable preferred stock	**1,487**	1,496
Note payable	**13,428**	13,585
Consolidated debt (a)	**₱40,016**	₱40,255
Consolidated equity attributable to the holders of the parent (b)	**₱82,002**	₱73,610
Consolidated debt to equity ratio (a)/(b)	**0.49**	0.55

26. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2018 and 2017 are as follows:

	Note	2018	2017
		(Amounts in millions)	
Deferred tax assets:			
Provisions for various claims	*17 and 20*	**₱26,503**	₱23,021
Unfunded retirement benefits and unamortized past service cost	*24*	**1,330**	1,054
Accrued employee benefits and other post employement benefits	*24*	**494**	1,235
Allowance for doubtful accounts	*11*	**438**	615
Allowance for excess of cost over net realizable value of inventories	*12*	**58**	58
		28,823	25,983
Deferred tax liabilities:			
Revaluation increment in utility plant and others	*14*	**₱6,896**	₱6,994
Actuarial gains	*24*	**1,542**	1,035
Capitalized interest		**750**	733
Capitalized duties and taxes deducted in advance		**602**	631
Depreciation method differential		**249**	434
Others		**209**	178
		10,248	10,005
		₱18,575	₱15,978

Provision for (benefit from) income tax consists of:

	2018	2017
	(Amounts in millions)	
Current	**₱10,281**	₱9,693
Deferred	**(3,112)**	(2,672)
	₱7,169	₱7,021

The deferred tax assets charged directly to *OCI* amounted to ₱515 million (expense) and ₱445 million (benefit) for the years ended December 31, 2018 and 2017, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2018 and 2017, and provision for income tax as shown in the parent company statements of income is as follows:

	2018	2017
	(Amounts in millions)	
Income tax computed at statutory tax rate	**₱9,427**	₱8,177
Income tax effects of:		
Interest income subjected to lower final tax rate	**(812)**	(608)
Nondeductible interest expense	**333**	247
Nontaxable income	**(251)**	(10)
Difference in tax due resulting from *OSD* availment	**(2,025)**	(1,064)
Movement of unrecognized deferred tax assets	**449**	533
Others	**48**	(254)
	₱7,169	₱7,021

On December 18, 2009, the *BIR* issued Revenue Regulation ("*RR*") No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions ("*OSD*"). Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2018 and 2017, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter income tax return. *MERALCO* expects to continue using the *OSD* method in computing its taxable income for the taxable year ending December 31, 2019.

Thus, certain deferred tax assets and liabilities expected to be recovered or settled in taxable year 2019, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result to any future tax consequence under the *OSD* method.

Meanwhile, certain deferred tax assets and liabilities expected to be recovered or settled in taxable year 2019, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under *OSD* method. Hence, the tax base of these deferred income tax assets and liabilities is reduced by the 40% allowable deduction provided for under the *OSD* method resulting into an adjusted tax rate of 18% from 30%. Deferred tax assets and liabilities expected to be recovered or settled after 2019 are still measured at 30%.

MERALCO's net deferred tax assets as at December 31, 2018 and 2017 which were not recognized due to the expected use of the *OSD* method in the taxable year 2019 and 2018, respectively, are as follows:

	2018	2017
	(Amounts in millions	
Deferred tax assets:		
Provisions for various claims	₱1,177	₱287
Allowance for expected credit losses	–	375
Others	32	55
	1,209	717
Deferred tax liabilities:		
Depreciation method differential	86	66
Revaluation increment in utility plant and others	53	57
Allowance for expected credit losses	32	–
Capitalized interest	28	27
Capitalized duties and taxes deducted in advance	23	24
Others	5	10
	227	184
	₱982	₱533

LFT

Consistent with the decisions of the *ERC, LFT* is a recoverable charge of the *DU* in the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customers' bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The *IRR* issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

27. 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.

APR 15 2019
EXCISE LT REGULATORY DIVISION

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCCs*"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2018 and 2017, the amount of unissued *TCCs* amounting to ₱181 million, is presented as part of "Other noncurrent assets" account in the parent company statements of financial position.

See *Note 9 – 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 an *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 an *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said Motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said Motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 26, 2019, the case is pending resolution by the *SC*.

LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code ("*LGC*"), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

RPT Assessments

Several Local Government Units ("*LGUs*") assessed *MERALCO* for deficiency *RPTs* on certain assets of *MERALCO*. 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 *LGU*s are pending with their respective administrative bodies or government offices.

In 2016, MERALCO began the process of settlement with the affected *LGU*s. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGU*s from customers in the relevant areas with the *ERC* and will file for similar recovery for succeeding payments.

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass-through cost in the light of the *SC* Decision. In an Order dated June 7, 2017, the case was set for hearings on August 7, 9 and 11, 2017. *MERALCO* filed its intervention and submitted its comments. As at February 26, 2019, the Petition is pending before the *ERC*.

See Note 17 – 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 *MERALCO* to enter into a long-term power supply contract with the *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* to commence on January 1, 1995. The *CSE* and the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *BOD*s of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of *ERC*.

Subsequently, the *OSG* filed a "Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*". As a result, *MERALCO* sought judicial clarification with the *RTC-Pasig*. Pre-trials were set, which

MERALCO complied with and attended. However, the *OSG* refused to participate in the pre-trial and opted to seek a Temporary Restraining Order ("*TRO*") from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed an *MR* which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO*'s Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the *OSG* with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective Memoranda. As at February 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-part transmission line, which completed the 230 *kV* line loop within Metro Manila. The two (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 ("*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 *Plaintiffs*' motion and directed the re-raffle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of Dr. Blank. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against *PEMC*, *TransCo*, *NPC* and *PSALM*

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 *kV* Line 2 on June 22, 2008, and the 500 *kV* 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC* Time-of-Use ("*TOU*") rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the start 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 *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* ₱73.9 million per month until the over-recoveries are fully refunded. In said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL,* 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 Motions for Reconsideration 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 some of its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 26, 2019, *MERALCO*'s Manifestation and Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent Temporary Restraining Order 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 *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM's MR*. On October 27, 2015, *MERALCO* received *PSALM's* Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 26, 2019, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*. Said Petition seeks the following: (i) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGC*s; and (ii) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGC*s, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGC*s' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its Pre-trial Brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 26, 2019, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised concerns with the *PEMC* to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum. As at February 26, 2019, *PSALM*'s Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2019, the petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in

RECEIVED
APR 15 2019
RATE REGULATORY COMMISSION

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 the *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* last December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DU*s in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., Team Energy, PanAsia Energy, Inc. ("*PanAsia*"), and *SMEC*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have

appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. The *CA* has yet to resolve the motions for reconsideration filed by *MERALCO* and *ERC*.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of *ERC*'s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants an additional period of 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*'s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2019, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

ERC Investigation 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.

RECEIVED
APR 15 2019
EXCISE-REGULATORY DIVISION

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant

given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant's pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribune that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

On June 20, 2018, *MERALCO* filed an *MR* with the *CA*. The *ERC* likewise filed its Motion for Partial Reconsideration on the ground that it retained concurrent jurisdiction together with the *PCC* over cases involving alleged anti-competitive conduct supposedly because the *PCA* did not repeal Section 45 of the *EPIRA*.

In a January 28, 2019 Resolution, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the Philippine Competition Act has no retroactive effect.

SPPC vs. PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint at *RTC*-Mandaluyong to nullify the termination notice for lack of factual and legal basis. On said date, the executive judge of *RTC*-Mandaluyong issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC*-Mandaluyong extended the *TRO* by an additional 17 days. In an

Order dated September 28, 2015, the *RTC* Mandaluyong granted the prayer for preliminary injunction. *PSALM* has filed *MR*'s for Mandaluyong to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC*-Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC*-Mandaluyong issued an Order dated June 27, 2016 denying the *MR*s. *PSALM* has elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC*-Mandaluyong. As at February 26, 2019, hearings are ongoing before the new presiding judge.

Ombudsman 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 a consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. As at February 26, 2019, *MERALCO* is awaiting further action of the Office of the Ombusdman on the matter.

Others

Liabilities for certain local taxes amounting to ₱2,688 million and ₱2,810 million as at December 31, 2018 and 2017, respectively, are included in the "Other noncurrent liabilities" account in the parent company statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

28. Significant Contracts and Commitments

Contracts for the CSE and PSAs with Privatized Plants and IPPAs

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, separate *PSAs* with *TLI* and *SMEC* were executed on February 29 and June 26, 2012, respectively. These *PSAs* are for a period of seven (7) years, extendable for three (3) years upon agreement of the parties. Thereafter, applications for approval of the *PSAs* were filed with the *ERC*.

MPower likewise signed separate *PSAs* with *SPPC*, *MPPCL*, *Sem-Calaca*, and *TLI* on December 12, 2011, March 16, 2012, June 25, 2012, October 10, 2012 and October 19, 2012, respectively.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSAs* of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

MRs were filed regarding the *ERC* decisions on the *PSAs* with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MRs*. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order. In an Order dated May 29, 2018, the *ERC* partially granted the Motion for Partial Reconsideration on the *PSA* with *Sem-Calaca*. On July 25, 2018, *MERALCO* filed a motion for clarification of the said Order which, as at February 26, 2019, remains pending for resolution of the *ERC*. Meanwhile, the terms of the *PSA* with *Sem-Calaca* expired on December 25, 2018.

MERALCO entered into separate Supplemental Agreements with *MPPCL* and *TLI* on April 8 and 27, 2016, respectively, for the extension of the term of these *PSAs* for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the *ERC*.

Under the *PSAs* approved by the *ERC*, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	(In Megawatt)	*(In millions)*
2019	2,894	₱35,695
2020	1,624	24,706
2021	1,114	14,984
2022	1,114	15,073
2023	1,714	27,090
2024-2030	13,774	243,296

On January 1, 2018, the *Tax Reform for Acceleration and Inclusion* ("*TRAIN*") Law became effective. Among other things, the *TRAIN* Law increased the excise tax on coal from ₱10.00 per metric ton to ₱50.00 per metric ton, effective January 1, 2018. This tax is to increase year on year, up to ₱150.00 per metric ton for coal, effective January 1, 2020. Under *MERALCO*'s *PSA* with *TLI*, should there be any increase in existing charges, fees, taxes, duties, assessments, or other similar amounts, a party to the *PSA* may claim the same as a charge due to change in law, upon *ERC* approval thereof. On July 19, 2018, *MERALCO* and *TLI* filed a joint application for approval of recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law. On

APR 15 2019
EXCISE TAX REGULATORY DIVISION

November 9, 2018, parties filed their joint *FOE*. As at February 26, 2019, parties await decision of the *ERC*.

FGPC and FGP

In compliance with the *DOE*'s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* has committed to contract 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPA*s with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electrical output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPA*s. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPA*s of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPA*s of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. Under the terms of the amended *PPA*, *MERALCO* committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* make advances to *QPPL* of US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement ("*TLA*") and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by *ERC*.

See Note 9 – Other Noncurrent Assets.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity ("*MEQ*") provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the U.S. and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	(In million kwh)	*(In Millions)*
2019	14,195	₱25,684
2020	14,195	25,835
2021	14,195	25,990
2022	14,195	26,148
2023	14,195	26,310
2024-2030	35,661	57,585

Philippine Power and Development Company ("*Philpodeco*")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco.* This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. As at February 26, 2019, the case is submitted for decision by the *ERC*.

Bacavalley Energy Inc. ("*BEI*")

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 16, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for another extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. As at February 26, 2019, *MERALCO* is awaiting the *ERC*'s decision on its Manifestation with Motion.

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* has a term 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 to the *ERC* for 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. As at February 26, 2019, the contract term has expired and the decision remains pending with the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for Provisional Authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the Amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed the one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 26, 2019, the contract term has expired and the decision remains pending with the *ERC*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electrical output with *SBPL*. *SBPL* will be constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Bacman Geothermal, Inc. ("*BGI*")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. As at February 26, 2019, the case is pending by the *ERC*.

RP Energy

On April 20, 2016, *MERALCO* signed a 20-year *PSA* with *RP Energy* for the purchase of 225 *MW* capacity and energy from the first 300 *MW* unit of 2 x 300 *MW* coal-fired power plant that *RP Energy* intends to construct, own, operate, manage and maintain in Subic, Zambales, within the Subic Bay Freeport Zone. On April 29, 2016, the Joint Application for approval of the said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *RP Energy* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective motions for reconsideration which the *ERC* likewise denied in an order dated November 17, 2017. On January 5, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor consumer group a chance to present its evidence. However, due to its unjustified and continued absence, consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. However, despite the case having been submitted for decision, the *ERC* hearing officer allowed an oppositor to submit his written comment/opposition to the continuation of the proceedings. On January 15, 2018, a written comment/opposition was filed by oppositor and on January 19, 2018, *MERALCO* filed its opposition to the said comment/opposition. As at February 26, 2019, *the ERC* action on the said opposition is pending.

BIR ROAD 20 REVENUE
APR 15 2019
EXCISE REGULATORY DIVISION

A1E

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *A1E* for the purchase of 1,200 *MW* of electric output from the 2 x 600 *MW* supercritical coal-fired power generating facility that *A1E* intends to construct, own, operate, manage and maintain in Atimonan, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After completion of the hearings and filing by *MERALCO* and *A1E* of their respective *FOE* on March 8, 2017, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On March 29, 2017, *MERALCO* and *A1E* filed their Joint Urgent Motion to Resolve. On May 22, 2017, *A1E* filed its Manifestation for Urgent Resolution. Thereafter, on May 23, 2017, *MERALCO* and *A1E* both filed separate letters for Urgent Resolution of the case. On October 19, 2017, *MERALCO* filed its Third Urgent Motion to Resolve. Then on November 8, 2017, *MERALCO* received *A1E's* Urgent Motion for Resolution. On August 30, 2018, *A1E* filed another Very Urgent Motion for Resolution of the case, and it was followed by *MERALCO*'s Extremely Urgent Motion to Resolve filed on September 10, 2018. Thereafter, on September 14, 2018, *MERALCO* and *A1E* filed a Joint Manifestation with Extremely Urgent Motion for Resolution. As at February 26, 2019, the case is pending decision by the *ERC*.

St. Raphael

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *St. Raphael* for the purchase of up to 400 *MW* of electric output from the 2 x 350 *MW* coal-fired power generating facility that *St. Raphael* intends to construct, own, operate, manage and maintain in Calaca, Batangas. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *St. Raphael* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On January 10, 2018, the *ERC* conducted a hearing for the purpose of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. Nevertheless, on April 13, 2018, the *ERC* issued an Order directing *MERALCO* and *St. Raphael* to submit additional compliance documents (all to be provided by *St. Raphael*) in order to aid *ERC* in its evaluation of the present case. In a Compliance dated June 18, 2018, *St. Raphael*, from whom all of *ERC*'s requested documents are to come, completed its submissions. At the same time, per directive of the *ERC*, *MERALCO* and *St. Raphael* submitted their respective comments on *MSK's Manifestation and Prayer* on June 8, 2018 and July 3, 2018. As at February 26, 2019, the case is pending decision by the *ERC*.

Central Luzon Premiere Power Corp. ("*Central Luzon Power*")

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Central Luzon Power* for the purchase of up to 528 *MW* of electric output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Central Luzon Power* intends to construct, own and operate in Pagbilao, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated January 25, 2017, the *ERC* held the processing of the application in abeyance. On March 2, 2017, *MERALCO* received the *MR* of *Central Luzon Power* on of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the

dismissal of the case, to which *MERALCO* filed an Opposition. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Cental Luzon Power* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC*. *Central Luzon Power* filed a pleading explaining status of the *ECC* application. As at February 26, 2019, further *ERC* action is pending.

Mariveles Power

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Mariveles Power* for the purchase of up to 528 *MW* of electrical output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Mariveles Power* intends to construct, own and operate in Mariveles, Bataan. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On September 30, 2016, *Mariveles Power* filed a *MR* of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. As at February 26, 2019, further *ERC* action is pending.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility that *PEDC* owns and operates in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that *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 January 17, 2017, *MERALCO* received a letter dated November 23, 2016, informing *MERALCO* that *ERC* provisionally approved the *PSA*. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 26, 2019, further *ERC* action is pending.

Meanwhile, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MR*s, which the *ERC* likewise denied in an order dated November 17, 2017. On January 15, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor consumer group a chance to present its evidence. However, due to its unjustified and continued absence, consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. On January 19, 2018, *MERALCO* received a motion filed by an oppositor before the *CA* seeking additional time to file a Petition for Review. On January 26, 2018, *MERALCO* received the Petition for Review. In a decision dated February 28, 2018, the *CA* denied the Petition, prompting the oppositor's filing of an *MR*. On December 3, 2018, *MERALCO* received the *CA*'s Notice of Resolution grating the oppositor's *MR* without necessarily giving due course to the oppositor's Petition for Review and requiring *MERALCO* and *PEDC* to file their respective comments thereto. *MERALCO* and *PEDC* have filed their respective comments. On December 7, 2018, *MERALCO* filed its Comment with Opposition to the *CA*'s Resolution. As at February 26, 2019, the case is awaiting further action from the *CA*.

Global Luzon Energy Development Corporation ("*GLEDC*")

On April 27, 2016, *MERALCO* signed a 20-year *PSA* with *GLEDC* for the purchase of 600 *MW* of electric output from the 2 x 335 *MW* coal-fired power generating facility that *GLEDC* intends to construct, own, operate, manage and maintain in Luna, La Union. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On October 21, 2016, *MERALCO* received *GLEDC*'s *MR* of the said Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a motion seeking the dismissal of the case, to which *MERALCO* filed an Opposition. On March 6, 2018, *GLEDC* filed a Manifestation updating the *ERC* of the status of its *ECC* Application. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *GLEDC* to submit a written explanation on the status of the *ECC* application, or in the alternative, should the *ECC* be ready, to submit the same to the *ERC*. *GLEDC* initially filed a pleading explaining status of the *ECC* application. *GLEDC* thereafter filed a Compliance with the *ERC* submitting the *ECC* granted to it by the *DENR* and moved that the August 9, 2016 Order of the *ERC* be lifted so that the case can proceed. As at February 26, 2019, the case is still awaiting further action from the *ERC*.

First Bulacan

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *First Bulacan* for the purchase of 50 *MW* of electric output from its solar plant in San Miguel, Bulacan. On February 23, 2017, after conduct of a Competitive Selection Process ("*CSP*") wherein *First Bulacan* was declared as the winning power supplier, the application for approval of the *PSA* with *First Bulacan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In an Order dated November 28, 2017, the *ERC* resolved to grant interim relief for approval of the *PSA*. *First Bulacan* filed a Motion for Reconsideration and an Urgent Motion to Resolve the Motion for Reconsideration, which sought reconsideration of the Order of interim relief. As at February 26, 2019, both are pending resolution by the *ERC*.

Solar Philippines Tanauan Corporation ("Solar Philippines Tanauan")

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electrical output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In a letter dated December 29, 2017, the *ERC* informed *MERALCO* and *Solar Philippines Tanauan* that the *ERC* resolved to grant interim relief for approval of the *PSA*. However, such interim relief is not contemplated under the *PSA* and the parties have yet to implement the *PSA*.

Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")

On October 6, 2017, after being declared the winner power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order dated November 28, 2017, the *ERC* granted interim relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* have agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration. As at February 26, 2019, the Motion for Partial Reconsideration is still pending resolution by the *ERC*.

BUREAU OF INTERNAL REVENUE
APR 15 2019
EXCISE LARGE TAXPAYERS SERVICE

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. In an Order dated June 5, 2018, *ERC* granted interim relief to provisionally implement the *PSA*. On June 26, 2018, *MERALCO* and *FNPC* implemented the *PSA* based on the June 5, 2018 Order of the *ERC*. On August 8, 2018, a party filed an intervention to the case. *MERALCO* and *FNPC* filed their Comment/Opposition to said intervention. *FNPC* thereafter filed a Compliance with Motion for Confidential Treatment of Information. Thereafter, the pre-trial conference on the case was concluded. As at February 26, 2019, the parties are awaiting the order of the *ERC* resolving the intervention and *FNPC's* Compliance with Motion by the *ERC* and setting the case for another hearing.

Interim Power Supply Agreements ("IPSAs")

On January 19, 2016, after the conduct of a price challenge in compliance with *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 *MW* (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 215 *MW* bunker oil-fired diesel engine power plant in Bauang, La Union. The term of the *IPSA* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to two (2) times, unless terminated by either party prior to the expiration of its term. The *IPSA* was filed for approval by the *ERC* on February 10, 2016 and shall become effective upon the approval by the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved the *IPSA*. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed 1590 Energy Corporation that it is no longer interested in renewing the *IPSA*, thus, the *IPSA* will only be until February 25, 2017. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 21, 2016, after the conduct of a price challenge in compliance to *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two (2) separate *IPSAs* with the following wholly owned subsidiaries of *GBPC*, namely; (i) *TPC* for the 28 *MW* (firm) output from its 40 *MW* diesel-fired power plant in Carmen, Toledo City; and (ii) *PPC* for the 45 *MW* (firm) output from its 72 *MW* diesel-fired power plant in La Paz, Iloilo City. The term of the *IPSAs* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to four (4) times, unless terminated by either party prior to the expiration of its term. On February 10, 2016, both *IPSAs* were filed for approval of the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved these *IPSAs*.

On January 26, 2017, considering the imminent Malampaya shutdown from January 28 until February 16, 2017, *MERALCO* agreed to extend the *IPSAs* with *TPC* and *PPC* until February 25, 2018, provided that beginning January 28, 2017, (i) supply from *TPC* and *PPC* will be through replacement energy at a price lower than the contract price and (ii) supply from *PPC* will be on a firm basis until August 25, 2017, and on a non-firm basis from August 26, 2017 until end of the term thereof. All other terms and conditions under the *IPSAs*, as may be approved by the *ERC*, remain the same. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed *TPC* and *PPC* that it is no longer interested in renewing their respective *IPSAs*, thus, the *IPSAs* will only be until February 25, 2018. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation ("Alternergy")

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for the latter's 90 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO's* Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2017. In the letter agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalize the extended use of said line.

Interconnection Agreement with Alternergy Sembrano Wind Corporation ("Alternergy Sembrano")

On March 23, 2017, *MERALCO* signed an Interconnection Agreement with *Alternergy Sembrano* for the latter's 81 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall also interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy Sembrano* is also an embedded generator. On May 4, 2018, *Alternergy Sembrano* filed an Application with the *ERC* to develop, own and/or operate a dedicated point-to-point 115 *kV* line connecting its generating facility to *MERALCO*'s system. On November 15, 2018, the said case was submitted for decision by the *ERC*.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for the latter's 20*MW* (with maximum capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*'s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115*kV* line connecting its generating facility to *MERALCO*'s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*'s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter's 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*'s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*'s system. In its Decision dated June 8, 2015, the *ERC* approved *ATN's* application for authority to develop, own and operate a dedicated point-to-point lines and facilities.

Agreement and Registration with PEZA

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Phinma Energy* for the sale of power to *CEZ* and its locators beginning January 26, 2013. Said tripartite agreement was extended several times. The last extension was through the letter dated December 22, 2017, extending the tripartite agreement until December 25, 2019.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

29. Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	2018	2017
	(In millions, except per share data)	
Net income (a)	**₱24,253**	₱20,235
Weighted average common shares outstanding (b)	**1,127**	1,127
Per Share Amounts:		
Basic and diluted earnings per share (a/b)	**₱21.52**	₱17.95

Basic and diluted earnings per share amounts are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2018 and 2017.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these parent company financial statements.

30. **Other Matters**

Revised SL Caps

On December 8, 2008, the *ERC* promulgated resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting their January 2010 billing. The said cap is one (1) percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme ("*PIS*") under the *PBR*.

On October 4, 2016, a legislator proposed a bill to lower the current cap of *SL* rate from 8.5% to 5% for private *DU*s and from 13% to 10% for electric cooperatives and to exclude non-technical system losses and electricity used by the private *DU*s and electrical cooperatives from what may be passed on to consumers as *SL* charges. As at February 26, 2019, this proposed bill is still subject for deliberation of the Senate.

On May 9, 2017, the *ERC* posted on its website the draft rules on the Proposed Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The *ERC* engaged a third party consultant to conduct the study on the *SL* of *DU*s and propose new caps. Said rules proposed different *SL* caps according to four (4) clusters. Electric cooperatives ("*EC*") were grouped in clusters 1 to 3 and private *DU*s in cluster 4. *EC*s and *DU*s in clusters 1 to 4 have proposed system loss caps of 11.5%, 10%, 7.75%, and 4%, respectively. These caps, which include feeder technical loss and nontechnical loss but exclude sub- transmission and substation technical losses are proposed to be implemented based on the *DU*'s next regulatory reset schedule. For *MERALCO*, the proposed implementation date is July 2019. A series of public consultations and focus group discussions followed, the latest of which was a public consultation for Mindanao stakeholders held in Pasig City on August 9, 2017. In said public consultation, the third party consultant proposed a graduated reduction in system loss caps per cluster. Beginning 2018, *EC*s in clusters 1 to 3 shall have a cap of 12% and *DU*s in cluster 4 shall have a cap of 8%, all of which exclude subtransmission and substation system losses. The caps of cluster 1 to 3 will remain/be lowered to 12%, 10.25%, 8.25% by 2022, respectively. For private *DU*s, the cap will be reviewed based on their submission of annual feeder data to the *ERC*. If private *DU*s fail to submit one (1) year's data (from 2018-2020), its cap in 2022, shall be set at 4.75% excluding subtransmission and substation system losses. The latest proposal of the third party consultant also includes a 1% cap on subtransmission and substation system losses which was not previously capped in the original draft rules.

On February 23, 2018, the *ERC* posted in its website its Rules for Setting the Distribution System Loss ("*DSL*") Cap and Establishing Performance Incentive Scheme for Distribution Efficiency.

The Rules allow for a gradual reduction of Feeder System (Primary and Secondary Distribution System) Loss caps as follows:

Year of Implementation	*EC* Cluster 1	*EC* Cluster 2	*EC* Cluster 3	Cluster 4 (Private *DU*s)
		(in percentage)		
2018	12.00	12.00	12.00	6.50
2019	12.00	11.00	11.00	6.25
2020	12.00	10.25	10.00	6.00
2021	12.00	10.25	9.00	5.50
2022 and onwards	12.00	10.25	8.25	4.75*

*if no annual submission of feeder data.

On May 7, 2018, the *ERC* posted on its website Resolution No. 10, Series of 2018, or "A Resolution Clarifiying the System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap". The Resolution was issued in response to the request for clarification of *EC*s on certain issues regarding the Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency was published on the same day. Accordingly, the prescribed system loss cap shall be effective on the next billing cycle of the *DU*s customers.

Subtransmission and substation loss is fully recoverable. However, if *DU*s do not submit monthly metered subtransmission and substation distribution loss data, such losses, as well as distribution feeder losses, will be set to zero in the computation of the recoverable system loss charge. The *DU* may also elect for an individualized *DSL* cap.

Benefit-Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with *PEPOA* and Philippine Rural Electric Cooperative Association ("*PHILRECA*"), filed a joint petition to the *ERC* to initiate rule-making to adopt the Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users. This was aimed to encourage the *DU*s to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower *SL* charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities. As at February 26, 2019, the Joint Petition is pending further action or decision by the *ERC*.

RCOA

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer

Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *DU*s to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least one (1) *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information in issuing the certificates of contestability.

On October 22, 2014, the *ERC* issued a resolution suspending the issuance of *RES* licenses. Under the resolution, the *ERC* resolves to hold in abeyance the evaluation of *RES* license applications and suspend the issuance of such licenses until such time that the amendments to the Rules for the issuance of *RES* licenses have been made by the *ERC*.

On July 1, 2015, the *DOE* published Department Circular No. DC2015-06-0010, "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry". The Circular essentially provided for mandatory contestability.

On March 8, 2016, the *ERC* promulgated Resolution No. 05 Series of 2016 entitled "A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers ("*RES*") and Prescribing the Requirements and Conditions Therefor". The Resolution removed the term local *RES* as one of the entities that may engage in the business of supplying electricity to the contestable market without need of obtaining a license therefor from the *ERC*. Moreover, while an affiliate of a *DU* is allowed to become a *RES*, the allowance is "subject to restrictions imposed by the *ERC* on market share limits and the conduct of business activities".

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SOLR*"), or, if applicable, procures power from the *WESM*;

2. Prohibits *DU*s from engaging in the supply of electricity to the contestable market except in its capacity as a *SOLR*;

3. Mandates Local *RES*s to wind down their supply businesses within a period of three (3) years;

4. Imposes upon all *RES*s, including *DU*-affiliate *RES*s, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,

5. Prohibits *RES*s from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

On May 27, 2016, *MERALCO* filed a Petition before *RTC*-Pasig, praying that: (a) a *TRO* and subsequently a Writ of Preliminary Injunction ("*WPI*") enjoining the *DOE* and *ERC* from implementing the assailed rules be issued; and the assailed rules be declared null and void for being contrary to the *EPIRA* and its *IRR*. In an Order dated June 13, 2016, *RTC*-Pasig granted a 20-day *TRO*, which became effective on June 16, 2016. In an Order dated July 13, 2016, *RTC*-Pasig granted a *WPI*, which became effective on July 14, 2016, and shall be effective for the duration of the pendency of the Petition.

Meanwhile, the *ERC* filed a Petition for Certiorari and Prohibition with prayer for *TRO* and/or *WPI* before the *SC*, which asserted that *RTC*-Pasig has no jurisdiction to take cognizance of *MERALCO*'s Petition, citing Sec. 78 of the *EPIRA*. A similar petition was subsequently filed by the *DOE* before the *SC*.

On October 10, 2016, the *SC*, in relation to the Petition filed by the *DOE*, issued a *TRO* that restrained, *MERALCO*, the *RTC*-Pasig, their representatives, agents or other persons acting on their behalf from continuing the proceedings before the *RTC*-Pasig, and from enforcing all orders, resolutions and decisions rendered in Special Civil Action No. 4149 until the petition before the *SC* is finally resolved. In a Resolution dated November 9, 2016, the *SC* denied *MERALCO*'s *MR*.

On November 2, 2016, in relation to the Petition filed by the *ERC*, the *SC* issued a Resolution dated September 26, 2016, which partially granted the Petition of the *ERC*. While the *SC* allowed the *RTC*-Pasig to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction ("*PMI*") against *RTC*-Pasig to vacate the preliminary injunction it previously issued, and Preliminary Injunction ("*PI*") ordering the *RTC*-Pasig to refrain issuing further orders and resolutions tending to enjoin the implementation of *EPIRA*. On November 14, 2016, *MERALCO* filed a Motion for Partial Reconsideration with Very Urgent Motion to lift *PMI/PI*.

On November 24, 2016, the *ERC* promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) *MW* from December 31, 2016 to February 26, 2017. On January 17, 2017, *MERALCO*, through its counsel, received an *SC* Resolution dated December 5, 2016, which consolidated the *SC DOE* Petition with the *SC ERC* Petition. The same resolution also denied the Motion for Partial Reconsideration filed by *MERALCO*.

In relation to the *ERC* and *DOE* Petitions, a separate Petition for Certiorari, Prohibition and Injunction was filed by several institutional customers. In said Petition, said customers sought to declare as null and void, as well as to enjoin the *DOE* and *ERC* from implementing *DOE* Circular No. 2015-06-0010 and *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016. Acting on the Petition, the *SC en banc* through a Resolution dated February 21, 2017, issued a *TRO* enjoining the *DOE* and the *ERC* from implementing *DOE* Circular No. 2015-06-0010 and *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016. Pursuant to the foregoing, *PEMC* has taken the position that the *TRO* enjoined the voluntary contestability of 750 *kW* to 999 *kW* customers and has not allowed them to switch to the contestable market. The *DOE*, in a press release, has advised that it is in the process, together with *PEMC* and *ERC*, of drafting a general advisory for the guidance of *RCOA* stakeholders. The *PCCI* petition was consolidated with two (2) other separate petitions filed by an educational institution and several *DU*s. The *DOE* and *ERC* have also filed a consolidated comment on these petitions.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW to* 749 *kW* for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at February 26, 2019, the *ERC* has yet to respond to *MERALCO*'s letter.

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average generated weighted average price ("*GWAP*") of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or secondary cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (i) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (ii) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such resolution; and (iii) extend the effectivity of the secondary cap mechanism for a period of 120 days from August 10, 2014 or until the *ERC* establishes a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure which shall be applied in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold ("*CPT*") amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*'s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating

measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 26, 2019, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, "A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*". They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5) -day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and "Guidelines for the Supply of Electric Power in Ecozones" ("*Guidelines*"). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DU*s which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DU*s in *RTC*-Pasig.

On February 4, 2015, the *RTC*-Pasig issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC*-Pasig. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC*-Pasig. In a Decision dated July 3, 2015, the *RTC*-Pasig approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC*-Pasig dismissed the petition upon motion by *PEZA*. The *ERC* filed a *MR* which is pending resolution by the *RTC*-Pasig.

Purchase of Subtransmission Assets ("*STAs*")

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*'s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015. During the hearing, *TransCo* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*'s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 *kV* line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*. *MERALCO* is currently preparing its Comment to the Petition.

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which is pending resolution. In a Letter dated December 27, 2017, *Labrador* denied *TransCo*'s request for settlement of the warrant of distraints issued by said city against *TransCo*'s properties, including the subject properties for local business tax claims. As at February 26, 2019, *MERALCO* is awaiting for *CA*'s decision before any action may be taken in relation to the contract to sell.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board ("*NREB*") filed its Petition to Initiate Rule Making for the Adoption of *FiT*. The Petition proposed a specific *FiT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FiT* Rates lower than the rates applied by the *NREB*.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

On July 30, 2014, *TransCo* filed its Application for Approval of the *FiT-All* for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FiT-All* of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE, TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. The parties have been directed to submit their respective memoranda.

On April 30, 2014, the *DOE* issued a certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its certification, the *DOE* stated that "solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016".

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FiT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, the *ERC* issued a Decision dated March 27, 2015 setting the new solar *FiT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FiT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FiT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FiT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FiT*. In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a *MR* on the Decision. As at February 26, 2019, the *MR* is pending further action of the *ERC*.

On December 22, 2015, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2016. In an Order dated February 16, 2016, the *ERC* provisionally approved a *FiT-All* of ₱0.1240 per *kWh* effective in the succeeding billing period after *TransCo* received the Order. The *FiT-All* was implemented starting April 2016 billing month. In a Decision dated May 9, 2017, the *ERC* approved the final *FiT-All* for calendar year 2016 of ₱0.1830 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FiT-All* rate was implemented starting June 2017 billing.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FIT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*.

On December 1, 2016, *TransCo* filed for an application with the *ERC* seeking to collect a *FiT-All* rate of ₱0.2291 per *kWh* for 2017. In a Decision docketed May 11, 2018, the *ERC* approved the final *FiT-All* for calendar year 2017 of ₱0.2563 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FiT-All* rate was implemented starting June 2018 billing.

On August 30, 2017, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2018 seeking to collect a *FiT-All* rate of ₱0.2932 per *kWh*. The case has been submitted for decision of the *ERC*.

On July 27, 2018, *TransCo* filed its Application for Approval of the *FiT-All* for calendar year 2019 seeking to collect a *FiT-All* rate of ₱0.2780 per *kWh*, effective January 2019 billing. As at February 26, 2019, proceedings in the case are on going.

On November 23, 2018, the *ERC* issued an Order and Notice of Proposed Rule Making to review and re-adjust the Run-of-River ("*ROR*") Hydro and Biomass *FiT* rates due to the extension by the *DOE* of the *FiT* eligibility of of *ROR* Hydro and Biomass for an additional 2 years, or from January 1, 2018 up to December 31, 2019, or upon successful commissioning of the remaining balance of their respective installation targets, whichever comes first. The petition for rule making stemmed from the endorsement by the *NREB* of submissions from PhilHydro Associations, Inc. and Biomass Renewable Energy Alliance ("*BREA*"), which sought for the currently degressed *FiT* rates of ₱5.8705 per *kWh* for ROR Hydro and ₱6.5969 per *kWh* for Biomass. The public consulations by the *ERC* concluded last January 18, 2019 and parties await further action by the *ERC*.

Recovery of National Power Corporation's ("NPC") Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*'s petition for the recovery of *NPC*'s stranded contract costs portion of the universal charge. Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. To remedy this situation, 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.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 15 2019
BY
EXCISE REGULATORY DIVISION

Net Metering Program

The *RE* Act mandates the *DU*s to provide the mechanism for the physical connection and commercial arrangements necessary to ensure the success of the *RE* programs, specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system appropriate for distributed

generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DU*s.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the *ERC* in due course. In the meantime, the *DU*s' blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. As at December 31, 2018, *MERALCO* has already installed 1,831 meters and energized 1,695 net metering customers.

Interruptible Load Program ("*ILP*")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program" and *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program".

As at December 31, 2018, there are 162 companies with a total committed de-loading capacity of 584 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

Prepaid Retail Electricity Service ("*PRES*")

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2018, there are 101,844 customers availing of *PRES*.

CSP for Power Supply Agreements

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DU*s to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy ("*DASAP*"). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, "Providing Policies for Further Enhancement of the *WESM* Design and Operations", prescribing *DU*s to procure all its uncontracted demand through *CSP*, through the participation of a third party and which may be done by *DU*s on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines ("*IG*"). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and the *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On the same date, the *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

- All *DU*s are required to undergo *CSP*. Pending the *ERC's* issuance of a prescribed process, *DU*s may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.

- A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.

- The *CSP* requirement shall apply to *PSA*s that although executed, have not yet been filed for approval before the *ERC*.

On March 15, 2016, the *ERC* released Resolution No. 1, Series of 2016 entitled, "A Resolution Clarifying the Effectivity of *ERC* Resolution No. 13, Series of 2015". In this new Resolution, the *ERC* clarified that after judicious study and due consideration of views raised by different industry stakeholders, it has resolved that:

- The effectivity of *ERC* Resolution No. 13, Series of 2015 is hereby restated to be April 30, 2016.

- On the other forms of *CSP* referred to in Section 2 of the *ERC* Resolution No. 13, Series of 2015, these should likewise comply with the minimum terms of reference and the requirement of at least two (2) qualified bids for the *CSP* to be considered successful.

In reference to *PSA*s with provisions allowing the automatic renewal or extension of their term, *PSA*s that were previously approved by the *ERC* or filed with the *ERC* before the effectivity of this Resolution may have one (1) automatic renewal or extension for a period not exceeding one (1) year from the end of their respective terms. Upon effectivity of this Resolution, automatic renewal clauses or extension of *PSA*s shall no longer be permitted.

On November 18, 2016, *MERALCO* received a copy of the Petition dated April 28, 2016 filed by a consumer group in the *SC* against the *ERC*, *DOE*, *MERALCO*, *Central Luzon Power*, *St. Raphael*, *PEDC*, *Mariveles Power*, *A1E*, *RP Energy* and the Philippine Competition Commission which sought to declare as void Resolution No. 1, Series of 2016 and to mandate the *ERC* to disapprove all *PSA* applications for failing to comply with the *CSP* requirement. In a Resolution dated November 16, 2016, the *SC* directed all parties to comment on the Petition. *MERALCO* has filed its comments to the Petition. In a Resolution dated June 17, 2017, the petitioners were directed to file their replies to the comments filed by respondents.

On February 9, 2018, the *DOE* published *DOE* Circular No. DC2018-02-0003, entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market". Upon effectivity of the Circular, all prospective *PSA*s in grid and off-grid areas shall be procured through *CSP*.
The *CSP* under the Circular involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

a. Generation project owned by the *DU* funded by grant or donations
b. Negotiated procurement of emergency supply
c. Provision of supply in off-grid areas prior to the entry of New Power Providers
d. Provision of supply by PSALM through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*

*PSA*s that were granted exemption from *CSP* shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). Each *CSP* shall be completed within five (5) months from the time of the publication of the Invitation to Bid until submission of the *PSA* to the *ERC*.

Direct negotiations may be made by the *DU*s after at least two (2) failed *CSP*s and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

a. No proposal was received by the *DU*
b. Only one (1) generator submitted an offer
c. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

Within 60 days upon effectivity of the Circular, the *ERC* shall develop rules and procedures to: (i) support the Circular, including guidelines for *TPA* accreditation and a *PSA* template, and (ii) address disputes arising from the conduct of the *CSP*. On April 26, 2018, the *ERC* posted in its website the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements ("*PSA*") Entered into by Distribution Utilities for the Supply of their Captive Market". *ERC* has conducted a public consultation and received comments thereon. On September 28, 2018, the *ERC* posted on its website the second draft of the said Rules. *ERC* has conducted another round of public consultations and received comments thereon. As at February 26, 2019, *MERALCO* is awaiting the rules and procedures to be promulgated by the *ERC*.

True-up Adjustments of Fuel and Purchased Power Costs ("TAFPPC") and Foreign Exchange-Related Costs ("TAFxA")

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether or they were covered or not during the relevant test periods. As at February 26, 2019, The *ERC* has yet to act on the Motion.

31. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by *RR* No. 15-2010, hereunder are the informationon taxes, duties and license fees paid and accrued during the taxable year.

Output VAT

MERALCO is a *VAT*-registered company with total *VAT* output tax declared of ₱9,092 million in 2018 based on the following revenue streams:

Revenue Item	Amount *(In Millions)*
Distribution revenues	₱73,304
Government	1,581
Leases and others	883
	₱75,768

MERALCO has zero-rated distribution revenues of ₱4,161 million pursuant to the provisions of *RA* No. 7916 as amended by *RA* No. 8748, *RA* 9337 Section 108B, *RR* No. 16-2005 Section 4.108-5 and Section 4.108-6.

Generation, transmission, and system loss charges, which are part of *MERALCO*'s revenues are pass-through items. *VAT* on such revenues are remitted mainly to *IPPs*, *PSALM* and its successor generator companies, *PEMC* and *NGCP*, who are responsible for ultimate remittance to the *BIR*.

Input VAT

The amount of *VAT* input taxes claimed are broken down as follows:

		Amount *(In Millions)*
Balance at beginning of year		₱1,040
Add input *VAT* on 2018 purchases from:		
Goods for resale/manufacture or further processing	₱735	
Capital goods subject to amortization	451	
Services lodged under other accounts	3,780	4,966
Less input *VAT* claimed:		
From goods other than capital goods and services	4,515	
Amortization of *VAT* input tax on capital goods	448	4,963
Balance at end of year		₱1,043

MERALCO also applied against output *VAT* the amount of *VAT* withheld on payments to non-residents for services rendered in the Philippines of ₱13 million which are duly supported by *BIR* Form 1600.

Importation and Custom Duties

The landed cost of imports including amount of custom duties and tariff fees paid and accrued amounted to ₱1,370 million in 2018.

Taxes

The amount of withholding taxes for 2018 amounted to the following:

	Amount *(In Millions)*
Tax on compensation and benefits	₱1,612
Expanded withholding taxes	3,587
Final withholding taxes	513
	₱5,712

Taxes and Licenses

The following are the national and local taxes, licenses and permits in 2018:

	Amount *(In Millions)*
Real property taxes	₱649
Fringe benefit tax and others	5
	₱654

Other Local and National Taxes

The following are other local and national taxes paid in 2018:

	Amount
	(In Millions)
Local franchise tax	₱1,580
Energy tax	211
	₱1,791

These taxes are billed and collected on behalf of the national and local governments.

Tax Assessments

MERALCO does not have any pending assessments for deficiency taxes as at December 31, 2018.

Tax Cases

MERALCO's tax cases as at December 31, 2018 are discussed in *Note 27 – Contingencies and Legal Proceedings.*

32. Event After the Financial Reporting Date

On February 26, 2019, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.59 a share to all shareholders of record as at March 22, 2019, payable on April 15, 2019.