# COVER SHEET

SEC Registration Number

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

Company Name

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

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

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

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

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| N/A | 86312222/ 816220 | N/A |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 41,607 | 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 | 8632-8014 | 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.

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. **For the quarterly period ended:** March 31, 2022
2. **Commission identification number:** *PW-102*
3. **BIR Tax Identification Code:** *000-101-528-000*
4. **Exact name of issuer as specified in its charter:** *Manila Electric Company*
5. **Country of Incorporation:** *Philippines*
6. **Industry Classification: (SEC use only)**
7. **Address of issuer's principal office:** *Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City*
   **Postal Code:** *1605*
8. **Issuer's Telephone Numbers including area code:** *(+632) 8631-5567*
9. **Former name, former address and former fiscal year, if changed since last report:** *N/A*
10. **Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of RSA:**

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| Common Stock | 1,127,098,705 |
| | Amount of Debt Outstanding |
| Debt Securities – bonds | PhP7,000 Million Fixed Rate Notes |

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

    *Yes [x] No [ ]*

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

*Philippine Stock Exchange*

**12. Indicate by check mark whether the registrant:**

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

*Yes [x] No [ ]*

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

*Yes [x] No [ ]*

## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

*The 1Q 2022 Financial Statements is hereto attached and made integral part of this report.*

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

*Please refer to the attached 1Q 2022 Management's Discussion and Analysis of Financial Condition and Results of Operations.*

## PART II – OTHER INFORMATION

*Not applicable.*

# SIGNATURES

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

**MANILA ELECTRIC COMPANY**
**Issuer**

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

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

**Date: May 16, 2022**

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

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

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

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

The financial information appearing in this report and in the accompanying unaudited interim consolidated financial statements is presented in Philippine peso, *MERALCO Group's* functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The exchange rate used to translate U.S. dollars to Philippine peso in this report and in the accompanying unaudited interim consolidated financial statements is US$1.00 to ₱51.74, the closing rate as at March 31, 2022 quoted through the Philippine Dealing System.

**Financial Highlights and Key Performance Indicators**

| | March 31, 2022 (Unaudited) | December 31, 2021 (Audited) | Increase (Decrease) Amount | Increase (Decrease) % |
|---|---|---|---|---|
| **Condensed Statements of Financial Position** | | | | |
| Total assets | ₱502,123 | ₱483,482 | ₱18,641 | 4 |
| Current assets | 145,999 | 137,019 | 8,980 | 7 |
| Cash and cash equivalents | 58,034 | 55,007 | 3,027 | 6 |
| Equity attributable to equity holders of the parent | 89,254 | 95,204 | (5,950) | (6) |
| Total debt | 86,049 | 90,668 | (4,619) | (5) |
| Current liabilities | 182,635 | 161,570 | 21,065 | 13 |

| | Unaudited | | | |
|---|---|---|---|---|
| | Three Months Ended March 31 | | Increase (Decrease) | |
| | 2022 | 2021 | Amount | % |
| **Condensed Statements of Income** | | | | |
| Revenues | ₱85,905 | ₱64,712 | ₱21,193 | 33 |
| Costs and expenses | 80,837 | 55,304 | 25,533 | 46 |
| Other income, net of expenses | 2,040 | 707 | 1,333 | 189 |
| Income before income tax | 7,108 | 10,115 | (3,007) | (30) |
| Net income | 5,659 | 4,357 | 1,302 | 30 |
| Net income attributable to equity holders of the parent | 5,564 | 4,334 | 1,230 | 28 |
| EPS attributable to equity holders of the parent | 4.94 | 3.85 | 1.09 | 28 |
| **Condensed Statements of Cash Flows** | | | | |
| Net cash provided by operating activities | 12,461 | 11,908 | 553 | 5 |
| Net cash used in investing activities | (5,464) | (18,848) | 13,384 | 71 |
| Net cash provided by (used in) financing activities | (3,936) | 19,116 | (23,052) | (121) |
| **Operational Data** | | | | |
| Number of customers (in thousands): | | | | |
| Residential | 6,888 | 6,644 | 244 | 4 |
| Commercial | 559 | 545 | 14 | 3 |
| Industrial | 11 | 11 | – | – |
| Streetlight | 5 | 5 | – | – |
| Electricity sales volume (in *GWh*) | 11,069 | 10,473 | 596 | 6 |
| System loss (in percentage) : | | | | |
| *MERALCO* | 6.02 | 6.14 | (0.12) | (2) |
| Clark Electric Distribution Corporation ("*Clark Electric*") | 2.01 | 2.08 | (0.07) | (3) |

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

| Financial KPI | Definition | March 31, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|---|
| Debt to Equity | Total debt / Equity attributable to equity holders of the parent | 0.96 | 0.95 |
| Current Ratio | Current assets / Current liabilities | 0.80 | 0.85 |

| | | Unaudited | |
|---|---|---|---|
| | | Three Months Ended March 31 | |
| | | 2022 | 2021 |
| Core EBITDA | *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 | 8,956 | 12,021 |
| Profit Margin | Net income attributable to equity holders of the parent / Revenues | 6% | 7% |
| Return on Equity | Net income attributable to equity holders of the parent / Equity attributable to equity holders of the parent | 6% | 6% |
| Asset Turnover | Revenues / Average total assets | 17% | 15% |

## OVERVIEW

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

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

- Power

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

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

  *Clark Electric*, a 65%-owned subsidiary of *MERALCO*, holds the power distribution franchise for the *CSEZ* in Clark, Pampanga. The *Clark Electric* franchise area covers 320 square kilometers and serves 2,680 customer accounts as at March 31, 2022. *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone. The Bases Conversion and Development Authority ("*BCDA*") confirmed that the power distribution franchise of *Clark Electric* within the entire *CSEZ* is until July 30, 2047.

  Shin Clark Power Holdings, Inc. ("*Shin Clark*") is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("*BCDA*"). As at April 25, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been submitted to the Securities and Exchange Commission ("*SEC*") and is awaiting approval.

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

  MERALCO PowerGen Corporation *("MGen")* owns 51% interest in San Buenaventura Power Ltd. Co. ("*SBPL*") which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon.

  Global Business Power Corporation *("GBPC")*, a wholly owned subsidiary of *MERALCO*, is the largest independent power producer in the Visayas. *GBPC* owns 747 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy Corporation ("*Sarangani Energy"*). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

  On June 30, 2021, *GBPC* broke ground for its 115 *MW*dc solar plant in Baras, Rizal. The plant is expected to start commercial operations in September 2022.

  *MGen* also has a 28% indirect interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"). In July 1, 2021, it acquired a 30% direct interest in PacificLight Power, increasing its effective ownership to

58%. *PacificLight Power* owns and operates a 2 x 400 *MW* (gross) combined cycle turbine power plant mainly fueled by liquefied natural gas ("*LNG*") in Jurong Island, Singapore.

*MGen* is developing a 2 x 600 *MW* (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, Atimonan One Energy, Inc. *("A1E")* . *A1E* is currently assessing its next course of action following the unfortunate outcome of its participation in the Competitive Selection Process ("*CSP"*) conducted by *MERALCO* on January 27, 2021. In the meantime, advance site preparations and early engineering works are being done to meet the target operations date.

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

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

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

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

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*; Solvre, Inc. ("*Solvre")*, a wholly owned subsidiary of *MGen*; MeridianX, Inc. ("*MeridianX"),* a wholly owned subsidiary of Comstech Integration Alliance, Inc. ("*Comstech*"), on January 10, 2017, February 9, 2017 and February 9, 2017, respectively. On April 21, 2021, Phoenix Power Solutions, Inc *("Phoenix Power"),* a wholly owned subsidiary of *MERALCO,* was issued a *RES* license by the *ERC* while *Vantage RES* renewal is on-going. Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC.* As at April 25, 2022, the approval of its *RES* licensing is pending with the *ERC.* Global Energy Supply Corporation *("GESC")*, a wholly owned subsidiary of *GBPC*, was issued a *RES* license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, the *RES* license of *GESC* was renewed for another five (5) years beginning September 13, 2021.

- Other Services

  The other services segment is involved principally in electricity-related services, such as: electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management, harnessing renewable energy, electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, Miescor Builders, Inc. *("MBI")*, and Miescor Logistics, Inc. *("MLI")* (collectively known as "*MIESCOR Group*"), Corporate Information Solutions, Inc. *("CIS")*, CIS Bayad Center, Inc. *("Bayad") and* Customer Frontline Solutions, Inc. ("*CFSI*") (collectively referred to as "*CIS Group*"), eMeralco Ventures, Inc. ("*e-MVI")*, Paragon Vertical Corporation *("Paragon")* and Radius Telecoms, Inc. *("Radius")* (collectively referred to as "*e-MVI Group*"), MRail, Inc. *("MRail")*, *Comstech*, eSakay, Inc. ("*eSakay*"), Lighthouse Overseas Insurance Limited *("LOIL"),* Meralco Financial Services, Inc. *("Finserve")*, Meralco Energy, Inc. ("*MServ")* and MSpectrum, Inc. ("*Spectrum*).

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

| **BUSINESS SEGMENTS** | |
|---|---|
| **Power** | **Other Services** |
| Electricity distribution<br>• *MERALCO*<br>• *Clark Electric*<br>• *Shin Clark*<br>Power generation<br>• *MGen* and its subsidiaries<br>*RES*<br>• *MERALCO* through *MPower* business unit<br>• *Clark Electric* through *Cogent Energy* business unit<br>• *Clarion*<br>• *GESC*<br>• *MeridianX*<br>• *Phoenix Power*<br>• *Solvre*<br>• *Vantage* | • *CIS Group*<br>• *Comstech*<br>• *e-MVI Group*<br>• *eSakay*<br>• *Finserve*<br>• *LOIL*<br>• *MIESCOR Group*<br>• *MRail*<br>• *MServ*<br>• *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 three months ended March 31, 2022 and 2021.

| | Unaudited | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31, 2022 | | | |
| | Power | Other Services | Inter-segment Transactions | Consolidated |
| | *(Amounts in millions)* | | | |
| Revenues | ₱83,272 | ₱3,568 | (₱935) | ₱85,905 |
| Costs and expenses | 78,929 | 2,688 | (780) | 80,837 |
| Other income (expense) - net | 2,004 | 44 | (7) | 2,041 |
| Net income attributable to equity holders of the parent | 5,195 | 464 | (95) | 5,564 |

| | Unaudited | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31, 2021 | | | |
| | Power | Other Services | Inter-segment Transactions | Consolidated |
| | *(Amounts in millions)* | | | |
| Revenues | ₱62,484 | ₱2,821 | (₱593) | ₱64,712 |
| Costs and expenses | 53,707 | 2,195 | (598) | 55,304 |
| Other income (expense) - net | 740 | (28) | (5) | 707 |
| Net income attributable to equity holders of the parent | 3,937 | 420 | (23) | 4,334 |

## 2022 compared with 2021

**REVENUES**

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

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2022 | | 2021 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Power | ₱83,272 | 97 | ₱62,484 | 97 | ₱20,788 | 33 |
| Other services | 3,568 | 4 | 2,821 | 4 | 747 | 26 |
| Inter-segment transactions | (935) | (1) | (593) | (1) | (342) | 58 |
| **Total** | **₱85,905** | **100** | **₱64,712** | **100** | **₱21,193** | **33** |

Consolidated revenues rose by 33% to ₱85,905 million from ₱64,712 million with the growth in power generation contribution, uptick in energy sales, and increase in pass-through charges. On March 31, 2021, *MGen* acquired an additional 86% equity in *GBPC*, increasing *MGen*'s equity interest in *GBPC* to 100%. As such, *MERALCO*'s consolidated revenues for the three months ended March 31, 2021 does not include *GBPC*'s revenues.

Non-electric revenues, which accounted for 4% of consolidated total revenues, grew by 26% due to increase in business activities of subsidiaries following more relaxed quarantine restrictions and business expansion initiatives.

***Power***

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

Revenues of the power segment in 2022 was at ₱83,272 million, ₱20,788 million or 33% higher compared with 2021 mainly due to higher pass-through charges on account of the unprecedented increase in global fuel prices.

*MERALCO*'s average retail rate increased by 14% to ₱8.89 per *kWh* from ₱7.82 per *kWh* as generation charges, which accounted for about 59% of total retail rate, went up by 21%. Transmission charges, comprising 9% of the retail rate, also increased by 9%.

The rate increase was mitigated by the ₱0.1064 per *kWh* average refund of distribution over-recoveries, which was implemented by *MERALCO* following the order of the Energy Regulatory Commission ("*ERC*") in March 2022. This refund was intended to expand its coverage to include the December 2020 to December 2021 period. This is in addition to the ₱0.1528 per *kWh* refund of distribution over-recoveries for the period July 2015 to November 2020, which is currently being implemented as ordered by the *ERC* in February 2021. With these, the average effective distribution rate charged to customers by *MERALCO* was at ₱1.33 per *kWh* for the first quarter of 2021.

*MERALCO*'s 12-month moving average ("*12-MMA*") system loss at end-March was at 6.02%, a 0.12 percentage point improvement compared with 6.14% in 2021 as a result of sales approaching pre-pandemic mix and system loss management initiatives. *Clark Electric Distribution Corporation*'s 12-MMA system loss was at 2.01% as at March 2022.

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

| | **No. of Customers** | | **Electricity Sales** | | **% Change** | |
|---|---|---|---|---|---|---|
| | *(in thousands)* | | *(in GWh)* | | **No. of** | **Electricity** |
| **Customer Class** | **2022** | **2021** | **2022** | **2021** | **Customers** | **Sales** |
| Residential | 6,888 | 6,644 | 3,808 | 3,616 | 4 | 5 |
| Commercial | 559 | 545 | 3,781 | 3,560 | 3 | 6 |
| Industrial | 11 | 11 | 3,443 | 3,261 | – | 6 |
| Streetlights | 5 | 5 | 37 | 36 | – | 3 |
| **Total** | **7,463** | **7,205** | **11,069** | **10,473** | **4** | **6** |

Consolidated distribution utility energy sales volumes in the first quarter rose to 11,069 *GWh* from 10,473 *GWh* in the same period last year following the easing of pandemic-related restrictions and higher temperatures.

National Capital Region ("*NCR*") and parts of Cavite, Laguna, Batangas, Rizal and Quezon ("*CALABARZON*") were placed under the least restrictive Alert Level 1 in March 2022, driving power demand in Luzon that peaked at 11,654 *MW* on March 23, 2022, exceeding the actual peak demand in 2021. *MERALCO* peak demand for the first quarter of 2022 was at 7,816 *MW*, 10% higher than the previous year.

In terms of the sales mix, residential sales accounted for 35%, while commercial and industrial sales accounted for 34% and 31%, respectively.

While demand in the residential segment continued to normalize with increased mobility due to higher vaccination rate, the continuing hybrid work arrangements and home-based learning set-up, as well as the relatively warmer temperatures pushed residential sales volume to grow 5% to 3,808 *GWh* from 3,616 *GWh*.

Commercial sales volumes likewise went up to 3,781 *GWh* from 3,560 *GWh* amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began hybrid face-to-face classes. Full operation of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

With the more relaxed restrictions, growth in industrial sales volumes was sustained, increasing to 3,443 *GWh* from 3,261 *GWh*. Growth mainly came from the semiconductor, cement, food and beverage, plastics, and chemical packaging industries.

Meanwhile, consolidated customer count grew at a steady 4% to 7.46 million at end-March 2022 from 7.21 million in the same period last year. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

***Other Services***

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

Revenues of *Bayad* increased in the first three months of 2022 due to higher volume of bills payment transactions handled, load top-up and remittances. *Bayad also* added 27 new billers, bringing its total number of serviced billers to 505 as of end-March 2022. Launched in January 2021, the *Bayad* App recorded over 220,500 downloads and executed ₱73 billion in bills payment transactions. Meanwhile, *Bayad* Online recorded 53,211 registered users since its commercial launch in December 2020.

*Radius* recorded ₱427.9 million consolidated revenues for the first quarter of 2022 versus ₱337.6 million compared with the same period last year. With the establishment of its capability to manage end-to-end broadband operations, *Radius'* RED Fiber for Business ended the first quarter of 2022 with 37,012 subscribers in Metro Manila, Rizal, Bulacan, Cavite Laguna, Cebu and Clark in Pampanga.

*MIESCOR*, the engineering and construction arm of *MERALCO*, and its subsidiaries contributed ₱36.0 million to *MERALCO*'s *CCNI* in the first quarter of 2022 as revenues grew by 13% to ₱1.4 billion driven by its Engineering, Procurement and Construction ("*EPC*") and telecoms contracts.

**COSTS AND EXPENSES**

Consolidated costs and expenses for the three months ended March 31, 2022, amounted to ₱80,837 million, higher by ₱25,533 million compared with ₱55,304 million in 2021. The following table shows the breakdown of consolidated costs and expenses by business segment:

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2022 | | 2021 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Power[1] | ₱78,929 | 98 | ₱53,707 | 97 | ₱25,222 | 47 |
| Other services | 2,688 | 3 | 2,195 | 4 | 493 | 22 |
| Inter-segment transactions | (780) | (1) | (598) | (1) | (182) | 30 |
| **Total** | **₱80,837** | **100** | **₱55,304** | **100** | **₱25,533** | **46** |

***Power***

Costs and expenses of power segment for the three months ended March 31, 2022 amounted to ₱78,929 million, 47% higher compared with ₱53,707 million in 2021. The details of costs and expenses are summarized in the following table:

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2022 | | 2021 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Purchased power | ₱61,551 | 78 | ₱47,482 | 89 | ₱14,069 | 30 |
| Salaries, wages and employee benefits | 3,112 | 4 | 2,864 | 5 | 248 | 9 |
| Depreciation and amortization | 3,130 | 4 | 1,913 | 4 | 1,217 | 64 |
| Contracted services | 1,760 | 2 | 1,619 | 3 | 141 | 9 |
| Coal and fuel | 3,466 | 4 | – | 1 | 3,466 | – |
| Others | 5,910 | 7 | (171) | - | 6,081 | (3,556) |
| **Total** | **₱78,929** | **100** | **₱53,707** | **100** | **₱25,222** | **47** |

Purchased power accounted for 78% and 89% of the total costs and expenses for the three months ended March 31, 2022 and 2021, respectively. All of the electricity distributed by *MERALCO* and *Clark Electric* are mostly contracted through *PSAs* with generators and long-term Power Purchase Agreements *("PPA")* with Independent Power Producers ("*IPP*"), with any uncontracted volume sourced from the Wholesale Electricity Spot Market ("*WESM*").

Purchased power cost ("*PPC*") increased by 30% to ₱61,551 million from ₱₱47,482 million due to higher cost of power caused by the spike in global fuel prices, as well as by the increase in the *WESM* prices as a result of tight supply conditions and higher average capacity on outage in Luzon. The average Malampaya natural gas price also increased to US$8.71 per *GJ* during the quarter versus US$6.26 per *GJ* the previous year. The Malampaya gas supply restrictions, which began in March 2021, forced suppliers to use more expensive alternative fuel. The depreciation of the peso against the US dollar to ₱51.74 at the end of March this year from ₱48.53 as of end-March last year also contributed to the higher *PPC.*

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

[1] *Ibid.*

***Other Services***

Costs and expenses of other services business segment for the three months ended March 31, 2022 amounted to ₱2,688 million, 22% higher compared with ₱2,195 million in 2021.

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2022 | | 2021 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Salaries, wages and employee benefits | ₱1,074 | 40 | ₱928 | 42 | ₱146 | 16 |
| Contracted services | 570 | 21 | 398 | 18 | 172 | 43 |
| Depreciation and amortization | 149 | 6 | 137 | 6 | 12 | 9 |
| Others | 895 | 33 | 732 | 33 | 163 | 22 |
| **Total** | **₱2,688** | **100** | **₱2,195** | **100** | **₱493** | **22** |

The increase in the cost and expenses of other business segment was driven mainly by higher business activities for the three months ended March 31, 2022 compared with the same period in 2021.

**OTHER INCOME (EXPENSES)**

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

| | Unaudited | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | |
| | | | Increase/Decrease | |
| | 2022 | 2021 | Amount | % |
| | *(Amounts in millions)* | | | |
| Power[2] | ₱2,004 | ₱740 | ₱1,264 | 171 |
| Other services | 44 | (28) | 72 | (257) |
| Intersegment transactions | (7) | (5) | (2) | 40 |
| **Total** | **₱2,041** | **₱707** | **₱1,334** | **189** |

Other income, net of expenses for the three months ended March 31, 2022 increased by ₱1,334 million mainly due to higher share in the net earnings of associates and joint ventures and foreign exchange gain recorded with the depreciation of Philippine peso against the U. S. dollar in 2021, offset by lower yield from investments and higher interest and other financial charges and higher interest and financial charges due to *GBPC*'s consolidation in March 31, 2021.

[2] *Ibid.*

***Power***

Breakdown of other income (expenses) of power segment are as follow:

| | Unaudited | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | |
| | | | Increase/Decrease | |
| | 2022 | 2021 | Amount | % |
| | *(Amounts in millions)* | | | |
| Interest and other financial income | ₱413 | ₱472 | (₱59) | (13) |
| Interest and other financial charges | (998) | (439) | (559) | 127 |
| Equity in net earnings of associates and joint ventures | 2,105 | 294 | 1,811 | 616 |
| Foreign exchange gains | 220 | 62 | 158 | 255 |
| Others | 264 | 351 | (87) | (25) |
| **Total** | **₱2,004** | **₱740** | **₱1,264** | **171** |

Interest and other financial income declined by ₱59 million in 2022 with lower interest rates on peso and dollar placements during the period.

Interest and other financial charges increased by ₱559 million due to additional loans obtained in March 2021 to fund the acquisition of *GBPC,* and consolidation of *GBPC* and subsidiaries' interest expense beginning April 1, 2021. Interest expense and other financial charges for the period ended March 31, 2021 do not include interest expense of *GBPC* and subsidiaries.

The higher equity in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight.*

Foreign exchange gains increased due to the depreciation of Philippine peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱51.74 as at March 31, 2022 (₱51.00 as at December 31, 2021) compared with is ₱48.53 as at March 31, 2021 (₱48.02 as at December 31, 2020).

**NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

The following table shows the breakdown of net income attributable to equity holders of the parent by business segment:

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2022 | | 2021 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Power | ₱5,194 | 93 | ₱3,937 | 91 | ₱1,257 | 32 |
| Other services | 466 | 8 | 419 | 10 | 47 | 11 |
| Inter-segment transactions | (96) | (2) | (22) | (1) | (74) | (336) |
| **Total** | **₱5,564** | **100** | **₱4,334** | **100** | **₱1,230** | **28** |

Net income attributable to equity holders of the parent increased by ₱1,230 million due to higher volume of energy sold this period compared to the same period last year and increase in contribution from its power generation business.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| | March 31, 2022 Unaudited | December 31, 2021 Audited | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | | *(Amounts in millions)* | | |
| **ASSETS** | | | | |
| **Noncurrent Assets** | | | | |
| Utility plant and others | **₱228,625** | ₱225,779 | ₱2,846 | 1 |
| Investments in associates and interests in joint ventures | **25,800** | 23,450 | 2,350 | 10 |
| Investment properties | **1,495** | 1,496 | (1) | – |
| Deferred tax assets - net | **28,021** | 27,226 | 795 | 3 |
| Intangible assets | **15,103** | 15,387 | (284) | (2) |
| Financial and other noncurrent assets | **57,080** | 53,125 | 3,955 | 7 |
| **Total Noncurrent Assets** | **356,124** | 346,463 | 9,661 | 3 |
| **Current Assets** | | | | |
| Cash and cash equivalents | **58,034** | 55,007 | 3,027 | 6 |
| Trade and other receivables | **49,242** | 45,013 | 4,229 | 9 |
| Inventories | **10,006** | 9,817 | 189 | 2 |
| Financial and other current assets | **28,717** | 27,182 | 1,535 | 6 |
| **Total Current Assets** | **145,999** | 137,019 | 8,980 | 7 |
| **Total Assets** | **₱502,123** | ₱483,482 | ₱18,641 | 4 |
| **EQUITY AND LIABILITIES** | | | | |
| Equity attributable to equity holders of the parent | **₱89,254** | ₱95,204 | (₱5,950) | (6) |
| Non-controlling interests | **10,244** | 10,239 | 5 | – |
| **Total Equity** | **99,498** | 105,443 | (5,945) | (6) |
| **LIABILITIES** | | | | |
| **Noncurrent Liabilities** | | | | |
| Interest-bearing long-term financial liabilities - net of current portion | **52,102** | 52,720 | (618) | (1) |
| Customers' deposits - net of current portion | **30,982** | 30,901 | 81 | – |
| Long-term employee benefits | **10,926** | 10,257 | 669 | 7 |
| Provisions | **14,073** | 13,554 | 519 | 4 |
| Refundable service extension costs - net of current portion | **5,285** | 5,334 | (49) | (1) |
| Deferred tax liabilities - net | **5,639** | 5,722 | (83) | (1) |
| Other noncurrent liabilities | **100,984** | 97,981 | 3,003 | 3 |
| **Total Noncurrent Liabilities** | **219,991** | 216,469 | 3,522 | 2 |
| **Current Liabilities** | | | | |
| Notes payable | **29,071** | 28,834 | 237 | 1 |
| Trade payables and other current liabilities | **142,521** | 119,056 | 23,465 | 20 |
| Customers' refund | **2,926** | 2,929 | (3) | – |
| Income tax payable | **3,241** | 1,637 | 1,604 | 98 |
| Current portion of interest-bearing long-term financial liabilities | **4,875** | 9,114 | (4,239) | (47) |
| **Total Current Liabilities** | **182,634** | 161,570 | 21,064 | 13 |
| **Total Liabilities** | **402,625** | 378,039 | 24,586 | 7 |
| **Total Liabilities and Equity** | **₱502,123** | ₱483,482 | ₱18,641 | 4 |

*Utility Plant and Others*
The ₱2,846 million increase in utility plant and others reflects the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, totaling to about ₱5,731 million, net of depreciation and amortization of ₱2,851 million for the period.

*Investments in Associates and Interests in Joint Ventures*
For the three months ended March 31, 2022, there were (a) additional investments in associates and joint ventures of ₱226 million and (b) recognition of equity in net earnings of ₱2,115 million.

*Financial and Other Noncurrent Assets*
The higher balance of this account is mainly attributed to the additional under recoveries of pass through charges resulting from increasing generation and transmission charges recognized during the period.

*Trade and Other Receivables*
The increase in trade and other receivables balance was mainly driven by higher *kwh* sales and average retail rate per *kwh* in March 2022 compared with December 2021. The average retail rate in March 2022 is ₱8.89 per kwh compared with ₱8.26 per kwh in December 2021.

*Financial and Other Current Assets*
There were additional investments in debt securities at amortized cost made during the first quarter of 2022.

*Interest-bearing long-term financial liabilities*
In the first quarter of 2022, *PEDC* paid its bank loans of ₱4,288 million.

*Long-term employee benefits*
The increase in this account is due to the long-term employee benefits expense recognized during the period.

*Provisions*
Provisions represents the net settlement, reversals and adjustments made during the year.

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

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

*Income Tax Payable*
Income tax payable as of March 31, 2022 included the amounts due as of December 31, 2021 and that for the first quarter of 2022.

## 2021 compared with 2020

**REVENUES**

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

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2021 | | 2020 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Power[3] | ₱62,484 | 97 | ₱67,911 | 97 | (₱5,427) | (8) |
| Other services | 2,820 | 4 | 2,689 | 4 | 131 | 5 |
| Inter-segment transactions | (593) | (1) | (571) | (1) | (22) | 4 |
| **Total** | **₱64,711** | **100** | **₱70,029** | **100** | **(₱5,318)** | **(8)** |

Consolidated electric revenues, representing 97% of total revenues, declined by 8% as a result of the combined effects of (a) lower sales volume as compared with the same period last year, and (b) lower pass though generation charges resulting from decrease in average fuel prices.

Non-electric revenues, which accounted for 4% of consolidated revenues, increased by 5% due to higher volume of bills payment transactions, load top-up and remittances of *Bayad*.

***Power***

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

Gross revenues for the three (3) months ended March 31, 2021 was at ₱62,484 million, 8% lower than the ₱67,911 million in 2020 mainly due to the lower volumes distributed and overall lower generation and transmission pass-through charges. Generation and other pass-through components as a percentage of total electricity revenues was slightly lower at 77% in 2021 (78% in 2020) mainly due to the appreciation of the peso vis-à-vis the U.S. dollar and the overall lower gas prices, although offset by the higher prices at the *WESM*. For the first quarter of 2021, average electric revenues exclusive of taxes and pass-through universal charges was at ₱6.72 per *kWh* compared with ₱6.97 per *kWh* in 2020.

*MERALCO*'s 12-month moving average system loss ("*SL*") rate was at 6.14% as at March 31, 2021, higher than that of 2020 mainly due to the shift in customer mix to residential customers which have higher technical losses as power is served at the secondary voltage level. The *SL* regulatory cap stood at 7.00% including 1.00% assumed typical sub-transmission and substation technical losses. *Clark Electric*'s 12-month moving average *SL* rate was at 2.17%, 0.05 percentage point lower than in 2020.

The following table summarizes the customer count as at March 31, 2021 and 2020 and the corresponding energy sales volume per customer class for the three months ended March 31, 2021 and 2020:

| | No. of Customers | | Electricity Sales | | % Change | |
|---|---|---|---|---|---|---|
| | *(in thousands)* | | *(in GWh)* | | No. of | Electricity |
| **Customer Class** | **2021** | **2020** | **2021** | **2020** | **Customers** | **Sales** |
| Residential | 6,588 | 6,387 | 3,616 | 3,366 | 3 | 7 |
| Commercial | 541 | 531 | 3,560 | 4,343 | 2 | (18) |
| Industrial | 11 | 11 | 3,262 | 3,135 | – | 4 |
| Streetlights | 5 | 4 | 35 | 35 | 25 | – |
| **Total** | **7,145** | **6,933** | **10,473** | **10,879** | **3** | **(4)** |

[3] *Ibid.*

Consolidated energy sales volume declined by 4% to 10,473 *GWh*, which include volume distributed by *Clark Electric* of 128 *GWh*. The volume of *Clark Electric* on a standalone basis decreased by 6.3% compared with 2020. The combined contributions of *MERALCO* and *Clark Electric* came from all customer sectors with consolidated residential volumes accounting for 35% of total volume, providing a total of 3,366 *GWh* growth.

Overall customer count grew at a steady 4% to 7.2 million for a total year-on-year addition of more than 249 thousand net new accounts with residential, commercial and commercial segments growing at 3%, 2% and 1%, respectively.

Combined commercial sales volumes were at 34% of the total in 2021 compared with 40% in 2020 with total volume at 3,560 *GWh* or 18% lower. Commercial volumes from the retail and recreation sectors showed some improvements during 1Q2021 as mobility was eased for supermarkets and pharmacies, until prior to the re-imposition of General Community Quarantine ("*GCQ*") towards the end of March 2021. Recovery of business of hotels, restaurants and education sectors is not expected until further easing in community restrictions, which is expected only when herd immunity is achieved.

The share of Industrial volumes was at 31%, representing 3,261 *GWh* in the first quarter of 2021, two (2) percentage points higher than the share during the same period in 2020. Industrial sales volumes bounced back, reflecting a 4% quarter-on-quarter growth with the increased demand for (i) steel and cement as the Government "Build Build Build" ("*BBB*") projects are being fast-tracked; and (ii) essential goods, primarily that of food and beverages to provide for a consumption-driven economy; and (iii) semiconductor components with the increasing use of gadgets for *WFH* arrangements, online distance learning ("*ODL*") and telecommuting.

***Other Services***

Non-electric revenues consist mainly of businesses generated by (i) foreign attachments to the *MERALCO* and *Clark Electric* poles; (ii) space rental; and (iii) revenues from subsidiaries, which include (a) *MIESCOR Group* from its engineering, procurement and construction ("*EPC*"), and operations and maintenance works 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) *CIS* Group handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions, (d) *Radius* with higher recurring revenues as a result of an expanding customer base and high service reliability; and (e) *eSakay* with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

**COSTS AND EXPENSES**

Consolidated costs and expenses for the three months ended March 31, 2021 amounted to ₱55,304 million, lower by ₱11,911 million compared with ₱67,215 million in 2020. The following table shows the breakdown of consolidated costs and expenses by business segment:

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2021 | | 2020 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Power[4] | ₱53,707 | 97 | ₱65,753 | 98 | (₱12,046) | (18) |
| Other services | 2,195 | 4 | 2,041 | 3 | 154 | 8 |
| Inter-segment transactions | (598) | (1) | (579) | (1) | (19) | 3 |
| **Total** | **₱55,304** | **100** | **₱67,215** | **100** | **(₱11,911)** | **(18)** |

[4] *Ibid.*

***Power***

Costs and expenses of power segment for the three months ended March 31, 2021 amounted to ₱53,707 million, 18% lower compared with ₱65,753 million in the same period in 2020. The details of costs and expenses are summarized in the following table:

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2021 | | 2020 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Purchased power | ₱47,482 | 88 | ₱51,824 | 79 | (₱4,342) | (8) |
| Salaries, wages and employee benefits | 2,864 | 5 | 2,845 | 4 | 19 | 1 |
| Depreciation and amortization | 1,913 | 4 | 1,942 | 3 | (29) | (1) |
| Contracted services | 1,619 | 3 | 1,485 | 2 | 134 | 9 |
| Others | (171) | – | 7,657 | 12 | (7,828) | (102) |
| **Total** | **₱53,707** | **100** | **₱65,753** | **100** | **(₱12,046)** | **(18)** |

Purchased power accounted for 88% and 79% of the total costs and expenses for the three months ended March 31, 2021 and 2020, respectively. All of the electricity distributed by *MERALCO* and *Clark Electric* are contracted through *PSAs* with generators and long-term Power Purchase Agreements *("PPA")* with Independent Power Producers ("*IPP*"). The balance was purchased from the *WESM.*

The purchased power cost in 2021 decreased by 8% compared with 2020 due to lower pass-through generation charge with the (i) overall lower fuel costs (US$ 6.26 per Giga Joule ("*GJ*") of oil-indexed Malampaya gas in 2020 versus US$ 7.51 per *GJ* in 2020); and (ii) appreciation of the peso versus the US$ (₱48.53:US$1 as at March 31, 2021 versus ₱50.68:US$1 at end March 2020).

Contracted services amounted to ₱1,169 million, higher by ₱134 million compared with last year. Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the resumption of disconnecting services for customers with overdue accounts in 2021 resulting in higher collection and messengerial services.

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

***Other Services***

Costs and expenses of other services business segment for the three months ended March 31, 2021 amounted to ₱2,195 million, 8% higher compared with ₱2,041 million in the same period in 2020.

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2021 | | 2020 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Salaries, wages and employee benefits | ₱928 | 42 | ₱905 | 44 | ₱23 | 3 |
| Contracted services | 398 | 18 | 484 | 24 | (86) | (18) |
| Depreciation and amortization | 137 | 6 | 138 | 7 | (1) | (1) |
| Others | 732 | 34 | 514 | 25 | 218 | 42 |
| **Total** | **₱2,195** | **100** | **₱2,041** | **100** | **₱154** | **8** |

Salaries, wages and employee benefits expense is higher by ₱23 million due to the additional personnel in *MIESCOR* and *Radius* for their new businesses/projects.

Decrease in contracted services by ₱86 million is due to higher sub-contracted costs for Engineering, Procurement and Construction projects for *MIESCOR* in same period in 2020.

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

**OTHER INCOME (EXPENSE)**

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

| | Unaudited | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | |
| | | | Increase/Decrease | |
| | 2021 | 2020 | Amount | % |
| | *(Amounts in millions)* | | | |
| Power[5] | ₱740 | ₱969 | (₱229) | (24) |
| Other services | (28) | (6) | (22) | 367 |
| Intersegment transactions | (5) | (8) | 3 | (38) |
| **Total** | **₱707** | **₱955** | **(₱248)** | **(26)** |

Other income – net for the three months ended March 31, 2021 is lower by ₱248 million compared with 2020 due mainly to lower yield of investments and higher interest and other financial charges in 2021.

[5] *Ibid.*

***Power***

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

| | Unaudited | | | |
|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | |
| | | | Increase/Decrease | |
| | 2021 | 2020 | Amount | % |
| | *(Amounts in millions)* | | | |
| Interest and other financial income | ₱472 | ₱769 | (₱297) | (39) |
| Interest and other financial charges | (439) | (386) | (53) | 14 |
| Equity in net earnings of associates and joint ventures | 294 | 302 | (8) | (3) |
| Foreign exchange gains | 62 | 68 | (6) | (9) |
| Others | 351 | 216 | 135 | 63 |
| **Total** | **₱740** | **₱969** | **(₱229)** | **(24)** |

Interest and other financial income declined by ₱297 million due to lower placements for the first quarter of 2021 and lower yields of investments resulting.

**NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

The following table shows the breakdown of net income attributable to equity holders of the parent by business segment:

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| | 2021 | | 2020 | | Increase/Decrease | |
| | Amount | % | Amount | % | Amount | % |
| | *(Amounts in millions)* | | | | | |
| Power[6] | ₱3,937 | 91 | ₱2,204 | 84 | ₱1,733 | 79 |
| Other services | 419 | 10 | 449 | 17 | (30) | (7) |
| Inter-segment transactions | (22) | (1) | (34) | (1) | 12 | (35) |
| **Total** | **₱4,334** | **100** | **₱2,619** | **100** | **₱1,715** | **66** |

Net income attributable to equity holders of the parent is higher by ₱1,715 million compared with the same period last year due to lower *kWh* sales. The net income attributable to equity holders of the parent in 2020 included the impairment loss recognized on *MERALCO* group's advances to FPM Power Holdings Limited ("*FPM Power*") amounting to ₱2.7 billion.

[6] *Ibid.*

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| | March 31, 2021 (Unaudited) | December 31, 2020 (Audited) | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | *(Amounts in millions)* | | | |
| **ASSETS** | | | | |
| **Noncurrent Assets** | | | | |
| Utility plant and others | ₱206,918 | ₱163,009 | ₱43,909 | 27 |
| Investments in associates and interests in joint ventures | 16,803 | 15,688 | 1,115 | 7 |
| Investment properties | 1,499 | 1,499 | – | – |
| Deferred tax assets - net | 24,757 | 28,943 | (4,186) | (14) |
| Financial and other noncurrent assets | 65,841 | 52,746 | 13,095 | 25 |
| **Total Noncurrent Assets** | 315,818 | 261,885 | 53,933 | 21 |
| **Current Assets** | | | | |
| Cash and cash equivalents | 63,011 | 50,912 | 12,099 | 24 |
| Trade and other receivables | 50,965 | 58,120 | (7,155) | (12) |
| Inventories | 7,379 | 5,484 | 1,895 | 35 |
| Financial and other current assets | 22,232 | 13,866 | 8,366 | 60 |
| **Total Current Assets** | 143,587 | 128,382 | 15,205 | 12 |
| **Total Assets** | ₱459,405 | ₱390,267 | ₱69,138 | 18 |
| **EQUITY AND LIABILITIES** | | | | |
| Equity attributable to equity holders of the parent | ₱74,524 | ₱79,237 | (₱4,713) | (6) |
| Non-controlling interests | 6,977 | 1,494 | 5,483 | 367 |
| **Total Equity** | 81,501 | 80,731 | 770 | 1 |
| **LIABILITIES** | | | | |
| **Noncurrent Liabilities** | | | | |
| Interest-bearing long-term financial liabilities - net of current portion | 34,385 | 14,809 | 19,576 | 132 |
| Customers' deposits - net of current portion | 30,436 | 29,844 | 592 | 2 |
| Long-term employee benefits | 17,198 | 15,327 | 1,871 | 12 |
| Provisions | 14,283 | 17,065 | (2,782) | (16) |
| Refundable service extension costs - net of current portion | 4,744 | 6,632 | (1,888) | (28) |
| Deferred tax liabilities - net | 82 | 316 | ( 234) | (74) |
| Other noncurrent liabilities | 91,918 | 82,942 | 8,976 | 11 |
| **Total Noncurrent Liabilities** | 193,046 | 166,935 | 26,111 | 16 |
| **Current Liabilities** | | | | |
| Notes payable | 45,347 | 23,373 | 21,974 | 94 |
| Trade payables and other current liabilities | 123,212 | 111,261 | 11,951 | 11 |
| Customers' refund | 2,919 | 2,949 | (30) | (1) |
| Income tax payable | 3,940 | 3,056 | 884 | – |
| Current portion of interest-bearing long-term financial liabilities | 9,440 | 1,962 | 7,478 | 29 |
| **Total Current Liabilities** | 184,858 | 142,601 | 42,257 | 381 |
| **Total Liabilities** | 377,904 | 309,536 | 68,368 | 30 |
| **Total Liabilities and Equity** | ₱459,405 | ₱390,267 | ₱69,138 | 22 |

On March 31, 2021, *MGen* acquired 86% equity in *GBPC*, increasing *MGen*'s equity interest in *GBPC* to 100%. As such, *MERALCO*'s unaudited consolidated statement of financial position as at March 31, 2021 included the consolidation of *GBPC*'s assets and liabilities.

*Utility Plant and Others*
The ₱43,909 million increase in utility plant and others reflects the consolidation of *GBPC*'s property, plant and equipment amounting to₱41,718 million as at March 31, 2021, and the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, totaling to about ₱4,099 million, net of depreciation and amortization of ₱1,882 million in the first quarter of 2021.

*Investments in Associates and Interests in Joint Ventures*
The increase in this account was due to the combined effects of the additional investments in associates and joint ventures amounting to ₱664 million and equity in net earnings amounting to ₱293 million.

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

*Financial and Other Noncurrent Assets*
Financial and other noncurrent assets as at March 31, 2021 included ₱13,554 million intangible assets resulting from the acquisition of *GBPC*, subject to ongoing review of the purchase price allocation.

*Cash and Cash Equivalents*
Cash and cash equivalents as at March 31, 2021 included cash and cash equivalents of *GBPC* amounting to ₱9,731 million.

With the *ERC* approval of the ₱13.9 billion refund of distribution over-recoveries in February 2021, the effective distribution rate recognized as revenue by *MERALCO* was at Pesos 1.3789 per *kWh*. Meanwhile, cash collections are net of refund of ₱0.1575 per *kWh* for the month of March or an equivalent ₱541 million.

For the first three (3) month of 2021, *MERALCO* has refunded to its customers ₱1.3 billion covering transmission, system loss, lifeline subsidy, and senior citizen discount over-recoveries and collected from its customers ₱0.3 billion for generation cost under-recoveries, for a net cash refund of ₱ 1.0 billion across all customers.

*Trade and Other Receivables*
In January 2021, *MERALCO* started implementing disconnection of services to customers with overdue accounts. This resulted in the increase in collections from customers and decrease in the outstanding trade and other payables accounts as at March 31, 2021.

*Inventories*
Inventories as at March 31, 2021 included inventories of *GBPC* amounting to ₱2,197 million.

*Financial and Other Current Assets*
Additional investments were made during the period resulting in the increase in investments in debt securities at amortized cost as at March 31, 2021.

*Interest-bearing long-term financial liabilities*

Interest-bearing long-term financial liabilities as at March 31, 2021 included *GBPC*'s current and noncurrent portion of interest-bearing long-term financial liabilities amounting to ₱7,533 million and ₱19,582 million, respectively.

*Long-term employee benefits*
The increase in this account is due to the long-term employee benefits expense recognized during the period. As at March 31, 2021, this account included *GBPC*'s long-term employee benefits amounting to ₱1,055 million.

*Provisions*
The decrease in provisions represents the net settlement, reversals and adjustments made during the first quarter of 2021.

*Other Noncurrent Liabilities*

Other noncurrent liabilities pertain to estimated liabilities for regulatory and tax matters, among others. Increase was due to additional obligations recognized during the first quarter of 2021.

*Notes Payable*
On March 31, 2021, *MERALCO* and *MGen* drew a five (5) year term loan amounting to ₱4,999 million and a ₱17,000 million bridge loan, respectively, to cover the first installment of the *GBPC* purchase price.

*Trade Payables and Other Current Liabilities*
Trade payables and other current liabilities as at March 31, 2021 included the following: (a) dividend payable of ₱8,818 million resulting from the declaration of dividends on March 1, 2021; (b) *GBPC*'s trade payables and other current liabilities amounting to ₱7,151 million.

## LIQUIDITY AND CAPITAL RESOURCES

The following tables show the cash flows for the three months ended March 31, 2022 and 2021 as well as the capitalization and other selected consolidated financial data as at March 31, 2022 and December 31, 2021:

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | 2022 | 2021 |
| **Cash Flows** | | |
| Net cash provided by operating activities | ₱12,226 | ₱11,908 |
| Net cash used in investing activities | (5,513) | (18,848) |
| Net cash provided by (used in) financing activities | (3,652) | 19,116 |
| Net increase in cash and cash equivalents | 3,061 | 12,176 |
| **Capital Expenditures** | 5,969 | 4,242 |

| | March 31, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| **Capitalization** | | |
| Interest-bearing long-term financial liabilities | | |
| Current | ₱5,476 | ₱9,114 |
| Noncurrent | 52,102 | 52,720 |
| Notes payable | 28,471 | 28,834 |
| Equity attributable to equity holders of the parent | 89,254 | 95,204 |
| **Other Selected Financial Data** | | |
| Total assets | 502,123 | 483,482 |
| Utility plant and others | 228,625 | 225,779 |
| Cash and cash equivalents | 58,034 | 55,007 |

**Debt Financing**

The ₱7,000 million 12-year Puttable Bond is the balance of the total ₱18,000 million Puttable Bonds issued in December 2013. This also includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

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

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

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

*GBPC* is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at March 31, 2022, the *MERALCO Group* is in compliance with all of the covenants of its loan agreements.

**Equity Financing**

As at March 31, 2022 and December 31, 2021, *MERALCO*'s capital stock consists of: (Amounts in millions except par value and number of shares)

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

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,469 million and ₱1,470 million as at March 31, 2022 and December 31, 2021, respectively. Total unclaimed dividends amounted to ₱249 million as at March 31, 2022 and December 31, 2021. Interest is no longer accrued from the time such preferred shares were called for redemption

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

The following are the cash dividends declared on common shares for the three months ended March 31, 2022 and 2021:

| Declaration Date | Record Date | Payment Date | Dividend Per Share | Amount |
|---|---|---|---|---|
| | | | | *(In millions)* |
| February 28, 2022 | March 30, 2022 | April 26, 2022 | ₱10.23 | ₱11,526 |
| March 1, 2021 | March 30, 2021 | April 26, 2021 | 7.82 | 8,818 |

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the year, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine SEC.

## RISK FACTORS

The significant factors affecting *MERALCO*'s financial position and results of operations are:

- Regulated rates and cost recoveries
- Recovery of development investments and new businesses
- Sales volume and Philippine economic conditions
- Power supply and demand management
- Competition and market

### *Regulated Rates and Cost Recoveries*

The major determinants of *MERALCO*'s and *Clark Electric*'s rate structure vis-à-vis operating results are determination and valuation of regulatory asset base *("RAB")*, allowable return and permitted cost recoveries. Distribution rates billed by *MERALCO* and *Clark Electric* were approved by the *ERC* and were set at rates that allowed a reasonable rate of return on investments. *MERALCO* and *Clark Electric*'s rate structure also allows pass-through of certain purchased power costs, system loss ("*SL")* charge up to an annual cap enforced by the *ERC*, taxes, among others.

*MERALCO* is among the Group A entrants to the Performance-Based Regulations ("*PBR")*, together with two (2) other private distribution utilities ("*DU*s").

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RY*s 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAP*s for each of the *RY*. As at April 25, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

On April 29, 2022, *MERALCO* received the Consolidated Order dated March 8, 2022. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*'s regulatory asset base for the 3rd *RP*. Based thereon, the *ERC* adjusted the *MAP*s for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief and directed to implement the refund of ₱0.2583 per *kWh* starting *MERALCO*'s next billing period and for an approximate 12-month period as a separate line item. *MERALCO* implemented the refund in its May 2022 billing.

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. As at April 25, 2022, *MERALCO* files its Formal Offer of Evidence ("*FOE*"). Hearings on the case are ongoing.

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

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

In a Notice dated November 16, 2016, the *ERC* approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Handbook*") for posting in its website. All interested parties were asked to submit their respective comments on the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group's Petition as referred in the preceding paragraph has been resolved. As at April 25, 2022, the *ERC* has yet to resolve *MERALCO*'s Omnibus Motion. In the meantime, on April 29, 2021, the *ERC* posted the proposed draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Roll Forward Handbook*") (2nd Draft) for comments of all interested parties. In December 2021, the *ERC* promulgated *ERC* Resolution No. 11, Series of 2021, which adopted the final *RAB* Roll Forward Handbook.

On December 21, 2018, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the Fifth *RP* of the First Entry Group Under *PBR*. As at April 25, 2022, the *ERC* has yet to act on *MERALCO*'s Petition.

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and "Regulatory Reset for the Fourth (4th) and Fifth (5th) *RP* for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations" Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. *MERALCO* and other stakeholders have submitted their respective comments and public consultations were held. Thereafter, on March 15, 2021, the *ERC* posted the *RDWR* (2nd Draft) and "Regulatory Reset for the Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations" Issues Paper (2nd Draft) for comments of all parties. Under said rules, the timelines were modified such that the 4th *RP* or "Lapsed Period" would now cover the period from July 2016 to June 2022; while the 5th *RP* would cover the period from July 2022 to June 2026. *MERALCO* and other stakeholders submitted their respective comments and their counter-comments and/or counter-proposals to those submitted by the other stakeholders. Under *ERC* Resolution No. 10, Series of 2021, the *ERC* promulgated the *RDWR*.

On March 16, 2022, MERALCO filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP*. As at April 25, 2022, hearings on the case are ongoing.

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

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* and subsequent regulatory period, the approved *MAP* for *RY* 2015 was used beginning *RY* 2016. Since there was no regulatory reset, *Clark Electric* has been filing its annual *CAPEX* requirements with the *ERC* as follows:

| **Regulatory Year ("*RY*")** | **Date Filed** |
|---|---|
| *RY* 2016 | February 18, 2016 |
| *RY* 2017 | December 29, 2016 |
| *RY* 2018 | May 17, 2018 |
| *RY* 2019 | July 5, 2019 |
| *RY* 2020, *RY* 2021 and *RY* 2022 (consolidated) | April 4, 2022 |

*Clark Electric* applied for the approval of its *CAPEX* requirements to ensure continuous electricity service for its current and future customers, and improve the reliability, flexibility, and stability of its electric distribution system. With the emergy nature of these *CAPEX* programs, *Clark Electric* manifested with the *ERC* the immediate implementation of these projects.

There is no assurance that the regulatory environment in the Philippines will remain consistent or open. Issuance of proposed new (or changes in existing) rules, laws, resolutions, policies may adversely affect *MERALCO*'s and *Clark Electric*'s financial position and results of operations. Developments in other regulated utility businesses may affect electricity distribution utility similarly.

***Recovery of Development Investments and New Businesses***

*MGen*, through its subsidiaries has significant investments in the development and/construction of the following power plants:

- 2 x 600 *MW* (net) coal-fired power plant in Atimonan Quezon
- 110 *MWdc*/90*MWac* floating solar facility in Laguna de Bay
- 115 *MWdc* solar plant in Baras, Rizal

*MERALCO* also has investments in the following associates which have ongoing power plant development or have incurred significant development costs:

- Redondo Peninsula Energy, Inc. ("*RP Energy")* for the construction and operation of a power plant in the Subic Bay Freeport Zone.
- *Greenenergy* for the development of a 40 MWac solar power plant in Cordon, Isabela
- Pure Meridian Hydropower Corporation ("*Pure Meridian*") for the development of mini-hydroelectric power projects
- Nuevo Solar Energy Corporation ("*NSEC*") for the development of 65MWac solar energy project in Currimao, Ilocos Norte

If any of these ongoing developments and constructions are not executed as planned due to reasons or factors beyond *MERALCO*'s control, *MERALCO*'s results of operations and financial position could be adversely affected.

***Sales Volume and Philippine Economic Conditions***

Consolidated distribution energy sales volumes rose 6% to 11,069 *GWh* from 10,473 *GWh* in the same period last year following the easing of pandemic-related restrictions and higher temperatures. Energy sales volumes of *Meralco* and *Clark Electric* increased by 6% and 12%, respectively.

In terms of the sales mix, residential sales accounted for 35%, while commercial and industrial sales accounted for 34% and 31%, respectively.

While demand in the residential segment continued to normalize with increased mobility due to higher vaccination rate, the continuing hybrid work arrangements and home-based learning set-up, as well as the relatively warmer temperatures pushed residential sales volume to grow 5% to 3,808 *GWh* from 3,616 *GWh*.

Commercial sales volumes likewise went up to 3,781 *GWh* from 3,560 *GWh* amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began hybrid face-to-face

classes. Full operation of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

With the more relaxed restrictions, growth in industrial sales volumes was sustained, increasing to 3,443 *GWh* from 3,261 *GWh*. Growth mainly came from the semiconductor, cement, food and beverage, plastics, and chemical packaging industries.

Meanwhile, consolidated customer count grew at a steady 4% to 7.46 million at end-March 2022 from 7.21 million in the same period last year. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

*MERALCO*'s sales volumes are dependent on the general economic conditions, business environment, weather and natural disasters in the Philippines.

***Power Supply and Demand Management***

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

Below is the summary of *MERALCO* and *Clark Electric*'s electricity suppliers and the respective amounts of power purchased for the three months ended March 31, 2022 and 2021. The details of the relevant *IPP*s and *PSA*s are disclosed and discussed in Note 30 to the consolidated financial statements:

The amounts of purchased power costs including transmission and ancillary charges for the three months ended March 31, 2022 and 2021, follow:

| | **2022** | 2021 |
|---|---|---|
| | *(Amounts in millions)* | |
| First Gas Power Corporation ("*FGCP")* and FGP Corp. ("*FGP")* | **₱14,498** | ₱9,880 |
| National Transmission Corporation ("*TransCo*") / National Grid Corporation of the Philippines ("*NGCP*") | **9,699** | 8,273 |
| Independent Electricity Market Operator of the Philippines Inc. ("*IEMOP*") | **7,454** | 3,911 |
| South Premiere Power Corporation ("*SPPC*") | **6,664** | 5,616 |
| *SBPL* | **4,260** | 3,105 |
| Quezon Power (Philippines) Limited Company ("*QPPL*") | **3,873** | 3,517 |
| San Miguel Energy Corporation ("*SMEC*") | **3,756** | 3,686 |
| Masinloc Power Partners Co. Ltd. ("*MPPCL*") | **2,753** | 1,948 |
| AC Energy Philippines, Inc. ("*AC Energy*") | **2,455** | 1,818 |
| First NatGas Power Corp. ("*FNPC*") | **2,252** | 2,072 |
| Therma Luzon, Inc. ("*TLI*") | **688** | 399 |
| Southwest Luzon Power Generation Corporation | **659** | – |
| First Gen Hydro Power Corporation | **584** | 641 |
| Sem-Calaca Power Corporation ("*Sem-Calaca*") | **159** | 626 |
| Solar Philippines Tarlac Corporation ("*SPTC*") | **85** | 107 |
| Panay Energy Development Corporation | **22** | 372 |
| Others | **1,796** | 1,511 |
| | **₱61,657** | ₱47,482 |

Given the challenges in the energy sector which include Malampaya gas restriction, increasing fuel indices especially in light of the ongoing Ukraine-Russia conflict, Indonesia coal export ban (that has since been lifted, but could recur depending on Indonesian national policy and its local coal supply concerns), plant outages due to delayed preventive maintenance, and other forced plant outages, there is a projected tightening of the power supply-demand situation in the country and for the RES business.

Power supply may not be adequate to meet the rising demand (especially during the summer and election season) as the economy re-opens and businesses ramp up, which may lead to red alerts and load curtailing scenarios.

*MERALCO* and *Clark Electric* as distribution utilities and the *RES* business' ability to generate revenues could be disrupted if the electricity suppliers are not able to generate the power needed. The power generation business is likewise affected by the increasing fuel prices particularly for supply contracts which are have fixed fuel rate arrangement vis-à-vis pass through fuel arrangement.

***Competition***

With the effectivity of the *DOE* circulars on Competitive Selectin Process ("*CSP*") and its amendments and revisions since it was published in 2018, the procurement of *PSA* by *MERALCO*'s power generation business has become increasingly competitive. While the objective of the *CSP* is to promote competition and greater private sector participation in the provision of adequate generation capacity to meet the demand in the captive market, the power generation business of *MERALCO* may not be able to provide the most competitive bid which may adversely affect its financial condition and results of operations.

On February 9, 2018, the *DOE* published *DOE* Circular entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market" ("*2018 DOE Circular*"). Upon effectivity of the *2018 DOE Circular,* all prospective *PSA*s in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder.

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

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

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

## ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

The detailed discussions of the rate-making regulations and regulatory policies of the *ERC* which affect both *MERALCO* and *Clark El*ectric and other significant matters affecting the power industry players can be found in Notes 2 and 32 to the consolidated financial statements.

## OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not Applicable

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

1. Mediation with National Power Corporation ("*NPC")*

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 *DOE* required that *MERALCO* enter into a long-term supply contract with the *NPC.*

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

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

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

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

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

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

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

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. Power Sector Assets and Liabilities Management Corporation

("*PSALM*") likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at April 25, 2022, *MERALCO* is awaiting further action of the *SC* on the matter.

2. Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at April 25, 2022, *MERALCO* is awaiting further action of the *SC* on the matter.

3. *RPT* Assessments

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.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DU*s, the *ERC* approved a revised mechanism for the recovery of real property taxes. For *DU*s under *PBR*, the rules shall apply to the recovery of real property taxes of machineries only until the next regulatory reset process when the real property taxes would be excluded from the financial building blocks in the annual revenue requirement. However, the said rules did not cover the recovery of payments of real property taxes for the years before the promulgation of the rules.

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

On July 6, 2021, Private Electric Power Operators Association ("*PEPOA*") filed a Petition for rule-making proposing to amend certain provisions of *ERC* Resolution No. 02, Series of 2021 on the recovery of pass-through local taxes consisting of real property taxes ("*RPT")*, local franchise taxes ("*LFT")*, and business tax. Among the main points raised by *PEPOA* is that: (i) the local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s on years prior to the Resolution's issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at April 25, 2022, the Petition is pending with the *ERC*.

4. *LFT* Assessments of Municipalities

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

5. *SC* Decision on Unbundling Rate Case

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

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

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

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

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

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

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

*MERALCO*, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DU*s filed their respective motions for leave to intervene and to file their motions for reconsideration. As at April 25, 2022, the case is pending before the *SC*.

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

| **2022 Capital Expenditure Requirements** (*in millions)* | |
|---|---|
| Power generation projects | ₱24,208 |
| Electric capital projects | 20,111 |
| Non-electric projects and other capitalized items | 6,375 |
| Total capital expenditures | ₱57,105 |

*MERALCO* has a *BOD*-approved capital expenditure budget of ₱57,105 million for the year ending December 31, 2022, of which about 42% is for planned power generation projects and 35% represents planned expenditures for the electric capital projects of the power distribution business. Power generation projects consist of *A1E*'s development of its 2 x 600 *MW* coal-fired power plant in Atimonan, Quezon, and solar power plants including 45 *MWac* in Cordon, Isabela, 75 *MWac* in Baras, Rizal and 64 *MWac* in Ilocos Norte. The distribution utility capital expenditure budget shall address the requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries' capital expenditure budget for 2022 mainly covers the requirements of expansion of *Radius* to new areas and segments; and replacement and additional equipment of *MIESCOR Group* to support its growing business.

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

1. Retail Competition

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

On 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 as basis for issuance of the certificates of contestability.

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

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

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

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

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

2. Prohibits *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 April 25, 2022, the *ERC* has yet to respond to *MERALCO*'s letter.

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

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

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

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

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

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

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

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

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGC*s against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from

*MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the *SGC*s should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGC*s: *MPPCL, APRI, TLI, SMEC, Sem-Calaca* and *SPPC*; and (vi) deny the respective *MR*s filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at April 25, 2022, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC, MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM'*s *MR*. On October 27, 2015, *MERALCO* received *PSALM'*s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at April 25, 2022, *MERALCO* is still awaiting further action of the *SC* on the Petition.

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

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

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC'*s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at April 25, 2022, the Joint Motion to Dismiss is pending resolution by the *ERC*.

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

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-

June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at April 25, 2022, the Petition is pending resolution by the *ERC*.

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

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

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

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

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DU*s in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., Team (Philippines) Energy Corporation, PanAsia Energy, Inc. ("*PanAsia*"), and *SMEC*, have filed *MR*s questioning the Order dated March 3, 2014.

*MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at April 25, 2022, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

6. *ERC* Investigating Unit *("IU*") Complaint

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

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

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

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

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

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO*

maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

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

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

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. As at April 25, 2022, *MERALCO* is awaiting further action by the *SC* on the matter.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at April 25, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

*7. Ombudsman Case Against Directors*

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of

the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018 which directed the Commission on Audit to conduct an audit. As at April 25, 2022, there has been no further action by the Ombudsman in this case. There has also been no action by the Commission on Audit on this matter.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. As at April 25, 2022, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

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

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at April 25, 2022, *MERALCO* continues to process the refund claims of eligible customers.

In the meantime, in a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. As at April 25, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

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

The reconciliation of Consolidated Core Net Income ("*CCNI*") and Net income as disclosed in Note 6 to the consolidated financial statements shows the foreign exchange gains or losses, mark-to-market adjustments,

impairment or reversal of impairment of noncurrent assets and other one-time, exceptional transactions, net of tax effect of the foregoing adjustments.

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

*Seasonality of Operations and Growth Drivers*

Approximately 97% of *MERALCO Group*'s operating revenues pertain to sale of electricity distributed by *MERALCO* and *Clark Electric*.

The electricity sales of *MERALCO* and *Clark Electric* exhibit a degree of quarterly seasonality. The *kWh* sales in the first quarter is lower than the average of the year as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher than average *kWh* sales, except in 2020 when the country was hit by the COVID 10 pandemic. This is due to a number of factors, including: increased consumption of households and commercial establishments due the summer season; increased production of industries to replenish stocks and in preparation for the opening of classes; and, heightened construction activity to take advantage of the sunny weather. In the third quarter of the year, manufacturing industries that cater to the export market have their peak production schedule at this time as they rush to meet shipping deadlines to foreign markets. Industries catering to the domestic market are also now starting production in preparation for the Christmas season. Lastly, the fourth quarter performance is about the average of the year. Industrial production winds down while households and commercial establishments also cut down on their cooling loads. Given this perspective on the seasonality of *kWh* sales, a higher proportion of the *MERALCO*'s and *Clark Electric*'s revenues are earned on the second half of the year. Aside from the quarterly seasonal pattern, *kWh* sales on a year-on-year basis adjust as a result of a number of factors. Sales of electricity normally increase in periods of economic growth, low inflation and electricity rates, and in periods of high temperatures over extended period of time, e.g. the "*El Niño*" episodes.

*MERALCO Group* sales in *GWh* for the three months ended March 31, 2022 and 2021 are 11,069 and 10,473, respectively.

The power generation business generally follows the seasonality of the distribution utility business. The businesses of all other subsidiaries are not highly seasonal.

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

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 March 31, 2022, other than those already disclosed in this report and in the consolidated financial statements.

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

Listed hereunder are *MERALCO*'s five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the three months ended March 31, 2022 and 2021.

Financial Highlights and Ratios[7] of Major Subsidiaries
As at and for the Three Months Ended March 31, 2022 and 2021
*(Amounts in million pesos except for financial ratios and % change)*

| | *Clark Electric* | | | *MGen* | | | *MIESCOR* | | | *e-MVI* | | | *CIS* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | **2021** | **% change** | **2022** | **2021** | **% change** | **2022** | **2021** | **% change** | **2022** | **2021** | **% change** | **2022** | **2021** | **% change** |
| **Percentage of ownership** | 65% | 65% | | 100% | 100% | | 99% | 99% | | 100% | 100% | | 100% | 100% | |
| **Condensed Statements of Financial Position** | | | | | | | | | | | | | | | |
| Total assets | ₱3,539 | ₱3,186 | 11 | ₱122,222 | ₱102,751 | 19 | ₱7,324 | ₱4,728 | 55 | ₱4,276 | ₱3,771 | 13 | ₱3,896 | ₱3,048 | 28 |
| Current assets | 1,443 | 1,395 | 3 | 20,282 | 20,249 | – | 6,538 | 4,080 | 60 | 960 | 1,947 | (51) | 3,663 | 2,887 | 27 |
| Cash and cash equivalents | 1,016 | 1,021 | – | 8,926 | 10,293 | (13) | 752 | 366 | 105 | 331 | 1,412 | (77) | 1,725 | 1,230 | 40 |
| Equity | 2,105 | 2,024 | 4 | 41,942 | 25,830 | 62 | 1,712 | 1,157 | 48 | 2,782 | 2,652 | 5 | 925 | 927 | – |
| Total debt[8] | – | – | – | 44,058 | 46,668 | (6) | 648 | 704 | (8) | – | – | – | – | – | – |
| Current liabilities | 587 | 614 | (4) | 22,075 | 39,337 | (44) | 4,925 | 3,271 | 51 | 1,380 | 952 | 45 | 2,874 | 2,084 | 38 |
| **Financial Ratios** | | | | | | | | | | | | | | | |
| Debt-to-equity ratio | – | – | – | 1.05 | 1.81 | (42) | 0.38 | 0.61 | (38) | – | – | | – | – | – |
| Current ratio | 2.46 | 2.27 | 8 | 0.92 | 0.51 | 78 | 1.33 | 1.25 | 6 | 0.70 | 2.05 | (66) | 1.27 | 1.39 | (8) |
| **Condensed Statements of Income** | | | | | | | | | | | | | | | |
| Revenues | 667 | 545 | 22 | 6,078 | – | – | 1,406 | 1,244 | 13 | 428 | 338 | 27 | 486 | 467 | 4 |
| Costs and expenses | 605 | 493 | 23 | 6,178 | 138 | 4377 | 1,352 | 1,148 | 18 | 338 | 227 | 49 | 448 | 424 | 6 |
| Net income (loss) | 60 | 46 | 30 | 1,317 | 313 | 321 | 46 | 34 | 35 | 72 | 93 | (23) | – | 25 | (100) |
| **Financial Ratios** | | | | | | | | | | | | | | | |
| Profit margin | 9.0% | 8.4% | 7 | 21.7% | – | – | 3.3% | 2.7% | 20 | 16.9% | 32.1% | (39) | 0.0% | 5.4% | (100) |
| Return on equity | 2.9% | 2.3% | 25 | 3.1% | 1.2% | (149) | 2.7% | 2.9% | (9) | 9.4% | 18.2% | (26) | 0.0% | 2.7% | (100) |
| Asset turnover | 0.20 | 0.17 | 17 | 0.05 | – | – | 0.23 | 0.26 | (10) | 0.39 | 0.56 | (14) | 0.14 | 0.18 | (22) |

[7] The manner of computing the financial ratios for subsidiaries is the same with that of *MERALCO's* as presented in *Financial Highlights and Key Performance Indicators*.

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

**ANNEX – Aging of Trade and Other Receivables**

As at March 31, 2022

*(Amounts in millions)*

| | **T o t a l** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **Over 90 days** |
|---|---|---|---|---|---|
| Trade receivables | ₱42,439 | ₱26,631 | ₱1,620 | ₱954 | ₱13,234 |
| Other trade receivables | 2,998 | 296 | 247 | 179 | 2,276 |
| **Gross trade receivables** | **45,437** | **26,927** | **1,867** | **1,133** | **15,510** |
| Non-trade receivables | 9,793 | 8,636 | 167 | 16 | 974 |
| **Total receivables** | **55,230** | **35,563** | **2,034** | **1,149** | **16,484** |
| **Allowance for doubtful accounts** | **(5,988)** | **(94)** | **(276)** | **(817)** | **(4,801)** |
| **Net receivables** | **₱49,242** | **₱35,469** | **₱1,758** | **₱332** | **₱11,683** |

# Manila Electric Company and Subsidiaries

Consolidated Financial Statements
as at March 31, 2022 (Unaudited) and December 31, 2021 (Audited)
And

For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

# MANILA ELECTRIC COMPANY AND SUBSIDIARIES
# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| **ASSETS** | | | |
| **Noncurrent Assets** | | | |
| Utility plant, generation plant and others | *7 and 10* | **₱228,625** | ₱225,779 |
| Investments in associates and interests in joint ventures | *8 and 23* | **25,800** | 23,450 |
| Investment properties | *9* | **1,495** | 1,496 |
| Intangible assets | *7 and 10* | **15,103** | 15,387 |
| Deferred tax assets - net | *28* | **28,021** | 27,226 |
| Financial and other noncurrent assets | *2, 11, 15, 26, 27 and 30* | **57,080** | 53,125 |
| **Total Noncurrent Assets** | | **356,124** | 346,463 |
| **Current Assets** | | | |
| Cash and cash equivalents | *12 and 27* | **58,034** | 55,007 |
| Trade and other receivables | *13, 24 and 27* | **49,242** | 45,013 |
| Inventories | *14* | **10,006** | 9,817 |
| Financial and other current assets | *11, 15, 23 and 27* | **28,717** | 27,182 |
| **Total Current Assets** | | **145,999** | 137,019 |
| **Total Assets** | | **₱502,123** | ₱483,482 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity Attributable to Equity Holders of the Parent** | | | |
| Common stock | *16* | **₱11,273** | ₱11,273 |
| Additional paid-in capital | | **4,111** | 4,111 |
| Equity reserve | | **(116)** | (116) |
| Employee stock purchase plan | *16* | **1,049** | 1,049 |
| Unrealized fair value gains on financial assets at fair value through other comprehensive income ("*FVOCI*") | *11* | **476** | 502 |
| Remeasurement adjustments on retirement and other post-employment liabilities | *26* | **2,721** | 2,681 |
| Share in remeasurement adjustments on associates' retirement liabilities | *8* | **(26)** | (25) |
| Cumulative translation adjustments of associates | *8* | **306** | 306 |
| Cumulative translation adjustments of subsidiaries | | **39** | 40 |
| Treasury shares | *16* | **(11)** | (11) |
| Retained earnings | *16* | **69,432** | 75,394 |
| Equity Attributable to Equity Holders of the Parent | | **89,254** | 95,204 |
| **Non-controlling Interests** | | **10,244** | 10,239 |
| **Total Equity** | | **99,498** | 105,443 |

*(Forward)*

| | Note | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | | *(Amounts in millions)* |
| **Noncurrent Liabilities** | | | |
| Interest-bearing long-term financial liabilities - net of current portion | *17 and 27* | **₱52,102** | ₱52,720 |
| Customers' deposits - net of current portion | *18, 22 and 27* | **30,982** | 30,901 |
| Long-term employee benefits | *26* | **10,926** | 10,257 |
| Provisions | *19, 22 and 29* | **14,073** | 13,554 |
| Refundable service extension costs - net of current portion | *22 and 27* | **5,285** | 5,334 |
| Deferred tax liabilities - net | *28* | **5,639** | 5,722 |
| Other noncurrent liabilities | *2, 5, 7, 24 and 29* | **100,984** | 97,981 |
| **Total Noncurrent Liabilities** | | **219,991** | 216,469 |
| **Current Liabilities** | | | |
| Notes payable | *21 and 27* | **29,071** | 28,834 |
| Trade payables and other current liabilities | *16, 22, 23, 27 and 29* | **142,521** | 119,056 |
| Customers' refund | *2, 20 and 27* | **2,926** | 2,929 |
| Income tax payable | | **3,241** | 1,637 |
| Current portion of interest-bearing long-term financial liabilities | *17 and 27* | **4,875** | 9,114 |
| **Total Current Liabilities** | | **182,634** | 161,570 |
| **Total Liabilities** | | **402,625** | 378,039 |
| **Total Liabilities and Equity** | | **₱502,123** | ₱483,482 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# MANILA ELECTRIC COMPANY AND SUBSIDIARIES
# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

| | | Unaudited | |
|---|---|---|---|
| | | For the Three Months Ended March 31 | |
| | *Note* | **2022** | 2021 |
| | | *(Amounts in millions, except per share data)* | |
| **REVENUES** | | | |
| Sale of electricity | *6, 23, 24, 30 and 32* | **₱83,272** | ₱62,484 |
| Sale of other services | *23* | **2,633** | 2,228 |
| | | **85,905** | 64,712 |
| **COSTS AND EXPENSES** | | | |
| Purchased power | *24 and 30* | **61,657** | 47,482 |
| Salaries, wages and employee benefits | *25 and 26* | **3,977** | 3,605 |
| Provision for probable losses and expenses from claims | *2, 19 and 29* | **3,794** | (1,279) |
| Coal and fuel | | **3,466** | – |
| Depreciation and amortization | *7, 9, 10 and 25* | **3,279** | 2,050 |
| Contracted services | | **1,777** | 1,625 |
| Taxes, fees and permits | | **877** | 572 |
| Power plant operations and maintenance cost | | **447** | – |
| Other expenses | *23 and 25* | **1,563** | 1,249 |
| | | **80,837** | 55,304 |
| **OTHER INCOME (EXPENSES)** | | | |
| Interest and other financial income | *11 and12* | **432** | 481 |
| Interest and other financial charges | *17, 18 and 21* | **(1,019)** | (463) |
| Equity in net earnings of associates and joint ventures | *8* | **2,115** | 293 |
| Foreign exchange gains | | **224** | 70 |
| Others | *2, 23, 30 and 32* | **288** | 326 |
| | | **2,040** | 707 |
| **INCOME BEFORE INCOME TAX** | | **7,108** | 10,115 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | *28* | | |
| Current | | **2,330** | 1,143 |
| Deferred | | **(881)** | 4,615 |
| | | **1,449** | 5,758 |
| **NET INCOME** | | **₱5,659** | ₱4,357 |
| **Attributable To** | | | |
| Equity holders of the Parent | *31* | **₱5,564** | ₱4,334 |
| Non-controlling interests | | **95** | 23 |
| | | **₱5,659** | ₱4,357 |
| **Earnings Per Share Attributable to Equity Holders of the Parent** | *31* | | |
| Basic | | **₱4.94** | ₱3.85 |
| Diluted | | **4.94** | 3.85 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*.

# MANILA ELECTRIC COMPANY AND SUBSIDIARIES
# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | Unaudited | |
|---|---|---|---|
| | | For the Three Months Ended March 31 | |
| | *Note* | **2022** | **2022** |
| | | | *(Amounts in millions)* |
| **NET INCOME** | | **₱5,659** | ₱4,357 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Items that will be reclassified to profit or loss in subsequent periods: | | | |
| Unrealized fair value gains on fair value through other comprehensive ("*FVOCI*") financial assets | *11* | **(43)** | 23 |
| Cumulative translation adjustments of subsidiaries | | **(1)** | 2 |
| Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods | | **(44)** | 25 |
| Items that will not be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurement adjustments on retirement and other post-employment liabilities | *26* | **40** | (361) |
| Income tax effect | | **(10)** | 90 |
| | | **30** | (271) |
| Unrealized fair value gains on equity securities at *FVOCI* | | **19** | 19 |
| Income tax effect | | **(2)** | (2) |
| | | **17** | 17 |
| Share in remeasurement adjustments on associates' retirement liabilities | *8* | **9** | – |
| Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years | | **56** | (254) |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX** | | **12** | (229) |
| **TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX** | | **₱5,671** | ₱4,128 |
| **Total Comprehensive Income Attributable To** | | | |
| Equity holders of the Parent | | **₱5,576** | ₱4,105 |
| Non-controlling interests | | **95** | 23 |
| | | **₱5,671** | ₱4,128 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# MANILA ELECTRIC COMPANY AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

| | Equity Attributable to Equity Holders of the Parent | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Common Stock** (Note 16) | **Additional Paid-in Capital** | **Equity Reserve** (Note 3) | **Employee Stock Purchase Plan** (Note 16) | **Unrealized Fair Value Gains (Losses) on Financial Assets at *FVOCI*** (Note 11) | **Remeasure-ment Adjustments on Retirement and Other Post-Employment Liabilities** (Note 26) | **Share in Remeasure-ment Adjustments on Associates' Retirement Liabilities** (Note 8) | **Cumulative Translation Adjustments of Associates** (Note 8) | **Cumulative Translation Adjustments of Subsidiaries** | **Treasury Shares** (Note 16) | **Retained Earnings** (Note 16) | **Equity Attributable to Equity Holders of the Parent** | **Non-controlling Interests** (Note 3 and 6) | **Total Equity** |
| | *(Amounts in millions)* | | | | | | | | | | | | | |
| **At January 1, 2022** | **₱11,273** | **₱4,111** | **(₱116)** | **₱1,049** | **₱502** | **₱2,681** | **(₱25)** | **₱306** | **₱40** | **(₱11)** | **₱75,394** | **₱95,204** | **₱10,239** | **₱105,443** |
| Net income | – | – | – | – | – | – | – | – | – | – | **5,564** | **5,564** | **95** | **5,659** |
| Other comprehensive income (loss) | – | – | – | – | **(26)** | **30** | **9** | – | **(1)** | – | – | **12** | – | **12** |
| Total comprehensive income (loss) | – | – | – | – | **(26)** | **30** | **9** | – | **(1)** | – | **5,564** | **5,576** | **95** | **5,671** |
| Dividends | – | – | – | – | – | – | – | – | – | – | **(11,526)** | **(11,526)** | **(100)** | **(11,626)** |
| Others | – | – | – | – | – | – | – | – | – | – | – | – | **10** | **10** |
| | – | – | – | – | – | – | – | – | – | – | **(11,526)** | **(11,526)** | **(90)** | **(11,616)** |
| **At March 31, 2022** | **₱11,273** | **₱4,111** | **(₱116)** | **₱1,049** | **₱476** | **₱2,711** | **(₱16)** | **₱306** | **₱39** | **(₱11)** | **₱69,432** | **₱89,254** | **₱10,244** | **₱99,498** |
| At January 1, 2021 | ₱11,273 | ₱4,111 | (₱116) | ₱1,049 | ₱324 | (₱3,822) | (₱13) | ₱6 | ₱22 | (₱11) | ₱66,414 | ₱79,237 | ₱1,494 | ₱80,731 |
| Net income | – | – | – | – | – | – | – | – | – | – | 4,334 | 4,334 | 23 | 4,357 |
| Other comprehensive income (loss) | – | – | – | – | 40 | (271) | – | – | 2 | – | – | (229) | – | (229) |
| Total comprehensive income (loss) | – | – | – | – | 40 | (271) | – | – | 2 | – | 4,334 | 4,105 | 23 | 4,128 |
| Dividends | – | – | – | – | – | – | – | – | – | – | (8,818) | (8,818) | – | (8,818) |
| Effect of consolidation of Global Business Power Corporation ("GBPC") | – | – | – | – | – | – | – | – | – | – | – | – | 5,461 | 5,461 |
| | – | – | – | – | – | – | – | – | – | – | (8,818) | (8,818) | 5,461 | (3,357) |
| At March 31, 2021 | ₱11,273 | ₱4,111 | (₱116) | ₱1,049 | ₱364 | (₱4,093) | (₱13) | ₱6 | ₱24 | (₱11) | ₱61,930 | ₱74,524 | ₱6,978 | ₱81,502 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# MANILA ELECTRIC COMPANY AND SUBSIDIARIES
# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Unaudited | |
|---|---|---|---|
| | | For the Three Months Ended March 31 | |
| | Note | **2022** | 2021 |
| | | *(Amounts in millions)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | | **₱7,108** | ₱10,115 |
| Adjustments for: | | | |
| Provision for probable losses and expenses from claims - net | *2 and 29* | **692** | (1,347) |
| Depreciation and amortization | *7, 9 and 10* | **3,279** | 2,050 |
| Interest and other financial charges | *17, 18 and 21* | **1,019** | 463 |
| Interest and other financial income | *11 and12* | **(432)** | (481) |
| Equity in net earnings of associates and joint ventures | *8* | **(2,115)** | (293) |
| Others | | **(3)** | (26) |
| Operating income before working capital changes | | **9,548** | 10,481 |
| Decrease (increase) in: | | | |
| Trade and other receivables | | **(7,400)** | 11,157 |
| Inventories | | **(189)** | 302 |
| Financial and other current assets | | **(2,579)** | (384) |
| Increase (decrease) in: | | | |
| Trade payables and other current liabilities | | **12,159** | (10,720) |
| Customers' deposits | | **223** | 407 |
| Customers' refund | | **(3)** | (30) |
| Long-term employee benefits | | **702** | 695 |
| Net cash flows provided by operating activities | | **12,461** | 11,908 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Financial assets at *FVOCI* | *11* | **(10,741)** | (10,858) |
| Debt securities at amortized cost | *11* | **(9,405)** | (11,863 |
| Utility plant and others | *7* | **(5,732)** | (4,032) |
| Short-term investments | | **(1,168)** | – |
| Investments in associates and interests in joint ventures | *8* | **(226)** | (860) |
| Intangible assets | *10* | **(143)** | (141) |
| Investment properties | *9* | **1** | (1) |
| Proceeds from maturity of: | | | |
| Financial assets at *FVOCI* | | **10,717** | 14,394 |
| Debt securities at amortized cost | | **10,508** | 2,793 |
| Short-term investments | | **435** | – |
| Interest and other financial income received | | **427** | 553 |
| Proceeds from disposal of utility plant and others | | **132** | 27 |
| Dividends received from associates and joint ventures | | **–** | 23 |
| Increase (decrease) in minority interests | | **(89)** | 15 |
| Decrease (increase) in financial and other noncurrent assets | | **(180)** | 926 |
| Acquisition of Global Business Power Corporation ("*GBPC*") – net of *GBPC*'s cash upon acquisition | *3* | **–** | (9,824) |
| Net cash used in investing activities | | **(5,464)** | (18,848) |

*(Forward)*

| | Note | Unaudited For the Three Months Ended March 31 2022 | 2021 |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from availment of: | | | |
| Interest-bearing long-term financial liabilities | *17* | **₱158** | ₱114 |
| Notes payable | *21* | **317** | 22,000 |
| Payments of: | | | |
| Notes payable | | **(80)** | (26) |
| Dividends | *16* | **129** | (1) |
| Interest-bearing long-term financial liabilities | *17* | **(4,960)** | (66) |
| Interest and other financial charges | | **(1)** | (13) |
| Increase (decrease) in other noncurrent liabilities | | **501** | (2,892) |
| Net cash provided by (used in) financing activities | | **(3,936)** | 19,116 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **3,061** | 12,176 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | **55,007** | 50,912 |
| **NET UNREALIZED FOREIGN EXCHANGE GAINS** | | **(34)** | (77) |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | *12* | **₱58,034** | ₱63,011 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# MANILA ELECTRIC COMPANY AND SUBSIDIARIES
# NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Manila Electric Company ("*MERALCO*") holds a 25-year congressional franchise under Republic Act ("*RA*") No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*'s congressional franchise. *MERALCO*'s participation in retail electricity supply ("*RES*") is directly through its local *RES* unit, *MPower* and indirectly through its affiliate *RES* entities. The *ERC* granted the following subsidiaries of *MERALCO* distinct *RES* licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. ("*Vantage*"), a wholly owned subsidiary of *MERALCO*; Solvre, Inc., a wholly owned subsidiary of MERALCO PowerGen Corporation ("*MGen*"); and MeridianX Inc. ("*MeridianX*"), a wholly owned subsidiary of Comstech Integration Alliance, Inc. ("*Comstech*"), 60% owned by *MERALCO*. Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric*, and Phoenix Power Solutions, Inc. ("*Phoenix Power*"), a wholly owned subsidiary of *MERALCO*, have submitted their respective requirements for *RES* licensing to *ERC*. As at April 25, 2022, the approval of their *RES* licensing is pending with the *ERC.* The *RES* license of Global Energy Supply Corporation ("*GESC*"), a wholly owned subsidiary of Global Business Power Corporation ("*GBPC*"), was renewed by the *ERC* for another five (5) years beginning September 13, 2021.

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

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

*MERALCO* 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*'s power generation business is through its wholly owned subsidiary, *MGen*. *MGen* owns 100% of *GBPC*, the largest independent power producer in the Visayas, beginning March 31, 2021. *MGen*, through *GBPC*, and its subsidiaries, is engaged in developing various power plants projects which includes high efficiency low emission ("*HELE*") technologies for coal-fueled power plant and renewable energy resources. *MERALCO* is also engaged in rooftop solar energy projects through its wholly owned subsidiary, MSpectrum, Inc. ("*Spectrum*"). Through several subsidiaries in the services segment, *MERALCO* provides engineering, design, construction and consulting services, bill collection services, distribution and energy management services, and communication, information system and technology services.

*MERALCO* is owned directly by two (2) major shareholder groups, *Metro Pacific* and *JG Summit*. *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*'s combined direct and indirect ownership interests in *MERALCO* totaled 45.46% while *JG Summit* has 29.56% direct ownership interest in *MERALCO.* First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation have a combined direct equity ownership of 3.95% in *MERALCO.* The balance of *MERALCO*'s common shares is held by institutional investors and the public.

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

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

The consolidated financial statements were approved and authorized for issue by the *BOD* on April 25, 2022.

## 2. **Rate Regulations**

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

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

*Performance-Based Regulations* ("*PBR*")

*MERALCO*

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RY*s 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAP*s for each of the *RY*. As at April 25, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

On April 29, 2022, *MERALCO* received the Consolidated Order dated March 8, 2022. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*'s regulatory asset base for the 3rd *RP*. Based thereon, the *ERC* adjusted the *MAP*s for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief and directed to implement the refund of ₱0.2583 per *kWh* starting *MERALCO*'s next billing period and for an approximate 12-month period as a separate line item. *MERALCO* implemented the refund in its May 2022 billing.

*Interim Average Rate beginning RY 2016*

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. As at April 25, 2022, *MERALCO* files its Formal Offer of Evidence ("*FOE*"). Hearings on the case are ongoing.

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

While *MERALCO* complied with the directive to refund the total amount of ₱263.9 million representing regulatory reset costs, equivalent to ₱0.0731 per *kWh* in its July 2019 billing, it wrote a letter seeking clarification or reconsideration on the basis for such refund, including the imposition of and basis for the interest computed therein. The refund was included as a separate line item in *MERALCO*'s July 2019 billing to its customers. As at April 25, 2022, the *ERC* has yet to reply to *MERALCO*'s letter.

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

*Distribution Rate True-Up ("DRTU") Application*

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff ("*AWAT*") vis-à-vis *ERC*-approved Interim Average Rate ("*IAR*") for the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from July 2015 to November 2020 when *MERALCO* was implementing the *IAR*. *MERALCO* prayed that a Decision be rendered: (a) approving *MERALCO*'s proposed mechanism to address the issue of the rates governing the period from July 2015 to November 2020 through the true-up mechanism between *MERALCO*'s *AWAT* and *IAR*; (b) confirming *MERALCO*'s resulting calculation of the total amount to be refunded to its customers of ₱13,886 million; (c) approving *MERALCO*'s proposed refund scheme and refund period, within 24 months or until fully refunded, to its customers; and (d) declaring all issues relating to *MERALCO*'s lapsed regulatory years (and until a new rate has been determined by the *ERC* for the next regulatory period), as resolved, closed and terminated with

prejudice. In an Order dated January 27, 2021, the *ERC* granted *MERALCO* provisional authority to implement the refund of ₱13,886 million covering the period from July 2015 to November 2020. The refund was reflected as a separate line item in the billings to customers starting March 2021 and shall be refunded over an approximate 24-month period.

On March 7, 2022, *MERALCO* received the *ERC* Order dated February 23, 2022, directing it to refund an additional amount of ₱4,837 million, or an average refund rate of ₱0.1064 per *kWh*, covering the period from December 2020 to December 2021. The refund was implemented starting April 2022 billing. As at April 25, 2022, the refund and the hearings on the case are ongoing.

As at March 31, 2022, the outstanding balance of *DRTU* for refund amounted to ₱12,415 million. The amount expected to be refunded within the next 12 months is presented as part of "Provisions" under "Trade payables and other current liabilities" account, and the balance which is expected to be refunded beyond one year is presented as part of "Other noncurrent liabilities" account in the consolidated statement of financial position.

*CAPEX for 4th RP, RY* 2020 *to RY* 2022

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

In a Decision dated June 15, 2016, the *ERC* approved *MERALCO*'s *RY* 2016 *CAPEX* application. For *MERALCO*'s *RY* 2017 *CAPEX* application, the *ERC* granted a provisional authority to implement certain projects amounting to ₱8,758 million. As at April 25, 2022, *MERALCO*'s *CAPEX* applications for the rest of the 4th *RP* and *RY*s 2020 to 2021 remain pending with the *ERC*.

On July 27, 2021, *MERALCO* filed its application for the approval of its *RY* 2022 *CAPEX* program. Hearings have been completed and *MERALCO* has filed its *FOE*. As at April 25, 2022, *MERALCO* is awaiting the final resolution of the *ERC*.

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

*Regulatory Reset Process Application*

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

In a Notice dated November 16, 2016, the *ERC* approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Handbook*") for posting in its website. All interested parties were asked to submit their respective comments on the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group's Petition as referred in the preceding paragraph has been resolved. As at April 25, 2022, the *ERC* has yet to resolve *MERALCO*'s Omnibus Motion. In the meantime, on April 29, 2021, the *ERC* posted the proposed draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Roll Forward Handbook*") (2nd Draft)

for comments of all interested parties. In December 2021, the *ERC* promulgated *ERC* Resolution No. 11, Series of 2021, which adopted the final *RAB* Roll Forward Handbook.

On December 21, 2018, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the Fifth *RP* of the First Entry Group Under *PBR*. As at April 25, 2022, the *ERC* has yet to act on *MERALCO*'s Petition.

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and "Regulatory Reset for the Fourth (4th) and Fifth (5th) *RP* for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations" Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. *MERALCO* and other stakeholders have submitted their respective comments and public consultations were held. Thereafter, on March 15, 2021, the *ERC* posted the *RDWR* (2nd Draft) and "Regulatory Reset for the Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations" Issues Paper (2nd Draft) for comments of all parties. Under said rules, the timelines were modified such that the 4th *RP* or "Lapsed Period" would now cover the period from July 2016 to June 2022; while the 5th *RP* would cover the period from July 2022 to June 2026. *MERALCO* and other stakeholders submitted their respective comments and their counter-comments and/or counter-proposals to those submitted by the other stakeholders. Under *ERC* Resolution No. 10, Series of 2021, the *ERC* promulgated the *RDWR*.

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP*. As at April 25, 2022, hearings on the case are ongoing.

*Clark Electric*

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

*3rd and 4th RP PBR Reset for Clark Electric*

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

Since there was no regulatory reset, *Clark Electric* has been filing its annual *CAPEX* requirements with the *ERC* as follows:

| **Regulatory Year ("*RY*")** | **Date Filed** |
|---|---|
| *RY* 2016 | February 18, 2016 |
| *RY* 2017 | December 29, 2016 |
| *RY* 2018 | May 17, 2018 |
| *RY* 2019 | July 5, 2019 |
| *RY* 2020, *RY* 2021 and *RY* 2022 (consolidated) | April 4, 2022 |

*Clark Electric* applied for the approval of its *CAPEX* requirements to ensure continuous electricity service for its current and future customers, and improve the reliability, flexibility, and stability of its electric distribution system. With the emergy nature of these *CAPEX* programs, *Clark Electric* manifested with the *ERC* the immediate implementation of these projects.

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

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

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

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

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

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

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

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

*MERALCO*, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DU*s filed their respective motions for leave to intervene and to file their motions for reconsideration. As at April 25, 2022, the case is pending before the *SC*.

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

*MERALCO*

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

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm for the recovery of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net senior citizens discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. In an Order dated December 5, 2019, the *ERC* provisionally approved the application. *MERALCO* started implementation of the Order in its March 2020 billing. As at April 25, 2022, hearings are ongoing.

On January 29, 2016, *MERALCO* filed an 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 April 25, 2022, the application is pending before the *ERC*.

On March 31, 2017, *MERALCO* filed an 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 from January 2014 to December 2016 of ₱2 million and real property tax ("*RPT*") payments under-recoveries from June 2014 to December 2016 of ₱1,090 million. 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, lifeline subsidies and senior citizen discount) for the period January 2014 to December 2016 amounting to ₱6,927 million. The Order deferred action on *MERALCO*'s application for the recovery of *RPT* payments, citing the absence of any rule or guideline providing for the process of confirmation, approval and recovery of *RPT*. The ₱6,927 million was included in the June 2017 until August 2017 billings to customers. *MERALCO* then filed a manifestation in order to zero out the remaining balance. *MERALCO* filed its *FOE* on April 27, 2018. As at April 25, 2022, the application is pending final approval by the *ERC*.

On September 1, 2020, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of ₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021. *MERALCO* filed its *FOE* on February 5, 2021. As at April 25, 2022, the application is pending final approval by the *ERC.*

*Clark Electric*

*Clark Electric* filed an application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with the *ERC* Resolution No. 16, series of 2009. A public hearing was held on June 17, 2014 and the *ERC* decision was received by *Clark Electric* on January 13, 2017. On January 30, 2017, *Clark Electric* filed an *MR* and requested a Clarificatory Meeting with the *ERC*. After a series of follow-ups, the requested Clarificatory Meeting of *Clark Electric* to the *ERC* was finally conducted on March 24, 2022. On April 7, 2022, *Clark Electric* filed a Manifestation for the implementation of the January 2017 *ERC* Decision starting in its March 2022 billing.

On March 31, 2017, *Clark Electric* filed with the *ERC* a second application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014, 2015 and 2016. A public hearing was held on October 25, 2017. On March 5, 2020, *Clark Electric* received an *ERC* Order dated December 9, 2019 directing *Clark Electric* to refund over-recoveries of transmission costs amounting to ₱22 million and to collect under-recoveries of generation and system loss costs amounting to ₱6 million and ₱4 million, respectively. *Clark Electric* completed the implementation of the *ERC* Order on the August 2021 billing cycle.

On April 27, 2021, *Clark Electric* filed with the *ERC* its third 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 2017, 2018 and 2019. The virtual hearings were held on June 29, 2021 and July 6, 2021. On September 6, 2021, *Clark Electric* received an *ERC* Order dated June 30, 2021 granting the former an interim relief to implement its over/under recoveries net of calculation as stated in the instant Application subject to the final evaluation of the Application by the *ERC*. As at April 25, 2022, a total of ₱24 million out of the ₱35 million was already refunded to the *Clark Electric*'s customers.

*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 April 25, 2022, hearings are ongoing.

*Application for the Recovery of Differential Generation Costs*

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at April 25, 2022, the proceedings remain suspended.

*Deferred Purchase Price Adjustment*

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchase power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred purchase price adjustment under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at April 25, 2022, the *MR* is still pending resolution by the *ERC.*

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

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

*SC Decision on the ₱0.167 per kWh Refund*

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

account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at April 25, 2022, *MERALCO* continues to process the refund claims of eligible customers.

In a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. As at April 25, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

*See Note 20 – Customers' Refund.*

*Violation of the ERC's Advisories during the Enhanced Community Quarantine ("ECQ") and Modified ECQ*

In a Decision dated August 20, 2020, the *ERC* imposed a ₱19 million fine on *MERALCO* for alleged violation of the following *ERC*'s directives: (1) failure to clearly indicate that the bills were estimated; and (2) failure to comply with the mandated installment payment arrangement.

In addition, the *ERC* also directed *MERALCO* to set to zero the distribution, supply, and metering ("*DSM*") charges of lifeline consumers whose monthly energy consumption do not exceed 100 *kWh* for one (1) month billing cycle effective in the next billing cycle immediately upon receipt of the *ERC* Decision. The cost of the discount shall not be charged to the non-lifeline consumers.

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*. As at April 25, 2022, the Motion for Partial Reconsideration remains pending with the *ERC*. However, *MERALCO* implemented the directive to set to zero the *DSM* charges of lifeline consumers in its October 2020 billing subject to the resolution of its Motion for Partial Reconsideration.

*Deferment of Collection of Generation Charge Related to Shell Philippines Exploration B.V. ("SPEX")-Malampaya's Scheduled Maintenance Outage from October 2-22, 2021*

On November 6, 2021, *MERALCO* informed the *ERC* of the significant increase in generation cost for October 2021 which would be the basis of the November 2021 generation billing charge to customers. This generation charge increase was attributed to the use of liquid fuel by the natural gas plants to ensure continued operation, in view of *SPEX*-Malampaya's scheduled maintenance outage from October 2-22, 2021; which likewise affected prices in the *WESM*. In this regard, *MERALCO* requested for the following:

1. Deferment of the imposition of the true cost of generation in its billing to its customers, in light of the automatic cost adjustment mechanisms in the *ERC* Rules; and
2. Deferment of payment of the charges from the *WESM*, without incurring any interest and penalty and without resulting in a drawdown in its security deposit with Independent Electricity Market Operator of the Philippines Inc. ("*IEMOP*").

On November 10, 2021, the *ERC* issued a resolution ordering:

1. Deferral by *MERALCO* of the collection from consumers of the 50% of liquid fuel incremental cost from First Gas Power Corporation ("*FGPC*") amounting to ₱729 million;
2. Deferral by *MERALCO* of the collection from consumers of the ₱100 million generation charges from San Buenaventura Power Ltd. Co. ("*SBPL*");
3. Deferral by *IEMOP* from collecting charges amounting to ₱300 million from *MERALCO*;
4. In relation to item number 3, *MERALCO* to defer the collection from its consumers of the *IEMOP* charges amounting to ₱300 million;
5. In addition to the foregoing collection deferments, *MERALCO* to advance the payment of its generation cost in the amount of ₱300 million to further reduce the generation rate increase;
6. No interest and penalty shall be imposed for the deferred payments;
7. No drawdown shall be made from *MERALCO*'s security deposit with *IEMOP*; and
8. Collection of the deferred payments and amount advanced by *MERALCO* will be made in equal monthly installments, over a four (4) month period from December 2021 to March 2022.

## 3. Basis of Preparation and Statement of Compliance

*Basis of Preparation*

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost, and fair value through other comprehensive income ("*FVOCI*") financial assets, which are measured at fair value.

All values are rounded to the nearest million peso, except when otherwise indicated.

*Statement of Compliance*

The consolidated financial statements of *MERALCO* and its subsidiaries have been prepared in compliance with *PFRS*s.

*Basis of Consolidation*

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

| Subsidiaries | Place of Incorporation | Principal Business Activity | **2022** Percentage of Ownership Direct | **2022** Percentage of Ownership Indirect | 2021 Percentage of Ownership Direct | 2021 Percentage of Ownership Indirect |
|---|---|---|---|---|---|---|
| Corporate Information Solutions, Inc. ("*CIS*") | Philippines | e-Transactions | **100** | **–** | 100 | – |
| Customer Frontline Solutions, Inc. ("*CFSI*") | Philippines | Tellering services | **–** | **95** | – | 95 |
| CIS Bayad Center, Inc. ("*Bayad*") | Philippines | Bills payment collection | **–** | **95** | – | 95 |
| Fieldtech Specialist, Inc. ("*Fieldtech*") [4] | Philippines | Bills payment collection | **–** | **–** | – | – |
| Meralco Energy, Inc. ("*MServ*") | Philippines | Energy systems management | **100** | **–** | 100 | – |
| eMeralco Ventures, Inc. ("*e-MVI*") | Philippines | e-Business development | **100** | **–** | 100 | – |
| Paragon Vertical Corporation ("*Paragon*") | Philippines | Information technology *("IT")* and multi-media services | **–** | **100** | – | 100 |
| Radius Telecoms, Inc. ("*Radius*") | Philippines | Telecommunication services | **–** | **100** | – | 100 |
| *MGen* | Philippines | Development of power generation plants | **100** | **–** | 100 | – |
| Calamba Aero Power Corporation[1] | Philippines | Power generation | **–** | **100** | – | 100 |
| Atimonan Land Ventures Development Corporation | Philippines | Real estate | **–** | **100** | – | 100 |
| Atimonan One Energy, Inc. ("*A1E*") [2] | Philippines | Power generation | **–** | **100** | – | 100 |
| MPG Holdings Phils., Inc. | Philippines | Holding company | **–** | **100** | – | 100 |
| MPG Asia Limited ("*MPG Asia*") | British Virgin Islands | Holding company | **–** | **100** | – | 100 |
| Solvre, Inc. [1] | Philippines | Retail electricity supplier | **–** | **100** | – | 100 |
| MGen Renewable Energy, Inc. ("*MGreen*") [5] | Philippines | Renewable energy | **–** | **100** | – | 100 |
| LagunaSol Corporation ("*LagunaSol*") [1] | Philippines | Renewable energy | **–** | **100** | – | 100 |
| Nortesol III Inc. ("*NorteSol*") [1] | Philippines | Renewable energy | **–** | **70** | – | 70 |
| Powersource First Bulacan Solar, Inc. ("*First Bulacan*") | Philippines | Renewable energy | **–** | **60** | – | 60 |
| *Greentech Solar Energy, Inc. ("GSEI")* | Philippines | Renewable energy | **–** | **100** | – | 100 |
| CACI Power Corporation [5] | Philippines | Power generation | **–** | **60** | – | 60 |
| PH Renewables Inc. ("*PHRI*") [5] | Philippines | Power generation | **–** | **60** | – | 60 |
| *GBPC* [3] | Philippines | Holding company | **–** | **100** | – | 100 |
| ARB Power Ventures, Inc. | Philippines | Holding company | **–** | **100** | – | 100 |
| Toledo Power Company ("*TPC*") | Philippines | Power generation | **–** | **100** | – | 100 |
| Toledo Holdings Corporation | Philippines | Real estate | | **100** | | 100 |
| Global Trade Energy Resources Corp. | Philippines | Trading of coal | **–** | **100** | – | 100 |
| Panay Power Holdings Corporation | Philippines | Holding company | **–** | **89** | – | 89 |
| Panay Energy Development Corporation ("*PEDC*") | Philippines | Power generation | **–** | **89** | – | 89 |
| Panay Power Corporation | Philippines | Power generation | | **89** | | 89 |
| GBH Power Resources, Inc. | Philippines | Power generation | **–** | **100** | – | 100 |
| Global Formosa Power Holdings, Inc. | Philippines | Holding company | **–** | **93** | – | 93 |
| Cebu Energy Development Corporation ("*CEDC*") | Philippines | Power generation | **–** | **52** | – | 52 |
| *GESC* | Philippines | Retail electricity supplier | **–** | **100** | – | 100 |
| Mindanao Energy Development Corporation | Philippines | Power generation | **–** | **100** | – | 100 |
| Global Hydro Power Corporation | Philippines | Power generation | **–** | **100** | – | 100 |
| Global Luzon Energy Development Corporation ("*GLEDC*") | Philippines | Power generation | **–** | **57** | – | 57 |
| Lunar Power Core, Inc. | Philippines | Holding company | **–** | **57** | – | 57 |
| Global Renewable Power Corporation | Philippines | Renewable energy | **–** | **100** | – | 100 |
| *Spectrum* | Philippines | Renewable energy | **100** | **–** | 100 | – |
| *Vantage* | Philippines | Retail electricity supplier | **100** | **–** | 100 | – |

(*Forward*)

| Subsidiaries | Place of Incorporation | Principal Business Activity | **2022** Percentage of Ownership Direct | **2022** Indirect | 2021 Direct | 2021 Indirect |
|---|---|---|---|---|---|---|
| Meralco Financial Services Corporation ("*Finserve*") | Philippines | Financial services provider | **100** | **–** | 100 | – |
| Lighthouse Overseas Insurance Limited ("*LOIL*") | Bermuda | Insurance | **100** | **–** | 100 | – |
| MRAIL, Inc. ("*MRail*") | Philippines | Engineering, construction and maintenance of mass transit system | **100** | **–** | 100 | – |
| eSakay, Inc. ("*eSakay*") | Philippines | Maintenance and operation of transport service networks | **100** | **–** | 100 | – |
| *MIESCOR* | Philippines | Engineering, construction and consulting services | **99** | **–** | 99 | – |
| Miescor Builders Inc. ("*MBI*") | Philippines | Electric transmission and distribution operation and maintenance services | **–** | **99** | – | 99 |
| Miescor Logistics Inc. ("*MLI*") | Philippines | General services, manpower/maintenance | **–** | **99** | – | 99 |
| Miescor Infrastructure Development Corporation ("*MIDC*") | Philippines | Construction and leasing of communication towers and other infrastructure | **–** | **99** | – | 99 |
| *Clark Electric* | Philippines | Power distribution | **65** | **–** | 65 | – |
| Clarion Energy Management Inc. ("*Clarion*") [1] | Philippines | Retail electricity supplier | **–** | **65** | – | 65 |
| *Comstech* | Philippines | Management of power distribution | **60** | **–** | 60 | – |
| MeridianX Inc. | Philippines | Retail electricity supplier | **–** | **60** | – | 60 |
| Meridian Power Ventures Limited ("*MPV Limited*") [1] | Hongkong | Investment holdings | **100** | **–** | 100 | – |
| *Shin Clark* | Philippines | Holding company | **60** | **–** | 60 | – |
| *Phoenix Power* [1] | Philippines | Retail electricity supplier | **100** | **–** | 100 | – |

[1] *Has not started commercial operations.*
[2] *In development stage as at March 31, 2022.*
[3] *Became a wholly owned subsidiary beginning March 31, 2021 (See Note 3).*
[4] *Bayad disposed its 51% share in FSI on October 20, 2021,*
[5] *To consolidate all investments in renewable projects, MGen through MGreen acquired the 60% ownership of GBPC in CACI. CACI owns 100% of PHRI and 28% of Greenergy.*

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 of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Non-controlling interests is presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

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

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

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

*Business Combination*

On March 31, 2021, *MGen* completed the acquisition of the combined 86% interests of Beacon Powergen Holdings Inc. ("*BPHI*"), a wholly owned subsidiary of Metro Pacific Investments Corporation ("*Metro Pacific*"), and JG Summit Holdings, Inc. ("*JG Summit*") in *GBPC* to *MGen* for consideration of ₱21,212 million and ₱11,363 million, respectively, net of adjustments in accordance with the terms of the respective Share Purchase Agreements ("*SPA*"). The consideration shall be paid in installments based on the following schedule: 60% upon closing, 20% after six (6) months and the remaining 20% after 18 months.

Prior to the acquisition, *BPHI* held a 56% ownership interest in *GBPC* while *JG Summit* held a 30% interest. *MGen* owned the remaining 14%. As a result of the transaction, *MGen* owns 100% of *GBPC*.

The Philippine Competition Commission (*"PCC*") confirmed on February 9, 2021, that the proposed transaction qualifies as an internal restructuring and thus, does not require further approval by the *PCC*.

As of March 31, 2022, *MGen* settled 80% of the total purchase price consideration in accordance with the terms of *SPA*.

The details of the purchase consideration are as follows:

| | Amounts In millions |
|---|---|
| Cash paid | ₱19,545 |
| Liability | 13,030 |
| Total purchase consideration | ₱32,575 |

The fair value of the assets and liabilities of *GBPC* as at the date of acquisition are as follows:

| | Amounts In millions |
|---|---|
| Generation plant and others | ₱47,218 |
| Investment in associates | 10,447 |
| Intangible assets | 13,833 |
| Deferred tax assets | 765 |
| Cash and cash equivalents | 9,584 |
| Trade and other receivables | 5,247 |
| Inventories | 2,197 |
| Other assets | 2,153 |
| Interest-bearing long-term financial liabilities | (28,323) |
| Deferred tax liabilities | (5,265) |
| Retirement benefits liability | (1,055) |
| Trade and other payables | (7,518) |
| Other liabilities | (1,932) |
| Net identifiable assets acquired | 47,351 |
| Less: | |
| Non-controlling interests | 9,474 |
| Fair value of existing 14% ownership in *GBPC* | 5,302 |
| Net assets acquired | ₱32,575 |

*MERALCO* elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The remeasurement of the fair value of *MGen*'s existing 14% ownership in *GBPC* resulted in a gain of ₱228 million. This amount has been recognized as part of "Other income" account in the 2021 consolidated statement of income.

The fair value of general plant and others has been measured provisionally, pending finalization of an independent valuation.

## 4. Significant Accounting Policies, Changes and Improvements

### *Changes in Accounting Policies and Disclosures*

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous period except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2022.

*Amendments to PFRS 3, Reference to the Conceptual Framework*

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. The amendments do not have material effect on the consolidated financial statements of the *MERALCO Group*.

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

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

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

The amendments do not have material impact on the *MERALCO Group*.

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

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

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

The amendments do not have material impact on the *MERALCO Group*.

*Annual Improvements to PFRSs 2018-2020 Cycle*

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

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

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

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

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

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

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

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

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

*Effective beginning on or after January 1, 2023*

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

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2024 and must be applied retrospectively.

The *MERALCO Group* is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

*Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under *PAS 12*, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

*PFRS 17, Insurance Contracts*

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

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

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

*PFRS 17* is effective for reporting year beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The *MERALCO Group* is currently assessing the impact of adopting *PFRS 17*.

*Amendments to PAS 8, Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

*Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to *PAS 1* are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on *MERALCO Group*.

*Effective beginning on or after January 1, 2024*

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board ("*IASB*") tentatively decided to defer the effective date to no earlier than January 1, 2024.

*Effective beginning on or after January 1, 2025*

*PFRS 17, Insurance Contracts*

a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, *PFRS 17* will replace *PFRS 4, Insurance*

*Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

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

On December 15, 2021, the *FRSC* amended the mandatory effective date of *PFRS 17* from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of *PFRS 17* by two (2) years after its effective date as decided by the *IASB*.

*PFRS 17* is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

*Deferred Effectivity*

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

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

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

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

***Significant Accounting Policies***

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

*Utility Plant, Generation Plant and Others*

Utility plant, generation plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant, generation plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated

statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

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

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

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

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

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

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

*Construction in Progress*

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

*Borrowing Costs*

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

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

All other borrowing costs are expensed as incurred.

*Investments in Associates and Interests in Joint Ventures*

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

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

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

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

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

If the *MERALCO Group*'s share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the *MERALCO Group* discontinues recognizing its share of further losses. The interest in an associate or joint venture is the carrying amount of the investment or joint venture determined using the equity method together with any long-term interest that in substance forms part of the *MERALCO Group*'s net investment in associate or joint venture. After the *MERALCO Group*'s interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the *MERALCO Group* has incurred legal or constructive obligation or made payments in behalf of the associate of joint venture. If the associate or joint venture subsequently reports profits, the *MERALCO Group* resumes recognizing its share of their profits only after its share of the profit equals the share of loss not recognized.

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

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

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

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

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

*Business Combinations and Goodwill*

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

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting date in which the business combination occurs, the provisional amounts of the items for which the

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

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

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

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

*Investment Properties*

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

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

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

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

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

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

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any

gain or loss from the derecognition of the investment properties is recognized in the consolidated statement of income in the period these are disposed or retired.

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

*Intangible Assets*

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

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

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

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

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

*Fair Value Measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the *MERALCO Group*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic

best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The *MERALCO Group* uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

i. Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
ii. Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
iii. Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the *MERALCO Group* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purpose of fair value disclosures, the *MERALCO Group* has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

*Impairment of Nonfinancial Assets*

The *MERALCO Group* assesses at each reporting date whether there is an indication that a nonfinancial asset [utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue ("*BIR*")] other than goodwill and intangible assets with indefinite useful life, may be impaired. If any such indication exists, the *MERALCO Group* makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an individual asset's or a cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm's-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the

asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior period. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

*Financial Instruments - Initial Recognition and Subsequent Measurement*

*Financial Assets*

*Initial Recognition and Measurement*

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss ("*FVPL*").

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

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

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

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

*Subsequent Measurement*

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

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

*Financial Assets at Amortized Cost (Debt Instruments)*

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

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

Financial assets at amortized cost are subsequently measured using the effective interest rate ("*EIR*") method and are subject to impairment. Gains and losses are 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 and advance payments to a supplier.

*Financial Assets at FVOCI (Debt Instruments)*

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

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

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are 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 income when the right to receive payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

The *MERALCO Group* elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the *MERALCO Group*'s consolidated statement of financial position) when:

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

When the *MERALCO Group* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the *MERALCO Group* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the *MERALCO Group* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the *MERALCO Group* has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

*Modification of Financial Assets*

The *MERALCO Group* derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the *MERALCO Group* considers the following factors, among others:

- Change in currency
- Introduction of an equity feature

- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The *MERALCO Group* also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the *MERALCO Group* considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the *MERALCO Group* recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* (or credit-adjusted *EIR* for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for *ECL* measurement purposes, unless the new financial asset is deemed to be purchased or originated credit-impaired financial assets ("*POCI*").

*Impairment of Financial Assets*

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

*ECL*s are measured in a way that reflects the following:

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

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

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

For trade receivables and contract assets, the *MERALCO Group* applies a simplified approach in calculating *ECLs*. Therefore, the *MERALCO Group* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. The *MERALCO Group* has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In 2021, *MERALCO* continued to extend the suspension of disconnection activities in areas under *ECQ*, *MECQ* and granular lockdowns, and extended installment payment arrangements to certain customers. In determining the *ECL*s of trade receivables, the credit loss experience for each contract status of customers for the current period, adjusted for forwarding looking factors as well as the economic environment was considered.

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

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

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

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

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

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

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

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

*Financial Liabilities*

*Initial Recognition and Measurement*

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

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

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

*Subsequent Measurement*

*Financial liabilities at FVPL*

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

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

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

*Loans and borrowings*

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

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

*Derecognition*

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

*Exchange or Modification of Financial Liabilities*

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

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

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

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

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

*Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized

amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

*Redeemable Preferred Stock*

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

*Inventories*

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

*Prepayments*

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

*Value-Added Tax ("VAT")*

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

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

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

*Provisions*

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

*Retirement Benefits*

*MERALCO* and certain subsidiaries have distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO*'s retirement plan provides for post-retirement

benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

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

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

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

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

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

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

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

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

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

*Termination Benefits*

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

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

*Employee Leave Entitlements*

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

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

*Long-term Incentive Plan*

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

*Equity*

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

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

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

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

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

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

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

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

*Revenue Recognition*

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the *MERALCO Group* expects to be entitled in exchange for those goods or services. The *MERALCO Group* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO Group* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

*Sale of Electricity*

As distribution utilities, revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements ("*UFR*") on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment ("*CERA*") I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, *RPT* (beginning March 2021), the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance ("*FiT-All*") are also separately presented in the customer's billing statement. *Taxes* billed and collected on behalf of the national governments and local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation ("*PSALM*") and National Transmission Corporation ("*TransCo*"), respectively] do not form part of *MERALCO* and *Clark Electric*'s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

*Revenue from Contracts with Customers - Recognized Over Time*

The *MGen* Group has contracts with customers in the form of Electric Power Purchase Agreement ("*EPPA*s"), Ancillary Services Procurement Agreement ("*ASPA*s"), and sale of electricity to *WESM*.

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

Revenue from contracts with customers is consummated whenever the electricity generated by the *MGen* Group is transmitted through the transmission line designated by the buyer, for a consideration.

Revenue from sale of electricity is recognized monthly based on the actual energy delivered made available to customers or minimum energy off take or contracted capacity, adjusted by actual days of downtime, whichever is higher.

Revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines ("*NGCP*") is recognized monthly based on the capacity scheduled and/or dispatched and provided.

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

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

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

*Coal Sales*

Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer. Coal sales are presented as part of sale of electricity in the consolidated statement of income.

*Service Fees*

Service fee pertains to fees charged to customers and clients for coal transaction related services. The service fee is recognized at point in time. Service fees are presented as part of sale of other services in the consolidated statement of income.

*Sale of Services*

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

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

*Interest Income*

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

*Lease Income*

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

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

*Receivables*

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

*Contract Assets*

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

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

*Contract Liabilities*

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

The following are considered as contract liabilities:

*Assets Funded by Customers*

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

*Net Over-recoveries of Pass-through Charges*

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

*Cost and Expense Recognition*

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

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

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

*Lease Liabilities*

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

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

*Short-term Leases and Leases of Low-value Assets*

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

*Leases*

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

*Company as Lessee*

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

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

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

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

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

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

*Company as Lessor*

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

*Foreign Currency-Denominated Transactions and Translations*

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

the *MERALCO Group* determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

As at the reporting date, the monetary assets and liabilities of subsidiaries, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting date, and income and expenses are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of *OCI* as cumulative translation adjustments. On the disposal of a subsidiary, the amount of cumulative translation adjustments recognized in *OCI* is recognized in the consolidated statement of income.

*Income Taxes*

*Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

*Deferred Income Tax*

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply 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 period.

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

*Contingencies*

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

*Events After the Reporting Date*

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

## 5. Significant Judgments, Accounting Estimates and Assumptions

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

*Judgments*

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

*Determination of Functional Currency*

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

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

*Uncertain Tax Position*

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

*Operating Lease Commitments*

*As Lessor*

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

*As Lessee*

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

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

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

*Arrangement that Contains a Lease*

Based on *MERALCO*'s assessment, the *PPA*s and *PSA*s do not qualify to be accounted for as lease and are accounted for as ordinary service contracts, since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified assets.

*Principal versus Agent*

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

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

Moreover, *MERALCO* and *Clark Electric* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the period when the services are expected to be provided.

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

*MERALCO*, through *MGen*, has a 51% interest in *SBPL*. While *MERALCO* owns majority of the voting rights in *SBPL*, it does not have sole control of *SBPL*. *MERALCO's* investment in *SBPL* is accounted for as a joint venture since key operating and financial decisions of *SBPL* require the unanimous vote and consent of the parties sharing control.

*Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as an Associate*

*MERALCO*, through *MGen*, has a total of 58% direct and indirect interest in *PacificLight*. *MERALCO's* investment in *PacificLight* is accounted for as an associate since the relevant and significant activities and policies of *PacificLight* require the majority votes of the *BOD* and *MGen* does not hold the majority of the *BOD*.

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

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

*Contingencies*

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

See *Note 29 – Contingencies and Legal Proceedings*.

*Estimates and Assumptions*

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

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

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

The total depreciation and amortization expense of utility plant, generation plant and others amounted to ₱2,851 million and ₱1,882 million for the three months ended March 31, 2022 and 2021, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱228,625 million and ₱225,779 million as at March 31, 2022 and December 31, 2021, respectively.

Total depreciation of investment properties amounted to ₱1 million for each of the three months ended March 31, 2022 and 2021. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,495 million and ₱1,496 million as at March 31, 2022 and December 31, 2021, respectively.

Total amortization of intangible assets with finite lives amounted to ₱427 million and ₱167 million for the three months ended March 31, 2022 and 2021, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱15,103 million and ₱15,387 million as at March 31, 2022 and December 31, 2021, respectively.

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

*Impairment of Nonfinancial Assets*

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

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

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

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

| Account | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Utility plant, generation plant and others | **₱228,625** | ₱225,779 |
| Investments in associates and interests in joint ventures | **25,800** | 23,450 |
| Intangible assets | **15,103** | 15,387 |
| Investment properties | **1,495** | 1,496 |
| Receivable from the *BIR* | **181** | 181 |
| Goodwill | **35** | 35 |

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

*Realizability of Deferred Income Tax Assets*

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

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting date. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the recorded or recognized deferred tax assets to be utilized. The amounts of the deferred income tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred income tax assets:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Recognized deferred income tax assets | **₱35,727** | ₱34,660 |
| Unrecognized deferred income tax assets | **1,661** | 3,808 |

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

*Provision for ECL of Receivables and Contract Assets*

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

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DU*s to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the deferred payment arrangements and expected default upon resumption of service disconnection activities. In 2021, *MERALCO* continued to extend the suspension of disconnection activities in areas under *ECQ, MECQ* and granular lockdowns, and extended installment payment arrangements to certain customers. In determining the *ECL*s of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors taking into account the economic environment was considered.

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

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

*ECL*s for trade and other receivables amounted to ₱187 million and ₱1,359 million for the three months ended March 31, 2022 and 2021, respectively. Trade and other receivables, net of allowance

for expected credit losses, amounted to ₱49,242 million and ₱45,013 million as at March 31, 2022 and December 31, 2021, respectively.

See *Note 13 – Trade and Other Receivables.*

*Estimating Net Realizable Value of Inventories*

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

The carrying values of inventories amounted to ₱10,006 million and ₱9,817 million as at March 31, 2022 and December 31, 2021, respectively.

See *Note 14 – Inventories*.

*Estimation of Retirement Benefit Costs*

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement and other post-employment benefits expense amounted to ₱419 million and ₱510 million for the three months ended March 31, 2022 and 2021, respectively. Retirement and other post-employment benefit liabilities as at March 31, 2022 and December 31, 2021 amounted to ₱8,081 million and ₱7,716 million, respectively.

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

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

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

*Provisions*

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 29 – Contingencies and Legal Proceedings* and *Note 2 – Rate Regulations*. The *MERALCO Group*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsel, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

The *MERALCO Group*, in consultation with its external 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 ₱3,794 million (expense) and ₱1,279 million (reversal) for the three months ended March 31, 2022 and 2021, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at March 31, 2022 and December 31, 2021, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱540 million and ₱860 million, respectively.

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

*Revenue Recognition*

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

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

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

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

*Revenue from Contracts with Customers*

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

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

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

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

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

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

Factors such as the following are considered:

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

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

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

3) *Allocation of Variable Consideration*. Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under *EPPA*s, *ASPA* and spot market sales to *WESM*, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the *MGen* Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the *MGen* Group.

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

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

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

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

## 6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including revenues and expenses relating to transactions with other business segments within the *MERALCO Group*). The operating results of each of the operating segments are regularly reviewed by *MERALCO*'s Management Committee to determine how resources are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

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

- Power

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

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

  *Shin Clark* is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("*BCDA*"). As at April 25, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been submitted to the Securities and Exchange Commission ("*SEC*") and is awaiting approval.

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

*MGen* owns 51% interest in *SBPL* which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. In 2021, it delivered a total of 3,234 *GWh* to *MERALCO* under an *ERC*-approved *PSA.*

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

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

*MGen* also has a 28% indirect interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"). In July 1, 2021, it acquired a 30% direct interest in PacificLight Power, increasing its effective interest to 58%. *PacificLight Power* owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by liquefied natural gas ("*LNG*") in Jurong Island, Singapore.

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

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

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

*MGreen* has 70% equity interest in *Nortesol*, a company engaged in the development, construction and operation of power plant and related facilities using renewable energy system and hybrid energy system. *Nortesol* is developing a 110 *MW*dc/90*MW*ac floating solar facility in Laguna de Bay while awaiting the leasing policy from the Laguna Lake Development Authority ("*LLDA*").

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

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

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

customers who opt for contestability and elect to be among contestable customers may source their electricity supply from any retail electricity suppliers, including *MPower* and *Cogent Energy*.

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*; *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. On April 21, 2021, *Phoenix Power*, a wholly owned subsidiary of *MERALCO*, was issued a *RES* license by the *ERC* while *Vantage RES* renewal is on-going. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC*. As at April 25, 2022, the approval of its *RES* licensing is pending with the *ERC*. *GESC*, a wholly owned subsidiary of *GBPC*, was issued a *RES* license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, *GESC*'s *RES* license was renewed for another five (5) years beginning September 13, 2021.

- Other Services

  The other services segment is involved principally in electricity-related services, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as "*MIESCOR Group*"), *CIS*, *Bayad*, *CFSI and Fieldtech* (collectively referred to as "*CIS Group*"), *e-MVI*, *Paragon* and *Radius* (collectively referred to as "*e-MVI Group*"), *Comstech*, *MRail*, *LOIL*, *Finserve*, *MServ*, *Spectrum* and *eSakay*.

The Management Committee monitors the operating results of each business unit separately for the purpose of determining resource allocation and assessing performance. Performance is evaluated based on (i) net income attributable to equity holders of the parent for the period, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization ("consolidated core *EBITDA*"); and (iii) consolidated core net income ("*CCNI*"). Net income is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures and provision for income tax.

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

Billings between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. None of its revenues from transactions with a single external customer accounts for 10% or more of its revenues from external customers.

| | | **Power** | | **Other Services** | | **Inter-segment Transactions** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|
| | | **For the Three Months Ended March 31** | | | | | | | |
| | *Note* | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | | | | | *(Amounts in Millions)* | | | | |
| Revenues | | **₱83,272** | ₱62,484 | **₱3,569** | ₱2,821 | **(₱936)** | (₱593) | **₱85,905** | ₱64,712 |
| Segment results | | **₱11,874** | ₱9,822 | **₱779** | ₱753 | **₱ –** | ₱ – | **₱12,653** | ₱10,575 |
| Provisions for probable losses and expenses from claims | | **(3,793)** | 1,279 | **(1)** | – | **–** | – | **(3,794)** | 1,279 |
| Depreciation and amortization | *7, 8 and 10* | **(3,130)** | (1,913) | **(149)** | (137) | **–** | – | **(3,279)** | (2,050) |
| Interest and other financial income | *24* | **413** | 473 | **19** | 8 | **–** | – | **432** | 481 |
| Equity in net earnings (losses) of associates and joint ventures | *8* | **2,106** | 294 | **9** | (1) | **–** | – | **2,115** | 293 |
| Interest and other financial charges | *24* | **(999)** | (439) | **(20)** | (24) | **–** | – | **(1019)** | (463) |
| Provision for income tax - net | *27* | **(1,276)** | (5,579) | **(173)** | (179) | **–** | – | **(1,449)** | (5,758) |
| Net income attributable to non-controlling interests | | **–** | – | **–** | – | **(95)** | (23) | **(95)** | (23) |
| Net income attributable to equity holders of the Parent | | **₱5,195** | ₱3,937 | **₱464** | ₱420 | **(₱95)** | (₱23) | **₱5,564** | ₱4,334 |

The inter-segment revenues mainly represent revenues of other services segment earned from the power segment.

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

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| *EBITDA* | **₱8,635** | ₱11,784 |
| Add (deduct): | | |
| Depreciation and amortization | **(3,279)** | (2,050) |
| Equity in net earnings of associates and joint ventures | **2,115** | 293 |
| Interest and other financial income net of charges and foreign exchange gains and losses | **(363)** | 88 |
| Income before income tax | **7,108** | 10,115 |
| Provision for income tax - net | **(1,449)** | (5,758) |
| Net income | **₱5,659** | ₱4,357 |

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

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| *CCNI* | **₱5,624** | ₱5,113 |
| Add (deduct) non-core items, net of tax: | | |
| Non-core expenses | **(228)** | (831) |
| Foreign exchange gains | **168** | 52 |
| Net income for the period attributable to equity holders of the Parent | **5,564** | 4,334 |
| Net income for the period attributable to non-controlling interests | **95** | 23 |
| Net income | **₱5,659** | ₱4,357 |

## 7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

| | | March 31, 2022 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | **Sub-transmission and Distribution** | **Boilers and Powerhouse** | **Land** | **Buildings and Improve-ments** | **Communi-cation Equipment** | **Office Furniture, Fixtures and Other Equipment** | **Transpor-tation Equipment** | **Others** | **Construction in Progress** | **Total** |
| | | | | | | *(Amounts in millions)* | | | | | |
| Cost: | | | | | | | | | | | |
| Balance at beginning of period | | **₱214,967** | **₱67,308** | **₱17,699** | **₱14,887** | **₱4,788** | **₱4,403** | **₱4,280** | **₱7,441** | **₱25,166** | **₱360,939** |
| Additions | | **447** | **53** | **5** | **2** | **67** | **39** | **107** | **104** | **5,004** | **5,828** |
| Transfers from construction in progress | | **2,283** | **–** | **–** | **12** | **29** | **97** | **–** | **12** | **(2,433)** | **–** |
| Disposals/retirements | | **(95)** | **–** | **–** | **(10)** | **(52)** | **–** | **(2)** | **(65)** | **–** | **(224)** |
| Reclassifications | ***10*** | **–** | **988** | **1** | **(989)** | **–** | **–** | **–** | **9** | **–** | **9** |
| Balance at end of period | | **217,602** | **68,349** | **17,705** | **13,902** | **4,832** | **4,539** | **4,385** | **7,501** | **27,737** | **366,552** |
| Less accumulated depreciation and amortization: | | | | | | | | | | | |
| Balance at beginning of period | | **91,182** | **25,873** | **–** | **5,526** | **2,227** | **3,177** | **2,935** | **4,240** | **–** | **135,160** |
| Depreciation and amortization | | **1,687** | **729** | **–** | **90** | **64** | **97** | **66** | **118** | **–** | **2,851** |
| Disposals/retirements | | **(65)** | **–** | **–** | **(4)** | **–** | **–** | **(2)** | **(5)** | **–** | **(76)** |
| Reclassifications | | **–** | **(7)** | **–** | **87** | **8** | **–** | **–** | **(96)** | **–** | **(8)** |
| Balance at end of period | | **92,804** | **26,595** | **–** | **5,699** | **2,299** | **3,274** | **2,999** | **4,257** | **–** | **137,927** |
| Net book value | | **₱124,798** | **₱41,754** | **₱17,705** | **₱8,203** | **₱2,533** | **₱1,265** | **₱1,386** | **₱3,244** | **₱27,737** | **₱228,625** |

December 31, 2021 (Audited)

| | Note | Sub-transmission and Distribution | Boilers and Powerhouse | Land | Buildings and Improve-ments | Communi-cation Equipment | Office Furniture, Fixtures and Other Equipment | Transpor-tation Equipment | Others | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *(Amounts in millions)* | | | | | |
| Cost: | | | | | | | | | | | |
| Balance at beginning of period | | ₱196,793 | ₱– | ₱15,752 | ₱7,401 | ₱3,339 | ₱4,079 | ₱3,973 | ₱5,755 | ₱25,822 | ₱262,914 |
| Effect of consolidation of *GBPC* | *3* | – | 63,872 | 1,436 | 6,649 | 203 | 87 | 179 | 379 | 590 | 73,395 |
| Additions | | 946 | 3,409 | 511 | 493 | 1,069 | 206 | 276 | 618 | 19,031 | 26,559 |
| Transfers from construction in progress | | 19,302 | – | – | 344 | 175 | 31 | 2 | 384 | (20,238) | – |
| Disposals/retirements | | (1,969) | – | – | (1) | – | (1) | (151) | (66) | – | (2,188) |
| Reclassifications | *10* | (105) | 27 | – | 1 | 2 | 1 | 1 | 371 | (39) | 260 |
| Balance at end of period | | 214,967 | 67,308 | 17,699 | 14,887 | 4,788 | 4,403 | 4,280 | 7,441 | 25,166 | 360,939 |
| Less accumulated depreciation and amortization: | | | | | | | | | | | |
| Balance at beginning of period | | 85,913 | – | – | 3,237 | 1,896 | 2,738 | 2,673 | 3,448 | – | 99,905 |
| Effect of consolidation of *GBPC* | *3* | – | 23,518 | – | 1,941 | 177 | 77 | 136 | 328 | – | 26,177 |
| Depreciation and amortization | | 7,238 | 2,069 | – | 325 | 174 | 363 | 247 | 430 | – | 10,846 |
| Disposals/retirements | | (1,969) | – | – | (1) | – | (1) | (121) | (17) | – | (2,109) |
| Reclassifications | | – | 286 | – | 24 | (20) | – | – | 51 | – | 341 |
| Balance at end of period | | 91,182 | 25,873 | – | 5,526 | 2,227 | 3,177 | 2,935 | 4,240 | – | 135,160 |
| Net book value | | ₱123,785 | ₱41,435 | ₱17,699 | ₱9,361 | ₱2,561 | ₱1,226 | ₱1,345 | ₱3,201 | ₱25,166 | ₱225,779 |

As at March 31, 2022 and December 31, 2021, the net book values of customer-funded assets included in "Utility plant, generation plant and others" account amounted to ₱5,759 million and ₱5,764 million, respectively. The corresponding liabilities to customers in the same amounts as at March 31, 2022 and December 31, 2021 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

The power plant complex of *TPC* and the generation plant and equipment of *PEDC*, with aggregate carrying value of ₱29,005 million and ₱29,385 million as at March 31, 2022 and December 31, 2021, respectively, are pledged as securities for their long-term debt.

See *Note 24 – 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. Non-*ECP*s mainly represent *MGen*'s construction of powerplant projects. Total interest capitalized amounted to ₱96 million and ₱69 million based on average capitalization rate of 5% for the three months ended March 31, 2022 and 2021, respectively.

## 8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

| | | | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|---|
| | Place of Incorporation | Principal Activity | Percentage of Ownership | |
| **Associates** | | | | |
| Alsons Thermal Energy Corporation ("*ATEC*") | Philippines | Power generation | **50** | 50 |
| Redondo Peninsula Energy Inc. ("*RP Energy*") | Philippines | Power generation | **47** | 47 |
| FPM Power Holdings Limited ("*FPM Power*")/ *PacificLight Power* | British Virgin Islands/ Singapore | Investment and holding company/ Power generation | **58** | 58 |
| Bauang Private Power Corporation ("*BPPC*") | Philippines | Power generation | **38** | 38 |
| Aclara Meters Philippines, Inc. ("*Aclara Meters*") | Philippines | Sale of metering products and services | **35** | 35 |
| Power Distribution Services Ghana Limited ("*PDS Ghana*") | Ghana | Distribution of power | **30** | 30 |
| Indra Philippines, Inc. ("*Indra Philippines*") | Philippines | Management and *IT* consultancy | **25** | 25 |
| Greenergy For Global Inc. ("*Greenergy*") | Philippines | Renewable energy | **28** | 28 |
| *AF Payments* | Philippines | Electronic payment clearing and settlement system operator | **10** | 10 |
| **Joint Ventures** | | | | |
| *SBPL* | Philippines | Power generation | **51** | 51 |
| MRail-DESCO Joint Venture ("*MDJV*") | Philippines | Maintenance of mass transit system | **50** | 50 |
| Pure Meridian Hydropower Corporation ("*Pure Meridian*") | Philippines | Renewable energy | **50** | 50 |
| First Balfour-MRail Joint Venture ("*FBMJV*") | Philippines | Maintenance of mass transit system | **49** | 49 |
| MPioneer Insurance Inc. ("*MPioneer*") | Philippines | Insurance | **35** | 35 |
| Rockwell Business Center Joint Venture ("*RBC JV*") | Philippines | Real estate | **30** | 30 |
| Nuevo Solar Energy Corporation ("*NSEC*") | Philippines | Power generation | **50** | 50 |

The movements in investments in associates and interests in joint ventures are as follows:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | | *(Amounts in millions)* |
| Acquisition cost: | | | |
| Balance at beginning of period | | **₱27,380** | ₱21,447 |
| Additions | | **226** | 779 |
| Effect of consolidation of *GBPC* | *3* | **–** | 10,447 |
| Reclassification [(1)] | *11* | **–** | (5,293) |
| Balance at end of period | | **27,606** | 27,380 |
| Accumulated equity in net losses: | | | |
| Balance at beginning of period | | **(4,211)** | (5,752) |
| Equity in net earnings | | **2,115** | 3,127 |
| Impairment losses | | **–** | (12) |
| Reclassification [(1)] | | **–** | 206 |
| Dividends received | | **–** | (1,780) |
| Balance at end of period | | **(2,096)** | (4,211) |
| Share in remeasurement adjustments on retirement liabilities | | | |
| Balance at beginning of period | | **(25)** | (13) |
| Share in actuarial losses | | **9** | (12) |
| Balance at end of period | | **(16)** | (25) |
| Share in cumulative translation adjustments: | | | |
| Balance at beginning of period | | **306** | 6 |
| Cumulative translation adjustments | | **–** | 300 |
| Balance at end of period | | **306** | 306 |
| | | **₱25,800** | ₱23,450 |

*[(1)] Reclassification in 2021 pertains to the carrying amount of MERALCO's 14% investment in GBPC, which was accounted using equity method and presented as part of investments in associates and interests in joint ventures in 2020.*

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

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | | *(Amounts in millions)* |
| Associates: | | | |
| *ATEC* | *3* | **₱10,253** | ₱10,186 |
| *FPM Power/PacificLight Power* | | **4,221** | 2,434 |
| *RP Energy* | | **705** | 706 |
| *Aclara Meters* | | **63** | 59 |
| *Greenergy* | | **35** | 35 |
| Joint ventures: | | | |
| *SBPL* | | **8,350** | 8,138 |
| *RBC JV* | | **959** | 907 |
| *Indra Philippines* | | **438** | 416 |
| *MPioneer* | | **340** | 354 |
| *Pure Meridian* | | **109** | 123 |
| *NSEC* | | **289** | 64 |
| *MDJV* | | **38** | 28 |
| | | **₱25,800** | ₱23,450 |

*ATEC*

*ATEC* owns: (i) 75% of Sarangani Energy Corporation which operates a 2 x 118.5 *MW* (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% San Ramon Power, Inc. which is developing a 120 *MW* baseload coal-fired plant in Zamboanga City; and (iii) 100% ACES Technical Services Corporation.

*FPM Power/PacificLight Power*

*FPM Power* is 40%-owned by *MERALCO* through *MPG Asia* (a wholly-owned subsidiary of *MGen)* and 60%-owned by First Pacific Company Limited ("*First Pacific*"). *FPM Power* has a 70% equity interest in *PacificLight Power*, which owns and operates a 2 x 400 *MW LNG*-fired power plant in Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

On July 1, 2021, *MGen* acquired Petronas International Power Corporation's 30% stake in PacificLight Power in the amount of US $15 million (₱729 million) bringing its combined direct and indirect interest to 58%.

The fair value of the identifiable assets and liabilities of PacificLight Power as at July 1, 2021 were:

| | Amounts In millions |
|---|---|
| Generation plant and others | ₱22,651 |
| Cash and cash equivalents | 1,165 |
| Trade and other receivables | 4,174 |
| Other assets | 4,632 |
| Interest-bearing long-term financial liabilities | (22,187) |
| Trade and other payables | (5,581) |
| Other liabilities | (2,424) |
| Net assets | 2,430 |
| Less: *FPM Power's* 70% interest | 1,701 |
| Net assets acquired | ₱729 |

The fair values of assets and liabilities were based on a provisional assessment as the valuation of general plant and others has not been finalized.

See *Note 15 – Financial and Other Current Assets* and *Note 22 – Related Party Transactions.*

*RP Energy*

*RP Energy* was a joint venture agreement with Therma Power, Inc. ("*TPI*") and Taiwan Cogeneration International Corporation – Philippine Branch ("*TCIC*") for the construction and operation of a power plant in the Subic Bay Freeport Zone.

Management continues to reassess the appropriate project technology for the site considering the developments in environmental social and governance ("*ESG*"), banking and insurance.

*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.

*Greenenergy*

In February 2021, *GBPC* acquired 28% equity interest in *Greenergy*, which is developing a 40 *MWac* solar power plant in Cordon, Isabela.

*SBPL*

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

*SBPL* and *MERALCO* signed a long-term *PSA* covering all the output of the plant. The *PSA* was approved by the *ERC* on May 19, 2015.

*RBC JV*

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

*Indra Philippines*

*Indra Philippines* is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("*IS*") and *IT* operations and management consulting.

*MPioneer*

*MPioneer* is 35% owned by *MERALCO*, with Pioneer Insurance and Surety Company holding 65%. It is engaged in the non-life insurance business.

*Pure Meridian*

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation ("*REDC*") entered into a joint venture through, *Pure Meridian*, for the development of a mini-hydroelectric power project.

*NSEC*

*NSEC*, an entity considered as *MGreen*'s joint venture, is engaged in the development of an approximately 65 *MWac* solar energy project in Currimao, Ilocos Norte.

*MDJV*

On June 2, 2014, *MRail* and Desco, Inc. entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways ("*PNR*"). The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

*AF Payments*

*MERALCO*, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* operates and maintains an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operates and maintains the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment on the carrying amount of its investment in *AF Payments*. The recoverable amount of the investment in *AF Payments* was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows using the discount rate of 11.9%. The estimated cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast

period. The forecast period covers the remaining service concession agreement term. As at March 31, 2022 and December 31, 2021, the investment in *AF Payments* is fully impaired.

The condensed statements of financial position of material associates follow:

| | **March 31, 2022 (Unaudited)** | | |
|---|---|---|---|
| | ***ATEC*** | ***FPM Power / PacificLight Power*** | ***RP Energy*** |
| | *(Amounts in millions)* | | |
| Current assets | **₱5,591** | **₱18,813** | **₱247** |
| Noncurrent assets | **33,275** | **31,582** | **1,178** |
| Current liabilities | **(4,858)** | **(11,714)** | **(6)** |
| Noncurrent liabilities | **(13,502)** | **(22,505)** | **(25)** |
| Net assets | **₱20,506** | **₱16,176** | **₱1,394** |

| | December 31, 2021 (Audited) | | |
|---|---|---|---|
| | *ATEC* | *FPM Power / PacificLight Power* | *RP Energy* |
| | *(Amounts in millions)* | | |
| Current assets | ₱5,665 | ₱31,570 | ₱251 |
| Noncurrent assets | 33,980 | 15,140 | 1,176 |
| Current liabilities | (5,698) | (9,499) | (6) |
| Noncurrent liabilities | (13,461) | (23,724) | (25) |
| Net assets | ₱20,486 | ₱13,487 | ₱1,396 |

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

| | **For the Three Months Ended March 31 (Unaudited)** | | | | |
|---|---|---|---|---|---|
| | **2022** | | | 2021 | |
| | ***ATEC*** | ***FPM Power / PacificLight Power*** | ***RP Energy*** | *ATEC* | *RP Energy* |
| | *(Amounts in millions)* | | | | |
| Revenues | **₱2,240** | **₱9,864** | **₱–** | ₱– | ₱– |
| Costs and expenses | **(1,909)** | **(6,794)** | **(3)** | – | (3) |
| Net income (loss) | **331** | **3,070** | **(3)** | – | (3) |
| Non-controlling interests | **(77)** | **(1,289)** | **–** | – | – |
| Net income (loss) attributable to equity holders of the parent | **254** | **1,781** | **(3)** | – | (3) |
| Other comprehensive income | **–** | **–** | **–** | – | – |
| Total comprehensive income (loss) | **₱254** | **₱1,781** | **(₱3)** | ₱– | (₱3) |
| Dividends received | **₱–** | **₱–** | **₱–** | ₱– | ₱– |

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

| | **March 31, 2022 (Unaudited)** | | |
|---|---|---|---|
| | ***ATEC*** | ***FPM Power / PacificLight Power*** | ***RP Energy*** |
| | *(Amounts in millions, except % of ownership)* | | |
| Net assets of associates | **₱20,506** | **₱16,176** | **₱1,394** |
| Proportionate ownership in associates (%) | **50** | **58** | **47** |
| | **10,253** | **9,382** | **655** |
| Fair value adjustment and impairment | **–** | **(5,161)** | **–** |
| Goodwill | **–** | **–** | **50** |
| | **₱10,253** | **₱4,221** | **₱705** |

| | December 31, 2021 (Audited) | | |
|---|---|---|---|
| | *ATEC* | *FPM Power / PacificLight Power* | *RP Energy* |
| | *(Amounts in millions, except % of ownership)* | | |
| Net assets of associates | ₱20,486 | ₱13,487 | ₱1,396 |
| Proportionate ownership in associates (%) | 50 | 58 | 47 |
| | 10,243 | 7,822 | 656 |
| Fair value adjustment and impairment | – | (5,388) | – |
| Goodwill | – | – | 50 |
| | ₱10,243 | ₱2,434 | ₱706 |

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

| | **For the Three Months Ended March 31 (Unaudited)** | |
|---|---|---|
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Share in net income | **₱4** | ₱11 |
| Share in other comprehensive income | **–** | – |
| Share in total comprehensive income | **₱4** | ₱11 |
| Dividends received | **₱–** | ₱– |

*Joint Ventures*

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

| | **March 31, 2022 (Unaudited)** | |
|---|---|---|
| | ***RBC JV*** | ***SBPL*** |
| | *(Amounts in millions)* | |
| Current assets | **₱1,135** | **₱12,533** |
| Noncurrent assets | **2,470** | **45,056** |
| Current liabilities | **(407)** | **(5,864)** |
| Noncurrent liabilities | **(1)** | **(35,352)** |
| Net assets | **₱3,198** | **₱16,373** |

| | December 31, 2021 (Audited) | |
|---|---|---|
| | *RBC JV* | *SBPL* |
| | *(Amounts in millions)* | |
| Current assets | ₱992 | ₱9,371 |
| Noncurrent assets | 2,507 | 46,407 |
| Current liabilities | (475) | (4,497) |
| Noncurrent liabilities | (1) | (35,324) |
| Net assets | ₱3,023 | ₱15,957 |

The foregoing condensed statements of financial position include the following:

| | **March 31, 2022 (Unaudited)** | |
|---|---|---|
| | ***RBC JV*** | ***SBPL*** |
| | *(Amounts in millions)* | |
| Cash and cash equivalents | **₱831** | **₱3,193** |
| Current financial liabilities (excluding trade payables) | **(438)** | **(3,823)** |

| | December 31, 2021 (Audited) | |
|---|---|---|
| | *RBC JV* | *SBPL* |
| | *(Amounts in millions)* | |
| Cash and cash equivalents | ₱667 | ₱2,957 |
| Current financial liabilities (excluding trade payables) | (358) | (3,328) |

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

| | **For the Three Months Ended March 31 (Unaudited)** | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | ***RBC JV*** | ***SBPL*** | *RBC JV* | *SBPL* |
| | *(Amounts in millions)* | | | |
| Revenues | **₱186** | **₱4,615** | ₱202 | ₱3,136 |
| Costs and expenses | **(17)** | **(3,629)** | (94) | (2,084) |
| Other income (expense) - net | **–** | **(573)** | 2 | (634) |
| Benefit from (provision for) income tax - net | **6** | **3** | (34) | 8 |
| Net income | **₱175** | **₱416** | ₱76 | ₱426 |
| Dividends received | **₱–** | **₱–** | ₱23 | ₱– |

The foregoing condensed statements of comprehensive income include the following:

| | For the Three Months Ended March 31 (Unaudited) | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | ***RBC JV*** | ***SBPL*** | *RBC JV* | *SBPL* |
| | *(Amounts in millions)* | | | |
| Depreciation | **₱22** | **₱369** | ₱54 | ₱364 |
| Interest income | **–** | **–** | (1) | (1) |
| Provision for (benefit from) income tax - net | **(6)** | **(3)** | 34 | (8) |

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:

| | March 31, 2022 (Unaudited) | |
|---|---|---|
| | ***RBC JV*** | ***SBPL*** |
| | *(Amounts in millions, except % of ownership)* | |
| Net assets of joint ventures | **₱3,198** | **₱16,373** |
| Proportionate ownership in joint ventures (%) | **30** | **51** |
| | **₱959** | **₱8,350** |

| | December 31, 2021 (Audited) | |
|---|---|---|
| | *RBC JV* | *SBPL* |
| | *(Amounts in millions, except % of ownership)* | |
| Net assets of joint ventures | ₱3,023 | ₱15,957 |
| Proportionate ownership in joint ventures (%) | 30 | 51 |
| | ₱907 | ₱8,138 |

The following is the condensed financial information of joint ventures which are considered immaterial:

| | For the Three Months Ended March 31 (Unaudited) | |
|---|---|---|
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Share in net income (loss) | **(₱6)** | ₱5 |
| Share in other comprehensive income | **9** | – |
| Share in total comprehensive income | **₱3** | ₱5 |
| Dividends received | **₱–** | ₱– |

## 9. Investment Properties

The movements in investment properties are as follows:

| | **March 31, 2022 (Unaudited)** | | |
|---|---|---|---|
| | **Land** | **Buildings and Improvements** | **Total** |
| | | *(Amounts in millions)* | |
| Cost: | **₱1,428** | **₱206** | **₱1,634** |
| Less accumulated depreciation: | | | |
| Balance at beginning of period | **–** | **138** | **138** |
| Depreciation | **–** | **1** | **1** |
| Balance at end of period | **–** | **139** | **139** |
| | **₱1,428** | **₱67** | **₱1,495** |

| | December 31, 2021 (Audited) | | |
|---|---|---|---|
| | Land | Buildings and Improvements | Total |
| | | *(Amounts in millions)* | |
| Cost: | | | |
| Balance at beginning of period | ₱1,427 | ₱206 | ₱1,633 |
| Additions | 1 | – | 1 |
| Balance at end of period | 1,428 | 206 | 1,634 |
| Less accumulated depreciation: | | | |
| Balance at beginning of period | – | 134 | 134 |
| Depreciation | – | 4 | 4 |
| Balance at end of period | – | 138 | 138 |
| | ₱1,428 | ₱68 | ₱1,496 |

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at March 31, 2022 and December 31, 2021 are as follows (amounts in millions):

| | |
|---|---|
| Land | ₱4,653 |
| Buildings and improvements | 126 |

Land pertains primarily to properties where the *Rockwell JV* buildings and "Strip" mall are located. and other non-regulated asset base properties.

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

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱164,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

## 10. Intangible Assets

The movements of intangible assets are as follows:

| | March 31, 2022 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | **Software** | **Franchise** | **Land and Leasehold Rights** | **Customer Contracts** | **Total** |
| | *(Amounts in millions)* | | | | |
| Cost: | | | | | |
| Balance at beginning of period | **₱6,873** | **₱63** | **₱570** | **₱14,202** | **₱21,708** |
| Additions | **131** | **–** | **12** | **–** | **143** |
| Balance at end of period | **7,004** | **63** | **582** | **14,202** | **21,851** |
| Less accumulated amortization: | | | | | |
| Balance at beginning of period | **5,051** | **–** | **377** | **893** | **6,321** |
| Amortization | **128** | **–** | **8** | **291** | **427** |
| Balance at end of period | **5,179** | **–** | **385** | **1,184** | **6,748** |
| | **₱1,825** | **₱63** | **₱197** | **₱13,018** | **₱15,103** |

| | | December 31, 2021 (Audited) | | | | |
|---|---|---|---|---|---|---|
| | *Note* | Software | Franchise | Land and Leasehold Rights | Customer Contracts | Total |
| | | | | *(Amounts in millions)* | | |
| Cost: | | | | | | |
| Balance at beginning of period | | ₱5,969 | ₱49 | ₱932 | ₱– | ₱6,950 |
| Additions | | 865 | – | 75 | – | 940 |
| Effect of consolidation of *GBPC* | *3* | 6 | – | – | 13,827 | 13,833 |
| Disposals/retirements | | (5) | – | (31) | – | (36) |
| Reclassification | *7* | 38 | 14 | (406) | 375 | 21 |
| Balance at end of period | | 6,873 | 63 | 570 | 14,202 | 21,708 |
| Less accumulated amortization: | | | | | | |
| Balance at beginning of period | | 4,343 | – | 374 | – | 4,717 |
| Amortization | | 719 | – | 37 | 893 | 1,649 |
| Disposals/retirements | | (5) | – | (31) | – | (36) |
| Reclassification | | (6) | – | (3) | – | (9) |
| Balance at end of period | | 5,051 | – | 377 | 893 | 6,321 |
| | | ₱1,822 | ₱63 | ₱568 | ₱12,934 | ₱15,387 |

## 11. Financial and Other Noncurrent Assets

This account consists of:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Financial assets: | | | |
| Debt securities at amortized cost | *15 and 27* | **₱25,540** | ₱24,340 |
| Financial assets at *FVOCI* | *27* | **8,475** | 8,467 |
| Restricted cash | *27* | **4,572** | 4,698 |
| Advance payments to a supplier | *27 and 30* | **334** | 523 |
| Nonfinancial assets: | | | |
| Under-recoveries of pass-through charges - net | *2 and 24* | **13,121** | 10,597 |
| Deferred input *VAT* | | **1,112** | 1,585 |
| Rental deposits | | **754** | 643 |
| Finance lease | | **630** | 565 |
| Receivable from the *BIR* | | **181** | 181 |
| Goodwill | | **35** | 35 |
| Others | | **2,326** | 1,491 |
| | | **₱57,080** | ₱53,125 |

*Debt Securities at Amortized Cost*

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

| | **March 31, 2022 (Unaudited)** | | | December 31, 2021 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Current Portion** (see *Note 15*) | **Noncurrent Portion** | **Total** | Current Portion (see *Note 15*) | Noncurrent Portion | Total |
| | | | *(Amounts in millions)* | | | |
| Government securities | **₱9,896** | **₱18,843** | **₱28,739** | ₱11,873 | ₱21,136 | ₱33,009 |
| Private debt securities | **4,898** | **6,697** | **11,595** | 5,248 | 3,204 | 8,452 |
| | **₱14,794** | **₱25,540** | **₱40,334** | ₱17,121 | ₱24,340 | ₱41,461 |

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

*Financial Assets* at *FVOCI*

The details of financial assets at *FVOCI* are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Investments in debt securities: | | |
| Corporate bonds and other investments | **₱6,585** | ₱6,569 |
| Government securities | **3** | 3 |
| Investments in shares of stock and club shares | **1,887** | 1,895 |
| | **₱8,475** | ₱8,467 |

Interest income from debt and equity securities amounted to ₱298 million and ₱321 million for the three months ended March 31, 2022 and 2021, respectively.

The rollforward of unrealized fair value gains on quoted *FVOCI* financial assets, net of tax, included in the consolidated statements of financial position follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | | *(Amounts in millions)* |
| Balance at beginning of period | **₱502** | ₱324 |
| Unrealized fair value gains (losses) on fair value changes on: | | |
| Debt securities | **(43)** | 139 |
| Equity securities | **17** | 39 |
| Balance at end of period | **₱476** | ₱502 |

*Net Under-Recoveries of Pass-through Charges*

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DU*s determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*. The amount of net under-recoveries of pass-through charges that will be collected within 12 months amounted to ₱1,414 million and ₱1,453 million as at March 31, 2022 and December 31, 2021, respectively. This is shown as part of "Trade and other receivables" account in the consolidated statement of financial position.

See *Note 13 - Trade and Other Receivables*.

*Deferred Input VAT*

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 ("*EVAT Law*"), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. Under the Tax Reform for Acceleration and Inclusion ("*TRAIN*") Law that was signed by President Duterte on December 19, 2017, input *VAT* on capital goods purchased after December 31, 2021 shall be fully recognized outright and may be claimed as input tax credits against output tax. The deferred input *VAT* as of December 31, 2021 will continue to be amortized.

Allowance for *ECL* on net under-recoveries of pass-through charges amounted to ₱3,078 million as at March 31, 2022 and December 31, 2021.

*Finance lease*

*Spectrum* entered into bilateral *PSA*s to lease out solar power generation systems to its customers under a finance lease arrangement for a period of 25 years.

*Spectrum* recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease arrangements is recognized under "Other income (expense)" account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

## 12. Cash and Cash Equivalents

This account consists of:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Cash on hand and in banks | **₱18,561** | ₱20,888 |
| Cash equivalents | **39,473** | 34,119 |
| | **₱58,034** | ₱55,007 |

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up of to three (3) months depending on *MERALCO Group*'s immediate cash requirements and earn interest at the prevailing short-term investment rates.

Interest income on cash in banks and cash equivalents amounted to ₱105 million and ₱109 million for the three months ended March 31, 2022 and 2021, respectively.

## 13. Trade and Other Receivables

This account consists of:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Trade: | | | |
| Electricity distributed | *23 and 27* | **₱33,816** | ₱35,264 |
| Energy generated | *27* | **5,961** | 5,087 |
| Service contracts | | **2,998** | 3,814 |
| Unbilled receivables | *24* | **2,662** | 2,647 |
| Nontrade | *23 and 27* | **9,793** | 4,125 |
| | | **55,230** | 50,937 |
| Less allowance for expected credit losses | | **5,988** | 5,924 |
| | | **₱49,242** | ₱45,013 |

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

| | **March 31, 2022 (Unaudited)** | | | |
|---|---|---|---|---|
| | **Balance at Beginning of Period** | **Provisions** | **Write-offs** | **Balance at End of Period** |
| | | *(Amounts in millions)* | | |
| Trade: | | | | |
| Electricity distributed | **₱3,751** | **₱–** | **₱–** | **₱3,751** |
| Energy generated | **1,120** | **–** | **(13)** | **1,107** |
| Other trade receivables | **785** | **–** | **(110)** | **675** |
| Nontrade receivables | **268** | **187** | **–** | **455** |
| | **₱5,924** | **₱187** | **(₱123)** | **₱5,988** |

| | December 31, 2021 (Audited) | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Period | Provisions | Write-offs | Effect of Consolidation of *GBPC* | Balance at End of Period |
| | *(Amounts in millions)* | | | | |
| Trade: | | | | | |
| Electricity distributed | ₱3,492 | ₱259 | ₱– | ₱– | ₱3,751 |
| Energy generated | – | 52 | (34) | 1,102 | 1,120 |
| Other trade receivables | 783 | 2 | – | – | 785 |
| Nontrade receivables | 30 | 238 | – | – | 268 |
| | ₱4,305 | ₱551 | (₱34) | ₱1,102 | ₱5,924 |

| | **March 31, 2022 (Unaudited)** | | | | | December 31, 2021 (Audited) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Trade – Electricity Distributed** | **Trade – Energy Generated** | **Other Trade Receivables** | **Nontrade Receivables** | **Total** | Trade – Electricity Distributed | Trade – Energy Generated | Other Trade Receivables | Nontrade Receivables | Total |
| | *(Amounts in millions)* | | | | | | | | | |
| Individually impaired | **₱1,511** | **₱–** | **₱675** | **₱455** | **₱2,641** | ₱1,086 | ₱– | ₱785 | ₱268 | ₱2,139 |
| Collectively impaired | **2,240** | **1,107** | **–** | **–** | **3,347** | 2,665 | 1,120 | – | – | 3,785 |
| | **₱3,751** | **₱1,107** | **₱675** | **₱455** | **₱5,988** | ₱3,751 | ₱1,120 | ₱785 | ₱268 | ₱5,924 |

*Trade Receivables – Electricity Distributed*

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 59%, 9% and 4%, respectively, of the total billed amount in 2022 and 58%, 9% and 4%, respectively, of the total billed amount in 2021. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 27 – Financial Assets and Financial Liabilities.*

*Trade Receivables – Energy Generated*

Trade receivables – Energy generated represent non-interest-bearing outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the *WESM* by power generation subsidiaries. Normal credit term is 15 to 30 days from the date of receipt of billing.

*Trade Receivables – Service Contracts*

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Finserve*, *Comstech*, *eSakay* and *Spectrum* for construction, engineering, consulting and related manpower, light rail maintenance, telecommunications and data transport, e-transactions and bills collection, tellering and e-business development, energy systems management and harnessing renewable energy to third parties.

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

See *Note 11 – Financial and Other Noncurrent Assets*.

## 14. Inventories

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Materials and supplies: | | |
| At cost | **₱10,246** | ₱10,057 |
| At net realizable value ("*NRV*") | **10,006** | 9,817 |
| Materials and supplies at *NRV* | **₱10,006** | ₱9,817 |

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱206 million as at March 31, 2022 and December 31, 2021. No item of inventory has been written off for the three months ended March 31, 2022 and 2021.

See *Note 25 – Expenses and Income.*

## 15. Financial and Other Current Assets

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Financial assets: | | | |
| Debt securities at amortized cost | *11 and 27* | **₱14,794** | ₱17,121 |
| Short-term investments | | **1,180** | 444 |
| Current portion of advance payments to a supplier | *27* | **184** | 182 |
| Nonfinancial assets: | | | |
| Prepayments | | **6,699** | 4,101 |
| Input *VAT* | | **3,213** | 2,570 |
| Prepaid tax | | **1,581** | 1,511 |
| Others | | **1,066** | 1,253 |
| | | **₱28,717** | ₱27,182 |

Short-term investments are temporary cash placements for varying periods beyond three (3) months but not exceeding 12 months and earn interest at the prevailing short-term placement investment rates.

16. **Equity**

*Common Stock*

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(In millions, except par value)* | |
| Authorized number of shares- ₱10 par value per share | **1,250** | 1,250 |
| Issued and outstanding - number of shares | **1,127** | 1,127 |

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 41,607 and 41,689 shareholders of *MERALCO*'s common shares as at March 31, 2022 and December 31, 2021, respectively.

*Unappropriated Retained Earnings*

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant, generation plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱59,637 million and ₱57,591 million as at March 31, 2022 and December 31, 2021, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting.

The following are the cash dividends declared on common shares for the three months ended March 31, 2022 and 2021:

| Declaration Date | Record Date | Payment Date | Dividend Per Share | Amount |
|---|---|---|---|---|
| | | | | *(In millions)* |
| February 28, 2022 | March 30, 2022 | April 26, 2022 | ₱10.23 | ₱11,526 |
| March 1, 2021 | March 30, 2021 | April 26, 2021 | 7.82 | 8,818 |

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the period, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

*Treasury Shares*

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

17. **Interest-bearing Long-term Financial Liabilities**

This account consists of the following:

| | Note | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Long-term portion of interest-bearing financial liabilities - long-term debt | | **₱52,102** | ₱52,720 |
| Current portion of interest-bearing financial liabilities: | | | |
| Long-term debt | | **3,406** | 7,644 |
| Redeemable preferred stock | | **1,469** | 1,470 |
| | | **4,875** | 9,114 |
| | | **₱56,977** | ₱61,834 |

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to ₱249 million as at March 31, 2022 and December 31, 2021. Interest is no longer accrued from the time such preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

| | Note | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| *MERALCO* | | | |
| 12-year Puttable Bonds | | **₱7,000** | ₱7,000 |
| ₱7.2 Billion Note | | **4,680** | 4,680 |
| *MGen Group* | | | |
| ₱18.0 Billion Term Loan | | **17,910** | 17,910 |
| ₱11.0 Billion Term Loan | | **7,376** | 7,829 |
| ₱16.0 Billion Term Loan | | **5,510** | 5,510 |
| ₱4.5 Billion Term Loan | | **4,080** | 4,150 |
| ₱7.0 Billion Term Loan | | **3,733** | 3,869 |
| ₱3.0 Billion Term Loan | | **2,999** | 2,841 |
| ₱1.5 Billion Term Loan | | **614** | 614 |
| ₱14.0 Billion Term Loan | | **–** | 4,200 |
| *MServe* | | | |
| ₱600 Million Term Loan | | **450** | 480 |
| ₱350 Million Note | | **105** | 140 |
| *MIESCOR* | | | |
| ₱375 Million Term Loan | | **348** | 383 |
| *eSakay* | | | |
| ₱27 Million Term Loan | | **22** | 23 |
| Total long-term debt | | **54,827** | 59,629 |
| Less unamortized debt issuance costs | | **339** | 357 |
| | | **54,488** | 59,272 |
| *Redeemable Preferred Stock* | | **1,469** | 1,470 |
| Fair value adjustment in relation to the purchase of *GBPC* | *3* | **1,020** | 1,092 |
| | | **56,977** | 61,834 |
| Less current portion | | **4,875** | 9,114 |
| Long-term portion of interest-bearing financial liabilities | | **₱52,102** | ₱52,720 |

All of the interest-bearing long-term financial liabilities as at March 31, 2022 and December 31, 2021 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at March 31, 2022 are as follows:

| | Amount |
|---|---|
| | *(In millions)* |
| Less than one (1) year | ₱3,360 |
| One (1) year up to two (2) years | 7,536 |
| More than two (2) years up to three (3) years | 3,577 |
| More than three (3) years up to four (4) years | 12,202 |
| More than four (4) years up to five (5) years | 6,075 |
| More than five (5) years | 22,077 |
| | ₱54,827 |

*MERALCO*

*12-year Puttable Bonds*

The ₱7,000 million 12-year Puttable Bond is the balance of the total ₱18,000 million Puttable Bonds issued in December 2013. This also includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

*₱7.2 Billion Note*

In February 2014, *MERALCO* entered into a ₱7,200 million, 10-year Fixed Rate Note Facility due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

*MGen Group*

*₱18 Billion Term Loan*

On May 31, 2021, *GBPC* obtained a ₱18,000 million, 15-year term loan with interest repricing on the 5th year and the principal amount is payable semi- annually until May 2036.

*₱11.0 Billion Term Loan*

On March 26, 2015, *PEDC* entered into an Amended and Restated Omnibus Agreement ("*AROA*") with various lenders for an additional aggregate principal amount of up to ₱11,000 million (the Phase II Facility) to partially finance its 1 x 150 *MW* expansion project. The *AROA* includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility and its related interest are payable semi-annually within 12 years from initial advance with a balloon payment upon final maturity.

*₱16.0 Billion Term Loan*

On June 18, 2009, *CEDC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16,000 million to partially finance the construction of the power plant. The Omnibus Agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. The principal amount and its

related interest are payable semi-annually within 10 years from June 30, 2011, with a balloon payment upon final maturity.

On June 30, 2021, *CEDC* entered into a loan restructuring agreement with a local bank for a principal amount of ₱5,800 million which was used for the final payment of the ₱16,000 million term loan facility. The principal amount is payable over 10 years until June 2031.

*₱14.0 Billion Term Loan*

On February 26, 2010, *PEDC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14,000 million (the Phase I Facility) to partially finance the on-going construction of its power plant. The Omnibus agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The principal amount and related interest are payable semi-annually within 12 years from initial advance, with a balloon payment upon final maturity. As at March 31, 2022, the loan was fully paid.

*₱4.5 Billion Term Loan*

On October 5, 2017, *GBPC* entered into a bilateral term loan with various banks in the aggregate principal amount of ₱4,500 million to finance its acquisition of a 50% less one share in *ATEC*. The loan is a fixed rate facility with a 12-year term and quarterly principal repayment commencing three (3) years from the drawdown date.

*₱7.0 Billion Term Loan*

On March 7, 2013, *TPC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱7,000 million to partially finance the construction of its expansion project. The Omnibus Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, and an Assignment Agreement. The principal amount and related interest are payable within 12 years from initial advance, with a balloon payment upon final maturity.

*₱3.0 Billion Term Loan*

*First Bulacan* obtained a total of ₱2,999 million, 30-year term loan with interest repricing on the 21st year and the principal amount payable until November 2034.

*₱1.5 Billion Term Loan*

In March 2016, *CEDC* entered into term loan agreements with various lenders for a total credit facility of ₱1,500 million for *CEDC's* general financing and corporate requirements. The principal and related interest are payable semi-annually until December 2025.

*MServ*

*₱600 Million Term Loan*

*MServ* obtained a ₱600 million, 10-year fixed rate term loan. The principal amount is payable annually until January 2027 and the related interest is payable semi-annually.

*₱350 Million Note*

In July 2018, *MServ* obtained a ₱350 million fixed rate note facility agreement with principal amount payable semi-annually until July 2023.

*MIESCOR*

*₱375 Million Term Loan*

On June 17, 2021, *MIESCOR* obtained a ₱375 million, fixed rate term loan, with principal amount payable semi-annually until June 2028.

*eSakay*

*₱27 Million Term Loan Facility*

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

The annual interest rates for the interest-bearing financial liabilities range from 4.50% to 10.81% as at March 31, 2022 and December 31, 2021, respectively.

*Debt Covenants*

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

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

*GBPC* is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at March 31, 2022 and December 31, 2021, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱700 million, and ₱84 million for the three months ended March 31, 2022 and 2021, respectively.

*Unamortized Debt Issuance Costs*

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

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Balance at beginning of period | | **₱357** | ₱78 |
| Additions | | **–** | 205 |
| Effect of consolidation of *GBPC* | *3* | **–** | 125 |
| Amortization charged to interest and other financial charges | *24* | **(18)** | (51) |
| Balance at end of period | | **₱339** | ₱357 |

*Redeemable Preferred Stock*

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

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| Balance at beginning of period | **147,015,281** | **147,158,808** |
| Redemptions | **(74,645)** | **(143,527)** |
| Balance at end of period | **146,940,636** | **147,015,281** |

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

## 18. Customers' Deposits

This account consists of:

| | **March 31, 2022 (Unaudited)** | | | December 31, 2021 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Current Portion** (see *Note 22*) | **Noncurrent Portion** | **Total** | Current Portion (see *Note 22*) | Noncurrent Portion | Total |
| | | | *(Amounts in millions)* | | | |
| Bill deposits | **₱2,606** | **₱30,982** | **₱33,588** | ₱2,460 | ₱30,901 | ₱33,361 |
| Meter deposits | **315** | **–** | **315** | 315 | – | 315 |
| | **₱2,921** | **₱30,982** | **₱33,903** | ₱2,775 | ₱30,901 | ₱33,676 |

*Bill Deposits*

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the *DU* are required to pay a deposit, equivalent to the estimated monthly bill calculated based on applied load. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

Under the amended *DSOAR*, which became effective on April 1, 2010, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation of the *ERC.*

As provided for under *ERC* Resolution No. 1, Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the bill deposits provisions in the Magna Carta be declared as illegal and void and that *MERALCO* and other *DU*s be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO*.

*MERALCO* filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG*.

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by the *OSG* and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC, MERALCO*, and *COA* dated November 10, 2020.

The following are the movements of the bill deposits account:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Balance at beginning of period | | **₱33,361** | ₱32,105 |
| Additions | | **687** | 3,002 |
| Refunds | | **(460)** | (1,746) |
| Balance at end of period | | **33,588** | 33,361 |
| Less portion maturing within one year | *22* | **2,606** | 2,460 |
| Noncurrent portion of bill deposits and related interests | | **₱30,982** | ₱30,901 |

Interest expense on bill deposits amounted to ₱5 million for the three months ended March 31, 2022 and 2021.

*Meter Deposits*

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

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

*MERALCO* implemented refund of said deposits to its customers based on the *ERC* Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008. 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.

Further, in July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. In May 2017, *MERALCO* submitted the required Audit Report to the *ERC* in compliance with the *ERC*'s directive to all *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," and *ERC* Resolution No. 03, Series of 2017 which provided the extended deadline for *DU*s submission of the Audit Report on *MDR*.

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at April 25, 2022, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposits.

19. **Provisions**

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

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Balance at beginning of period | | **₱37,036** | ₱38,992 |
| Provisions for the period - net | | **2,268** | 4,432 |
| Settlements | | **(2,295)** | (6,388) |
| Balance at end of period | | **37,009** | 37,036 |
| Less current portion | *22* | **22,936** | 23,482 |
| Noncurrent portion of provisions | | **₱14,073** | ₱13,554 |

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. **Customers' Refund**

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC's* approval to continue refunding to eligible accounts or customers under Phases I to IV, for three (3) years from January 1, 2016 or until December 31, 2018. In an Order dated December 19, 2018, the *ERC* authorized *MERALCO* to continue the implementation of the refund to eligible customers until June 30, 2019. The *ERC* also required *MERALCO* to submit information and documents related to the customers' refund, including a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate interest-bearing account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of such fact. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated

December 19, 2018 of the *ERC*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. As at April 25, 2022, *MERALCO* continues to process the refund claims of eligible customers.

In 2021, the *ERC* through its appointed consultant conducted an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. As at April 25, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

See *Note 2 – Rate Regulations*.

## 21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 4.00% and 5.40% as at March 31, 2022 and December 31, 2021, respectively.

Interest expense on notes payable amounted to ₱287 million and ₱360 million for the three months ended March 31, 2022 and 2021, respectively.

## 22. Trade Payables and Other Current Liabilities

This account consists of the following:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Trade accounts payable | *23 and 24* | **₱61,546** | ₱54,489 |
| Provisions | *2, 19 and 29* | **22,936** | 23,482 |
| Taxes | | **14,919** | 15,071 |
| Accrued expenses: | | | |
| Employee benefits | | **1,366** | 2,095 |
| Interest | *17* | **290** | 264 |
| Others | | **5,233** | 4,840 |
| Current portions of: | | | |
| Bill deposits and related interests | *18* | **2,606** | 2,460 |
| Deferred income | | **3,453** | 961 |
| Meter deposits and related interests | *18* | **315** | 315 |
| Refundable service extension costs | | **1,660** | 1,660 |
| Dividends payable on: | | | |
| Common stock | *16* | **13,676** | 2,021 |
| Redeemable preferred stock | *17* | **249** | 249 |
| Payable to customers | | **7,193** | 6,731 |
| Universal charges payable | *32* | **2,315** | 2,373 |
| *FiT-All* payable | *32* | **933** | 957 |
| Regulatory fees payable | | **295** | 263 |
| Other current liabilities | | **3,536** | 825 |
| | | **₱142,521** | ₱119,056 |

*Trade Accounts Payable*

Trade accounts payable mainly represent obligations to power generating companies, *NGCP* and *IEMOP* for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, coal, materials and supplies, and contracted services, among others.

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

See *Note 23 – Related Party Transactions, Note 24 – Revenue and Purchased Power* and *Note 30 – Significant Contracts and Commitments.*

*Refundable Service Extension Costs*

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities", requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at March 31, 2022 and December 31, 2021, the noncurrent portion of refundable service extension costs of ₱5,285 million and ₱5,334 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the consolidated statements of financial position.

*Universal Charges Payable*

Universal charges are amounts passed on and collected from customers on a monthly basis by *DU*s. These are charges imposed to recover 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 credited to customers's bills or paid by customers in advance and which are being applied to their current consumption.

*Taxes*

Taxes represent pass-through *VAT*, output *VAT*, withholding taxes and energy taxes payable. Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

## 23. Related Party Transactions

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

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant period. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

*Pole Attachment Contract with PLDT, Inc.* ("*PLDT*")

*MERALCO* has a pole attachment contract with *PLDT* similar to pole attachment contracts of *MERALCO* with third parties/ telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable positions exclusively for its telecommunication cable network facilities.

*Sale of Electricity under Various Service Contracts*

*MERALCO* sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups with operations within the franchise area, namely, *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries and affiliates. The rates charged to related parties are the same *ERC*-mandated rates applicable to all customers within the franchise area. Also, rate charges of *RES* for generation charge uses the same rate model for other customers.

*Purchase of Telecommunication Services from PLDT and Subsidiaries*

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its fixed and wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

*Purchase of Goods and Services*

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

*PSA with SBPL*

As discussed in Note 30, *MERALCO* has along-term *PSA* with *SBPL*.

Following is a summary of related party transactions for the three months ended March 31, 2022 and 2021 and the outstanding balances as at March 31, 2022 and December 31, 2021:

| | Amount of Transactions | | Outstanding Receivable (Liability) | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31 | | | | | |
| Category | **2021** | 2021 | **March 31, 2022** | December 31, 2021 | Terms | Conditions |
| | *(Amounts in millions)* | | | | | |
| Sale of electricity: | | | | | | |
| *JG Summit Group* | **₱793** | ₱607 | **₱391** | ₱387 | 10-day; noninterest-bearing | Unsecured, no impairment |
| *PLDT Group* | **375** | 273 | **101** | 85 | 10-day; noninterest-bearing | Unsecured, no impairment |
| *Metro Pacific Group* | **126** | 96 | **37** | 158 | 10-day; noninterest-bearing | Unsecured, no impairment |
| Purchases of IT services - *Indra Philippines* | **196** | 196 | **(176)** | (362) | 30-day; noninterest-bearing | Unsecured |
| Purchases of meters and devices – *Aclara Meters* | **29** | 45 | **(15)** | (23) | 30-day; noninterest-bearing | Unsecured |
| Purchases of medical services - *Colinas Verdes Hospital Managers* | **58** | 34 | **(4)** | – | 30-day; noninterest-bearing | Unsecured |
| Revenue from pole attachment - *PLDT* | **171** | 134 | **767** | 73 | Advance payment | Unsecured, no impairment |
| Purchases of wireline and wireless services - *PLDT Group* | **25** | 23 | **(4)** | (11) | 30-day; noninterest-bearing | Unsecured |
| Donations to One Meralco Foundation | **69** | 62 | **–** | – | None | None |
| Purchases of power: | | | | | | |
| *SBPL* | **4,260** | 3,105 | **(1,951)** | (746) | 30-day; noninterest-bearing | Unsecured |

*Advances to FPM Power*

*FPM Power* has a non-interest-bearing loan from *MPG Asia* amounting to US$110 million (₱5,776 million) as at March 31, 2022 and December 31, 2021 which is due and demandable. The allowance for impairment loss related to this non-interest-bearing loan amounted to ₱5,776 million. The loan remains outstanding as at March 31, 2022 and December 31, 2021.

See *Note 15 – Financial and other Current Assets and Note 8 – Investments in Associates and Interests in Joint Ventures.*

*Transaction with MERALCO Retirement Benefits Fund* ("*Retirement Fund*")

*MERALCO's* Retirement *Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy.* The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market. As at March 31, 2022 and December 31, 2021, the fair value of the total assets being managed by the *Fund* amounted to ₱34.4 billion and ₱34.6 billion, respectively.

See *Note 25 – Long-Term Employee Benefits.*

*Compensation of Key Management Personnel*

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

| | **Unaudited** | |
|---|---|---|
| | **For the Three Months Ended March 31** | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Short-term employee benefits | **₱252** | ₱217 |
| Long-term employee incentives and retirement benefits | **70** | 70 |
| Total compensation to key management personnel | **₱322** | ₱287 |

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

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

As at March 31, 2022, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

## 24. Revenues and Purchased Power

*Revenues*

The *MERALCO Group* disaggregates its revenue information in the same manner as it reports its segment information.

See *Note 6 – Segment Information.*

*Contract Assets and Contract Liabilities*

The *MERALCO Group*'s contract balances are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Contract assets: | | |
| Unbilled receivables | **₱2,662** | ₱2,647 |
| Under-recoveries of pass-through charges - net | **13,121** | 10,597 |
| Contract liabilities: | | |
| Nonrefundable liability related to asset funded by customers | **869** | 866 |
| Over-recoveries from transmission, lifeline subsidy and *SL* charges | **477** | 597 |

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱29 million and ₱24 million for the three months ended March 31, 2022 and 2021, respectively.

*Purchased Power*

The details of purchased power are as follows:

| | **Unaudited** | |
|---|---|---|
| | **For the Three Months Ended March 31** | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Generation costs | **₱51,958** | ₱39,220 |
| Transmission costs | **9,699** | 8,262 |
| | **₱61,657** | ₱47,482 |

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

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

The details of purchased power follow:

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| *FGPC* and FGP Corp. ("*FGP*") | **₱14,498** | ₱9,880 |
| *NGCP* | **9,699** | 8,273 |
| *IEMOP* | **7,454** | 3,911 |
| South Premiere Power Corporation ("*SPPC*") | **6,664** | 5,616 |
| *SBPL* | **4,260** | 3,105 |
| *QPPL* | **3,873** | 3,517 |
| San Miguel Energy Corporation ("*SMEC*") | **3,756** | 3,686 |
| Masinloc Power Partners Co. Ltd. ("*MPPCL*") | **2,753** | 1,948 |
| AC Energy Philippines, Inc. ("*AC Energy*") | **2,455** | 1,818 |
| First NatGas Power Corp. ("*FNPC*") | **2,252** | 2,072 |
| Therma Luzon, Inc. ("*TLI*") | **688** | 399 |
| Southwest Luzon Power Generation Corporation | **659** | – |
| First Gen Hydro Power Corporation ("*FGHPC*") | **584** | 641 |
| Sem-Calaca Power Corporation ("*Sem-Calaca*") | **159** | 626 |
| Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*") | **85** | 107 |
| *PEDC* | **22** | 372 |
| Others | **1,796** | 1,511 |
| | **₱61,657** | ₱47,482 |

Generation and transmission costs are net of company use amounting to ₱90 million and ₱80 million for the three months ended March 31, 2022 and 2021, respectively.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at March 31, 2022 and December 31, 2021, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱412 million and ₱532 million, respectively.

25. **Expenses and Income**

*Salaries, Wages and Employee Benefits*

| | *Note* | **Unaudited** | |
|---|---|---|---|
| | | **For the Three Months Ended March 31** | |
| | | **2022** | 2021 |
| | | *(Amounts in millions)* | |
| Salaries, wages and related employee benefits | | **₱3,558** | ₱3,095 |
| Retirement benefits | *26* | **380** | 484 |
| Other post-employment benefits | *26* | **39** | 26 |
| | | **₱3,977** | ₱3,605 |

*Depreciation and Amortization*

| | *Note* | **Unaudited** | |
|---|---|---|---|
| | | **For the Three Months Ended March 31** | |
| | | **2022** | 2021 |
| | | *(Amounts in millions)* | |
| Utility plant and others | *7* | **₱2,851** | ₱1,882 |
| Intangible assets | *10* | **427** | 167 |
| Investment properties | *9* | **1** | 1 |
| | | **₱3,279** | ₱2,050 |

*Other Expenses*

| | | **Unaudited** | |
|---|---|---|---|
| | | **For the Three Months Ended March 31** | |
| | *Note* | **2022** | 2021 |
| | | *(Amounts in millions)* | |
| Materials used | *14* | **₱694** | ₱574 |
| Rent and utilities | | **281** | 211 |
| Insurance | | **129** | 114 |
| Transportation and travel | | **83** | 67 |
| Advertising | | **48** | 59 |
| Communication | *22* | **38** | 32 |
| Others | | **290** | 192 |
| | | **₱1,563** | ₱1,249 |

## 26. Long-term Employee Benefits

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

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Retirement benefits liability | **₱5,951** | ₱5,625 |
| Other post-employment benefits | **2,130** | 2,091 |
| Long-term incentives | **2,845** | 2,541 |
| | **₱10,926** | ₱10,257 |

*Defined Benefit Retirement Plans*

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

*Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)*

| | **Unaudited** | |
|---|---|---|
| | **For the Three Months Ended March 31** | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Current service costs | **₱297** | ₱356 |
| Net interest costs | **67** | 115 |
| Net retirement benefits expense | **₱364** | ₱471 |

*Retirement Benefits Liability*

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Defined benefit obligation | **₱40,355** | ₱40,192 |
| Fair value of plan assets | **(34,404)** | (34,567) |
| Net retirement benefits liability | **₱5,951** | ₱5,625 |

Changes in the net retirement benefits liability are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | | *(Amounts in millions)* |
| Retirement benefits liability at beginning of period | **₱5,625** | ₱12,013 |
| Net retirement benefits expense | **364** | 2,088 |
| Amounts recognized in *OCI* | **40** | (8,766) |
| Effect of consolidation of *GBPC* | **–** | 1,055 |
| Contributions by employer | **(78)** | (765) |
| Net retirement benefits liability at end of period | **₱5,951** | ₱5,625 |

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

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | | *(Amounts in millions)* |
| Defined benefit obligation at beginning of period | **₱40,192** | ₱45,918 |
| Interest costs | **478** | 1,735 |
| Current service costs | **297** | 1,579 |
| Benefits paid | **(652)** | (2,603) |
| Effect of consolidation of *GBPC* | **–** | 1,595 |
| Actuarial losses (gains) due to: | | |
| Changes in financial assumptions | **40** | (8,451) |
| Experience adjustments | **–** | 419 |
| Defined benefit obligation at end of period | **₱40,355** | ₱40,192 |

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

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | | *(Amounts in millions)* |
| Fair value of plan assets at beginning of period | **₱34,567** | ₱33,905 |
| Interest income | **411** | 1,226 |
| Contributions by employer | **78** | 765 |
| Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income | **–** | 734 |
| Effect of consolidation of *GBPC* | **–** | 540 |
| Benefits paid | **(652)** | (2,603) |
| Fair value of plan assets at end of period | **₱34,404** | ₱34,567 |

The Board of Trustees ("*BoT*") of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and

(iv) a member of the *BOD* who represents the largest shareholder group, none of whom are beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach of investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | | *(Amount in millions)* |
| Investments quoted in active markets: | | |
| Quoted equity investments: | | |
| Holding firms | **₱2,667** | ₱2,912 |
| Banks | **891** | 954 |
| Property | **831** | 894 |
| Telecommunication | **568** | 601 |
| Food, beverages and tobacco | **470** | 572 |
| Electricity, energy, power and water | **445** | 446 |
| Transportation services | **263** | 284 |
| Retail | **247** | 199 |
| Construction, infrastructure and allied services | **8** | 9 |
| Others | **2,769** | 2,233 |
| Quoted debt investments: | | |
| "AAA" rated securities | **10,824** | 9,886 |
| Government securities | **9,325** | 9,780 |
| Cash and cash equivalents | **1,392** | 2,183 |
| Receivables | **1,850** | 1,760 |
| Real property | **1,853** | 1,853 |
| Others | **1** | 1 |
| Fair value of plan assets | **₱34,404** | ₱34,567 |

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

*Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)*

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Interest costs | **₱26** | ₱19 |
| Current service costs | **13** | 7 |
| | **₱39** | ₱26 |

*Other Long-term Post-employment Benefits Liability*

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

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Balance at beginning of period | **₱2,091** | ₱2,007 |
| Interest costs | **26** | 74 |
| Current service costs | **13** | 27 |
| Benefits paid | **–** | (112) |
| Actuarial losses due to change in assumptions | **–** | 95 |
| Balance at end of period | **₱2,130** | ₱2,091 |

*Actuarial Assumptions*

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

| | |
|---|---|
| Annual discount rate | **4.96%** |
| Future range of annual salary increases | **4.00%-11.00%** |

*Funding*

*MERALCO* contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

| | |
|---|---|
| Less than one (1) year | ₱3,965 |
| One (1) year up to five (5) years | 16,281 |
| More than five (5) years up to 10 years | 18,802 |
| More than 10 years up to 15 years | 12,208 |
| More than 15 years up to 20 years | 14,527 |
| More than 20 years | 35,667 |

*Risk*

The *Retirement Fund* is exposed to the following risks:

*Credit Risk*
The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.

*Share Price Risk*
The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The price share risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

*Liquidity Risk*
Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

*Defined Contribution Provident Plan*

*MERALCO* has a defined contributory Provident Plan effective January 1, 2009, intended to be a supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the

option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱16 million and ₱13 million for the three months ended March 31, 2022 and 2021, respectively.

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

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Expense recognized for defined benefit plans | **₱364** | ₱471 |
| Expense recognized for defined contribution plan | **16** | 13 |
| Retirement benefits expense | **₱380** | ₱484 |

*Long-term Incentive Plan* ("*LTIP*")

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

## 27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at *amortized cost*. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

| | Financial Assets at Amortized Cost | *FVOCI* Financial Assets | Liabilities Carried at Amortized Cost | Total Financial Assets and Liabilities |
|---|---|---|---|---|
| | | *(Amounts in millions)* | | |
| **Assets as at March 31, 2022** | | | | |
| ***Noncurrent*** | | | | |
| Financial and other noncurrent assets | **₱30,446** | **₱8,475** | **₱–** | **₱38,921** |
| ***Current*** | | | | |
| Cash and cash equivalents | **58,034** | **–** | **–** | **58,034** |
| Trade and other receivables | **46,600** | **–** | **–** | **46,600** |
| Financial and other current assets | **16,158** | **–** | **–** | **16,158** |
| Total Financial Assets | **₱151,238** | **₱8,475** | **₱–** | **₱159,713** |
| **Liabilities as at March 31, 2022** | | | | |
| ***Noncurrent*** | | | | |
| Interest-bearing long-term financial liabilities - net of current portion | **₱–** | **₱–** | **₱52,102** | **₱52,102** |
| Customers' deposits - net of current portion | **–** | **–** | **30,982** | **30,982** |
| Refundable service extension costs - net of current portion | **–** | **–** | **5,285** | **5,285** |
| ***Current*** | | | | |
| Notes payable | **–** | **–** | **29,071** | **29,071** |
| Trade payables and other current liabilities | **–** | **–** | **90,970** | **90,970** |
| Customers' refund | **–** | **–** | **2,926** | **2,926** |
| Current portion of interest-bearing long-term financial liabilities | **–** | **–** | **4,875** | **4,875** |
| Total Financial Liabilities | **₱–** | **₱–** | **₱216,211** | **₱216,211** |

| | Financial Assets at Amortized Cost | *FVOCI* Financial Assets | Liabilities Carried at Amortized Cost | Total Financial Assets and Liabilities |
|---|---|---|---|---|
| | | *(Amounts in millions)* | | |
| Assets as at December 31, 2021 | | | | |
| *Noncurrent* | | | | |
| Financial and other noncurrent assets | ₱29,561 | ₱8,467 | ₱– | ₱38,028 |
| *Current* | | | | |
| Cash and cash equivalents | 55,007 | – | – | 55,007 |
| Trade and other receivables | 42,386 | – | – | 42,386 |
| Financial and other current assets | 17,747 | – | – | 17,747 |
| Total Financial Assets | ₱144,701 | ₱8,467 | ₱– | ₱153,168 |
| Liabilities as at December 31, 2021 | | | | |
| *Noncurrent* | | | | |
| Interest-bearing long-term financial liabilities - net of current portion | ₱– | ₱– | ₱52,720 | ₱52,720 |
| Customers' deposits - net of current portion | – | – | 30,901 | 30,901 |
| Refundable service extension costs - net of current portion | – | – | 5,334 | 5,334 |
| *Current* | | | | |
| Notes payable | – | – | 28,834 | 28,834 |
| Trade payables and other current liabilities | – | – | 71,602 | 71,602 |
| Customers' refund | – | – | 2,929 | 2,929 |
| Current portion of interest-bearing long-term financial liabilities | – | – | 9,114 | 9,114 |
| Total Financial Liabilities | ₱– | ₱– | ₱201,434 | ₱201,434 |

*Fair Values*

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group*'s financial instruments:

| | **March 31, 2022 (Unaudited)** | | December 31, 2021 (Audited) | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| | | *(Amounts in millions)* | | |
| **Financial assets** | | | | |
| Debt securities at amortized cost | **₱40,334** | **₱42,432** | ₱41,461 | ₱42,856 |
| Financial assets at *FVOCI* | **8,475** | **8,475** | 8,467 | 8,467 |
| Financial assets at amortized cost - | | | | |
| Restricted cash | **4,572** | **4,572** | 4,698 | 4,698 |
| Advance payments to a supplier | **518** | **557** | 705 | 768 |
| | **₱53,899** | **₱56,036** | ₱55,331 | ₱56,789 |
| **Financial liabilities** | | | | |
| Financial liabilities carried at amortized cost - Interest-bearing-long-term financial liabilities | **₱55,508** | **₱56,181** | ₱60,364 | ₱61,135 |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

*Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Trade Payables and Other Current Liabilities and Notes Payable*

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

*Advance Payments to a Supplier*

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 5.17% and 4.31% as at March 31, 2022 and December 31, 2021, respectively.

*Financial Assets at FVOCI*

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

*Debt Securities at Amortized Cost*

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

*Meter Deposits and Customers' Refund*

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

*Bill Deposits*

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

*Interest-bearing Long-term Financial Liabilities*

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 1.43% to 4.55% and 0.82% to 4.33%as at March 31, 2022 and December 31, 2021, respectively.

*Redeemable Preferred Stock*

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

*Refundable Service Extension Costs*

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

*Fair Value Hierarchy*

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

| | **March 31, 2022 (Unaudited)** | | | | December 31, 2021(Audited) | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | | | | *(Amounts in millions)* | | | | |
| **Financial assets** | | | | | | | | |
| Advance payments to a supplier | **₱–** | **₱557** | **₱–** | **₱557** | ₱– | ₱768 | ₱– | ₱768 |
| Restricted cash | **–** | **4,572** | **–** | **4,572** | – | 4,698 | – | 4,698 |
| Financial assets at *FVOCI* | **6,981** | **–** | **1,494** | **8,475** | 6,935 | – | 1,532 | 8,467 |
| Debt securities at amortized cost | **42,432** | **–** | **–** | **42,432** | 42,856 | – | – | 42,856 |
| | **₱49,413** | **₱5,129** | **₱1,494** | **₱56,036** | ₱49,791 | ₱5,466 | ₱1,532 | ₱56,789 |
| **Financial liabilities** | | | | | | | | |
| Interest-bearing long-term financial liabilities | **₱–** | **₱56,181** | **₱–** | **₱56,181** | ₱– | ₱61,135 | ₱– | ₱61,135 |

For the three months ended March 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

*Financial Risk Management Objectives and Policies*

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

risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

*Interest Rate Risk*

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

*MERALCO*s policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at March 31, 2022 and December 31, 2021.

The exposure of *GBPC* and subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and subsidiaries' loans bear fixed interest rates subject to repricing after a minimum of five years for *CEDC* and *PEDC* and seven years for *TPC*.

*Foreign Currency Risk*

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

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at March 31, 2022 and December 31, 2021, translated to Philippine peso at ₱51.74 and ₱51.00 to US$1, respectively.

| | **March 31, 2022 (Unaudited)** | | December 31, 2021 (Audited) | |
|---|---|---|---|---|
| | **U.S. Dollar** | **Peso Equivalent** | U.S. Dollar | Peso Equivalent |
| | | *(Amounts in millions)* | | |
| Financial assets: | | | | |
| Cash and cash equivalents | **$57** | **₱2,958** | $83 | ₱4,217 |
| Debt securities at amortized cost | **24** | **1,242** | 24 | 1,224 |
| Financial assets at *FVOCI* | **21** | **1,086** | 21 | 1,070 |
| Advance payments to a supplier | **11** | **553** | 14 | 727 |
| Short-term investments | **21** | **1,096** | 9 | 444 |
| | **134** | **6,935** | 151 | 7,682 |
| Financial liabilities - | | | | |
| Trade payables and other liabilities | **(7)** | **(381)** | (5) | (240) |
| | **$127** | **₱6,554** | $146 | ₱7,442 |

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

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

| | **March 31, 2022 (Unaudited)** | | December 31, 2021 (Audited) | |
|---|---|---|---|---|
| | **Appreciation (Depreciation) of U.S. Dollar** | **Effect on Income before Income Tax** | Appreciation (Depreciation) of U.S. Dollar | Effect on Income before Income Tax |
| | *(In %)* | *(In millions)* | *(In %)* | *(In millions)* |
| *U.S.* dollar-denominated financial assets and financial liabilities | **+5** | **₱329** | +5 | ₱372 |
| | **–5** | **(329)** | –5 | (372) |

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

*Commodity Price Risk*

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

*Credit Risk*

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

*Trade and Other Receivables and Contract Assets*

*MERALCO* as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECL*s involved significant estimation. The amount of *ECL*s is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

*GBPC* and subsidiaries applied the simplified approach under *PFRS 9*, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and subsidiaries has identified the *GDP, CPI* and unemployment rate in the locations in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of the *GBPC* and subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

*Financial Instruments and Cash and Cash Equivalents*

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group'*s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

The *MERALCO Group* invests only in quoted debt securities with very low credit risk. The *MERALCO Group*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

| | Gross Maximum Exposure | |
|---|---|---|
| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
| | *(Amounts in millions)* | |
| Cash and cash equivalents: | | |
| Cash in banks | **₱18,478** | ₱20,518 |
| Cash equivalents | **39,473** | 34,119 |
| Trade and other receivables: | | |
| Electricity distributed | **30,065** | 31,513 |
| Energy generated | **4,854** | 3,967 |
| Service contracts | **2,343** | 3,049 |
| Nontrade receivables | **9,338** | 3,857 |
| Other current financial assets: | | |
| Debt securities at amortized cost | **14,794** | 17,121 |
| Current portion of advance payments to a supplier | **184** | 182 |
| Short-term investments | **1,180** | 444 |
| Other noncurrent financial assets: | | |
| Debt securities at amortized cost | **25,540** | 24,340 |
| Financial assets at *FVOCI* | **8,475** | 8,467 |
| Restricted cash | **4,572** | 4,698 |
| Advance payment to a supplier | **334** | 523 |
| | **₱159,630** | ₱152,798 |

The credit quality of financial assets is managed by *MERALCO* using "High Grade", "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due using internal credit rating policies

The following tables show the credit quality by asset class:

| | **March 31, 2022 (Unaudited)** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | | | |
| | **High Grade** | **Standard Grade** | **Sub-standard Grade** | **Past Due but not Impaired** | **Impaired Financial Assets** | **Total** |
| | *(Amounts in millions)* | | | | | |
| Cash in banks and cash equivalents | **₱57,951** | **₱–** | **₱–** | **₱–** | **₱–** | **₱57,951** |
| Trade and other receivables: | | | | | | |
| Electricity distributed | **6,278** | **2,578** | **11,343** | **9,866** | **3,751** | **33,816** |
| Energy generated | **4,851** | **–** | **–** | **3** | **1,107** | **5,961** |
| Service contracts | **296** | **–** | **–** | **2,047** | **655** | **2,998** |
| Nontrade receivables | **6,340** | **2,296** | **–** | **702** | **455** | **9,793** |
| Financial and other current assets: | | | | | | |
| Debt securities at amortized cost | **14,794** | **–** | **–** | **–** | **–** | **14,794** |
| Current portion of advance payments to a supplier | **184** | **–** | **–** | **–** | **–** | **184** |
| Short-term investments | **1,180** | **–** | **–** | **–** | **–** | **1,180** |
| Financial and other noncurrent assets: | | | | | | |
| Debt securities at amortized cost | **25,540** | **–** | **–** | **–** | **–** | **25,540** |
| Financial assets at *FVOCI* | **8,475** | **–** | **–** | **–** | **–** | **8,475** |
| Restricted cash | **4,572** | **–** | **–** | **–** | **–** | **4,572** |
| Advance payment to a supplier | **334** | **–** | **–** | **–** | **–** | **334** |
| | **₱130,795** | **₱4,874** | **₱11,343** | **₱12,618** | **₱5,968** | **₱165,598** |

| | December 31, 2021 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | | |
| | High Grade | Standard Grade | Sub-standard Grade | Past Due but not Impaired | Impaired Financial Assets | Total |
| | *(Amounts in millions)* | | | | | |
| Cash in banks and cash equivalents | ₱54,637 | ₱– | ₱– | ₱– | ₱– | ₱54,637 |
| Trade and other receivables: | | | | | | |
| Electricity distributed | 6,539 | 2,732 | 12,116 | 10,126 | 3,751 | 35,264 |
| Energy generated | 3,963 | – | – | 4 | 1,120 | 5,087 |
| Service contracts | 986 | – | – | 2,063 | 765 | 3,814 |
| Nontrade receivables | 3,246 | – | – | 611 | 268 | 4,125 |
| Financial and other current assets: | | | | | | |
| Debt securities at amortized cost | 17,121 | – | – | – | – | 17,121 |
| Current portion of advance payments to a supplier | 182 | – | – | – | – | 182 |
| Short-term investments | 444 | – | – | – | – | 444 |
| Financial and other noncurrent assets: | | | | | | |
| Debt securities at amortized cost | 24,340 | – | – | – | – | 24,340 |
| Financial assets at *FVOCI* | 8,467 | – | – | – | – | 8,467 |
| Restricted cash | 4,698 | – | – | – | – | 4,698 |
| Advance payment to a supplier | 523 | – | – | – | – | 523 |
| | ₱125,146 | ₱2,732 | ₱12,116 | ₱12,804 | ₱5,904 | ₱158,702 |

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks, cash equivalents, short-term investments, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a

supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

  Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

  Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

*Liquidity Risk*

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

| | **March 31, 2022 (Unaudited)** | | | | |
|---|---|---|---|---|---|
| | **Less than 3 Months** | **Over 3–12 Months** | **Over 1–5 Years** | **More than 5 Years** | **Total** |
| | *(Amounts in millions)* | | | | |
| Notes payable | **₱1,745** | **₱28,420** | **₱–** | **₱–** | **₱30,165** |
| Trade payables and other current liabilities | **86,388** | **–** | **–** | **–** | **86,388** |
| Customers' refund | **2,926** | **–** | **–** | **–** | **2,926** |
| Interest-bearing long-term financial liabilities: | | | | | |
| Fixed rate borrowings | **1,870** | **7,651** | **19,250** | **29,712** | **58,483** |
| Redeemable preferred stock | **1,469** | **–** | **–** | **–** | **1,469** |
| Customers' deposits | **641** | **2,280** | **6,788** | **24,194** | **33,903** |
| Refundable service extension costs | **345** | **1,315** | **4,404** | **881** | **6,945** |
| Nonrefundable liability related to asset funded by customers | **127** | **127** | **127** | **488** | **869** |
| Total undiscounted financial liabilities | **₱95,511** | **₱39,793** | **₱30,569** | **₱55,275** | **₱221,148** |

| | December 31, 2021 (Audited) | | | | |
|---|---|---|---|---|---|
| | Less than 3 Months | Over 3–12 Months | Over 1–5 Years | More than 5 Years | Total |
| | *(Amounts in millions)* | | | | |
| Notes payable | ₱1,402 | ₱28,529 | ₱– | ₱– | ₱29,931 |
| Trade payables and other current liabilities | 67,166 | – | – | – | 67,166 |
| Customers' refund | 2,929 | – | – | – | 2,929 |
| Interest-bearing long-term financial liabilities: | | | | | |
| Fixed rate borrowings | 5,359 | 3,321 | 20,514 | 33,957 | 63,151 |
| Redeemable preferred stock | 1,470 | – | – | – | 1,470 |
| Customers' deposits | 720 | 2,055 | 6,754 | 24,147 | 33,676 |
| Refundable service extension costs | 345 | 1,315 | 4,405 | 929 | 6,994 |
| Nonrefundable liability related to asset funded by customers | 127 | 127 | 127 | 485 | 866 |
| Total undiscounted financial liabilities | ₱79,518 | ₱35,347 | ₱31,800 | ₱59,518 | ₱206,183 |

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,606 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 March 31, 2022.

*Capital Management*

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions, except debt to equity ratio)* | |
| Long-term debt | **₱55,508** | ₱60,364 |
| Notes payable | **29,071** | 28,834 |
| Redeemable preferred stock | **1,469** | 1,470 |
| Debt (a) | **₱86,048** | ₱90,668 |
| Equity attributable to the holders of the parent (b) | **₱89,254** | ₱95,204 |
| Debt to equity ratio(a)/(b) | **0.96** | 0.95 |

## 28. Income Taxes and Local Franchise Taxes

*Income Taxes*

The components of net deferred income tax assets and liabilities are as follows:

| | Note | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| | | *(Amounts in millions)* | |
| Deferred income tax assets: | | | |
| Provisions for probable losses and expenses from claims | *19 and 22* | **₱29,406** | ₱29,147 |
| Unfunded retirement benefits cost and unamortized past service cost | *26* | **2,391** | 2,259 |
| Accrued employee benefits | *26* | **1,153** | 1,067 |
| Allowance for expected credit losses | *13* | **935** | 1,184 |
| Decommissioning liability | | **220** | 219 |
| Actuarial losses | | **89** | 89 |
| Allowance for excess of cost over net realizable value of inventories | *14* | **48** | 48 |
| Others | | **1,485** | 647 |
| | | **35,727** | 34,660 |
| Deferred income tax liabilities: | | | |
| Revaluation increment in utility plant, generation plant and others | *16* | **5,510** | 5,519 |
| Fair value of net assets from acquisition of *GBPC* | *3* | **5,490** | 5,321 |
| Actuarial gains | | **922** | 922 |
| Capitalized interest | | **740** | 700 |
| Capitalized duties and taxes deducted in advance | | **409** | 412 |
| Others | | **274** | 282 |
| | | **13,345** | 13,156 |
| | | **₱22,382** | ₱21,504 |

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Deferred income tax assets - net | **₱28,021** | ₱27,226 |
| Deferred income tax liabilities - net | **(5,639)** | (5,722) |
| | **₱22,382** | ₱21,504 |

Provision for (benefit from) income tax consists of:

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Current | **₱2,330** | ₱1,143 |
| Deferred | **(881)** | 4,615 |
| | **₱1,449** | ₱5,758 |

The deferred tax assets charged directly to *OCI* amounted to ₱8 million (expense) and ₱88 million (benefit) for the three months ended March 31, 2022 and 2021, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25for the three months ended March 31, 2022 and 2021, and provision for income tax as shown in the consolidated statements of income is as follows:

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Income tax computed at statutory tax rate | **₱1,778** | ₱2,529 |
| Income tax effects of: | | |
| Interest income subjected to lower final tax rate | **(104)** | (118) |
| Nondeductible interest expense | **26** | 30 |
| Nontaxable income | **–** | (6) |
| Equity in net losses of associates and joint ventures | **(529)** | (73) |
| Difference in calculation of tax deductible costs and expenses | **(140)** | (507) |
| Unrecognized deferred tax assets | **128** | 237 |
| Others | **290** | 3,666 |
| | **₱1,449** | ₱5,758 |

In 2022 and 2021, *MERALCO* elected to adopt the Optional Standard Deductions ("*OSD*") in lieu of itemized deductions beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

The deferred income tax assets and liabilities expected to be recovered or settled in taxable years 2023 onwards were measured at the tax rate of 25% since *MERALCO* is expecting to adopt itemized deductions in computing its income tax liabilities for the said taxable years.

Accordingly, *MERALCO*'s net deferred tax assets as at March 31, 2022 and December 31, 2021, which were not recognized are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| | *(Amounts in millions)* | |
| Deferred tax assets: | | |
| Provisions for various claims | **₱480** | ₱480 |
| Deferred tax liabilities: | | |
| Revaluation increment in utility plant and others | **10** | 13 |
| Capitalized interest | **6** | 8 |
| Capitalized duties and taxes deducted in advance | **5** | 6 |
| Others | **5** | 5 |
| | **26** | 32 |
| | **₱454** | ₱448 |

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of net operating loss carryover ("*NOLCO*") amounting to ₱4,826 million and ₱3,793 million as at March 31, 2022 and December 31, 2021, respectively. These are not recognized because the *MERALCO Group* does not expect to utilize such deferred tax assets against sufficient taxable profit.

*NOLCO* totaling to ₱4,826 million may be claimed as deduction against taxable income as follows:

| Date Incurred | Expiry Date | Amount |
|---|---|---|
| | | *(In millions)* |
| December 31, 2019 | December 31, 2022 | ₱623 |
| December 31, 2020 | December 31, 2025 | 1,288 |
| December 31, 2021 | December 31, 2026 | 1,936 |
| March 31, 2022 | March 31, 2027 | 979 |
| | | ₱4,826 |

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

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

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

- Reduction in current income tax rate effective July 1, 2020
- Proprietary educational institutions and hospitals which are nonprofit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023.
- Regional operating headquarters of multinational companies previously subject to a tax of 10% on their taxable shall be subject to the regular corporate income tax effective December 31, 2020
- Effective July 1, 2020 until June 30,2023, the *MCIT* rate shall be one percent 1%.
- *MERALCO*'s consolidated financial statements as at and for the years ended December 31, 2020 and 2019 were released on March 1, 2021, prior to the signing of the *CREATE* bill into law by President Duterte on March 26, 2021. As such, *MERALCO*'s provision for income tax in 2020 was computed on the basis of the income tax rate of 30% and tax laws that were enacted at the reporting date. The impact of the *CREATE* bill, mainly the difference between the 30% and 25% income tax rates are adjusted in the 2021 provision for current and deferred income tax.

*LFT*

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("*IRR*") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DU*s, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

## 29. Contingencies and Legal Proceedings

*Overpayment of Income Tax related to SC Refund*

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

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

May 2014, the *BIR* issued additional *TCC*s amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at March 31, 2022 and December 31, 2021, the amount of unissued *TCC*s of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

See *Note 11 – Financial and other Noncurrent Assets.*

*MERALCO* filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO,* and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC.* As at April 25, 2022, 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 ("*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. A similar Petition was likewise filed by the Philippine Rural Electric Cooperative Association ("*PHILRECA*") on April 17, 2019. In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DU*s, the *ERC* approved a revised mechanism for the recovery of real property taxes. For *DU*s under *PBR*, the rules shall apply to the recovery of real property taxes of machineries only until the next regulatory reset process when the real property taxes would be excluded from the financial building blocks in the annual revenue requirement. However, the said rules did not cover the recovery of payments of real property taxes for the years before the promulgation of the rules.

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

On July 6, 2021, *PEPOA* filed a Petition for rule-making proposing to amend certain provisions of *ERC* Resolution No. 02, Series of 2021 on the recovery of pass-through local taxes consisting of *RPT*, *LFT*, and business tax. Among the main points raised by *PEPOA* is that: (i) the local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s on years prior to the Resolution's issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at April 25, 2022, the Petition is pending with the *ERC*.

*See Note 19 – Provisions.*

*Mediation with NPC*

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

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

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange

savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

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

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

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

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

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

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at April 25, 2022, *MERALCO* is awaiting further action of the *SC* on the matter.

*Sucat-Araneta-Balintawak Transmission Line*

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

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at April 25, 2022, *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 with Motion. On November 4, 2013, *MERALCO* filed its reply. As at April 25, 2022, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM'*s *MR*. On October 27, 2015, *MERALCO* received *PSALM'*s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at April 25, 2022, *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 April 25, 2022, the Joint Motion to Dismiss is pending resolution by the *ERC*.

*Petition for Dispute Resolution with NPC on Premium Charges*

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at April 25, 2022, the Petition is pending resolution by the *ERC*.

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

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

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

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

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DU*s in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC*

from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., Team (Philippines) Energy Corporation, PanAsia Energy, Inc. ("*PanAsia*"), and *SMEC*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at April 25, 2022, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

*ERC IU Complaint*

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

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

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

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

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

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

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

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

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO, TMO* and *APRI* have all filed their respective manifestations before the *SC*. As at April 25, 2022, *MERALCO* is awaiting further action by the *SC* on the matter.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at April 25, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

*Ombudsman Cases Against MERALCO Directors*

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018 which directed the Commission on Audit to conduct an audit. As at April 25, 2022, there has been no further action by the Ombudsman in this case. There has also been no action by the Commission on Audit on this matter.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. As at April 25, 2022, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

*Others*

Liabilities for certain local taxes amounting to ₱423 million as at March 31, 2022 and December 31, 2021, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

## 30. Significant Contracts and Commitments

*MERALCO*

*Independent Power Producers ("IPPs")*

*FGPC* and *FGP*

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

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

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

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

*QPPL*

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

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement ("*TLA*") and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal

annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See *Note 11 – Financial and other Noncurrent Assets.*

*Committed Energy Volume to be Purchased*

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

| Year | MEQ | Equivalent Amount |
|---|---|---|
| | *(In million kwh)* | *(In Millions)* |
| 2022 | 15,327 | ₱28,337 |
| 2023 | 15,327 | 28,235 |
| 2024 | 15,360 | 28,215 |
| 2025 | 10,742 | 18,303 |
| 2026-2031 | 7,497 | 11,489 |

*PSAs with Privatized Plants* and *IPPAs*

The *PSA*s signed with *MPPCL*, *TLI*, *SPPC*, *Sem-Calaca* and *SMEC* were approved by the *ERC* on December 17, 2012. However, *SPPC*, *Sem-Calaca* and *SMEC* filed *MR*s with respect to the *ERC* decisions on the *PSA*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* 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 April 25, 2022, remains pending for resolution of the *ERC*. Meanwhile, the term of the *PSA* with *Sem-Calaca* expired on December 25, 2018, while the *PSA*s with *SPPC*, *TLI* and *SMEC* expired on December 25, 2019.

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

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the *PSA* for five days or until December 30, 2020. As at April 25, 2022, hearings have been completed. The case, including the motion, is still pending approval of the *ERC*.

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

| Year | Contracted Capacity | Fixed Payment Amount |
|---|---|---|
| | *(In Megawatt)* | *(In millions)* |
| 2022 | 2,737 | ₱62,914 |
| 2023 | 2,647 | 63,715 |
| 2024 | 3,047 | 66,084 |
| 2025 | 3,026 | 63,018 |
| 2026-2031 | 18,750 | 384,605 |

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA*, as embodied in the Amendment Agreement, is exempted from the conducd of a *CSP*. In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at April 25, 2022, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

*Philippine Power and Development Company* ("*Philpodeco*")

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

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco.* This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption from the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that "*xxx [u]nder Section 45(b) of Republic*

*Act No. 9136, ERC is the sole authority mandated to review and approve PSAs*." On May 15, 2020, the *PSA* with *Philpodeco* expired. As at April 25, 2022, the case is pending decision by the *ERC*.

*Bacavalley Energy Inc.* ("*BEI*")

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

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

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 15, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 15, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for the extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at April 25, 2022, the contract term has expired and the case is pending decision by the *ERC*.

*Pangea Green Energy Philippines, Inc.* ("*PGEP*")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP*, a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at April 25, 2022, the contract term has expired and the case is pending decision by the *ERC*.

*TMO*

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at

*MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

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

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

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

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at April 25, 2022, the contract term has expired and the case is pending decision by the *ERC*.

*SBPL*

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

*PEDC*

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* ("*2016 PEDC PSA*")for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *ERC* has provisionally approved the *2016 PEDC PSA* in its Order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit the *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source

70 *MW* from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya outage may bring to end-users. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA.* On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at April 25, 2022, further *ERC* action is pending.

In the meantime, on May 17, 2019, *MERALCO* received the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al*. (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the *2016 PEDC PSA*, following the *DOE* Circular entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market" ("*2018 DOE Circular*"), which was published on February 9, 2018.

Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for the *2016 PEDC PSA* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from August 26, 2019 to August 25, 2020. In several Joint Manifestations filed with the *ERC* by *MERALCO* and *PEDC*, while the Terms of Reference for the *CSP* of the *2016 PEDC PSA* (pursuant to the *SC* Decision in G.R. No. 227670) is pending review by the *DOE*, the parties manifested to the *ERC* that the *2016 PEDC PSA* will continue until implementation of the new *PSA* resulting from the *CSP*. On January 25, 2022, due to a successful *CSP* of the *2016 PEDC PSA* (discussed below), the *MERALCO* and *PEDC* stopped implementing the *2016 PEDC PSA.* As at April 25, 2022, the *2016 PEDC PSA* is pending final decision by the *ERC*.

On September 30, 2021, after the *DOE* approved the Terms of Reference for the *CSP* of the *2016 PEDC PSA* (to abide by the *SC* Decision in G.R. No. 227670, and comply with *CSP* prescribed in the *2018 DOE Circular*), *MERALCO*'s Third Party Bids and Awards Committee ("*TPBAC*") published the Invitation to Bid for the contract period ending on January 25, 2037. On November 22, 2021, *PEDC* received from the *TPBAC* a Notice of Award in its favor after submitting the lowest bid and passing the post-qualification evaluation. On November 29, 2021, *MERALCO* signed a new 15-year *PSA* with *PEDC* for 70 *MW* of contract capacity ("*2021 PEDC PSA*"). The application for approval of the new *PSA* with *PEDC* was filed on January 22, 2022. Through a "Notice of Resolution" dated February 23, 2022, the *ERC* granted provisional authority to implement the *2021 PEDC PSA*, and on April 1, 2022, the *2021 PEDC PSA* was implemented by *MERALCO* and *PEDC*. As at April 25, 2022, the case is pending final decision by the *ERC*.

*First Bulacan*

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

*Solar Philippines Tanauan Corporation* ("*Solar Philippines Tanauan*")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the

winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

*Solar Philippines Tarlac Phase 1*

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition*, likewise with respect to *Solar Philippines Tarlac's* motion for the adjustment of the timelines under the *PSA*. In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at April 25, 2022, the parties are awaiting *ERC's* final decision on the Joint Application.

*FNPC*

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. As at April 25, 2022, hearings have been completed and the case is pending decision by the *ERC*.

*Solar Philippines Tarlac Phase 2*

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019. As at April 25, 2022, the case is pending decision by the *ERC*.

*SMEC, AC Energy and SPPC – Baseload PSAs*

On September 13, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSA*s for baseload capacity with *AC Energy* for 200 *MW*, *SMEC* for 330 *MW*, and *SPPC* for 670 *MW*. On October 22, 2019, the joint applications for approval of these three (3) baseload *PSA*s were filed before the *ERC*. In its letters to *MERALCO*, all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSA*s for baseload capacity with *AC Energy*, *SPPC and SMEC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for baseload capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional

authority to implement *MERALCO*'s *PSA*s for baseload capacity with *SPPC* and *SMEC.* In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSA*s, until revoked or until the issuance of a final decision by the *ERC.* As at April 25, 2022, the three (3) *PSA* applications are pending final decision by the *ERC*.

*FGHPC, AC Energy and SPPC – Mid-merit PSAs*

On September 16, 2019, after being declared the winning power suppliers in a *CSP, MERALCO* signed three (3) *PSA*s for mid-merit capacity with *FGHPC* for 100 *MW, AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these three (3) *PSA*s were filed before the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s the *PSA* for mid-merit capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s other *PSA*s for mid-merit capacity with *FGHPC* and *SPPC.* In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSA*s, until revoked or until the issuance of a final decision by the *ERC.* As at April 25, 2022, the three (3) *PSA* applications are pending final decision by the *ERC*.

*Excellent Energy Resources, Inc. ("EERI") and MPPCL - Baseload PSAs*

On March 2, 2021, after being declared the winning power suppliers in a *CSP* 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) *PSAs* with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, and with *MPPCL* with commercial operations date in May 2025 for 600 *MW*. The joint applications for approval of *MERALCO*'s *PSA*s with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at April 25, 2022, the two (2) *PSA* applications are pending final decision by the *ERC*.

*Interim Power Supply Agreements ("IPSAs")*

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC. MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at April 25, 2022, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA.*

On April 15, 2019, in view of the *NGCP* forecast that low voltage situations will occur for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSA*s with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI's* Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*'s 242 *MW*-installed

capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSA*s, *MERALCO* also received the *DOE'*s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSA*s were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSA*s, with the filing of the joint applications and *DOE'*s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the *Luzon* Grid by *NGCP, MERALCO* and *MEI,* in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*'s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at April 25, 2022, the cases remain pending with the *ERC*.

On September 28, 2021, in view of the Malampaya shutdown set for October 2021 that was to coincide with the scheduled outage of other plants, *MERALCO* signed a Contract for Supply of Electric Energy ("*CSEE*") with *PSALM* for the supply of 90 *MW* for the period of ten (10) months from September 26, 2021 to July 25, 2022. On even date, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the *CSEE*. With the *DOE*'s grant of exemption from the requirement for *CSP*, the parties began implementation of the *CSEE* on September 29, 2021. The application for approval of the *CSEE* with *PSALM* was filed on December 29, 2021. As at April 25, 2022, the case is pending final decision by the *ERC*.

On February 4, 2022, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. The application for approval of *MERALCO*'s emergency *PSA* with *SPPC* was filed on March 22, 2022. As at April 25, 2022, the hearings with the *ERC* are on-going.

*Clark Electric*

*SCPC*

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of 20 *MW* of baseload power supply for a contract term of ten (10) years commencing on December 26, 2020. *SCPC* was selected as the winning bidder for submitting the least cost bid.

On October 26, 2020, *Clark Electric* executed a *PSA* with *SCPC*, the power generation company which owns, operates and maintains the 600 *MW* Batangas Coal-Fired Thermal Power Plant located in Calaca, Batangas. On October 30, 2020, *Clark Electric* and *SCPC* filed a Joint Application with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Accordingly, the *ERC* has set the expository presentation and pre-trial conference on March 4 and 11, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SCPC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. On March 1, 2021, the *ERC* granted the provisional authority to implement the *PSA* between *Clark Electric* and *SCPC*.

*SPDC*

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of its 25 *MW* of mid-merit power supply requirement for a contract term of five (5) years commencing on December 26, 2020. *SPDC* was selected as the winning bidder for submitting the least cost.

On October 23, 2020, *Clark Electric* executed a *PSA* with *SPDC* for the supply of 25 *MW* contract capacity and associated energy beginning December 26, 2020. The *PSA* was jointly filed by *Clark Electric* and *SPDC* on October 28, 2020 with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Thus, the expository presentation and pre-trial conference was set by *ERC* on March 9 and 16, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SPDC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. The provisional authority was granted by the *ERC* through its Order which was promulgated on June 11, 2021.

*TransCo/NGCP*

*Clark Electric* executed a Transmission Service Agreement on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2018. This was renewed for another five years until December 25, 2023.

*Supply and Equipment Loan Agreement with Shell*

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

*Long-term Coal Supply Agreements ("CSA")*

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

*PEDC*

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

*CEDC*

| Supplier | Coal Type | Contract Duration | Price Basis | Quantity per Year |
|---|---|---|---|---|
| PT Adaro | Indonesia | 2020 - 2024 | GNewC Index | 165,000 MT |
| PT Antang Gunung Meratus | Indonesia | 2020 - 2024 | GNewC | 275,000 MT |
| PT Antang Gunung Meratus | Indonesia | 2021 - 2025 | GNewC | 110,000 MT |
| Kideco | Indonesia | 2021 - 2025 | GNewC | 110,000 MT |
| Galaxy | Indonesia | 2021 - 2025 | GNewC | 55,000 MT |
| RWood Resources | Indonesia | 2021 - 2025 | GNewC | 55,000 MT |

*TPC*

| Supplier | Coal Type | Contract Duration | Price Basis | Quantity per Year |
|---|---|---|---|---|
| Kideco | Indonesia | 2021 - 2025 | GNewC | 110,000 MT |
| PT Antang Gunung Meratus | Indonesia | 2021 - 2025 | GNewC | 55,000 MT |
| Galaxy | Indonesia | 2021 - 2025 | GNewC | 110,000 MT |
| RWood Resources | Indonesia | 2021 - 2025 | GNewC | 110,000 MT |

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

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

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("*PV*") panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemetal Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at April 25, 2022, *MERALCO* is awaiting further action by the *ERC*.

*Lease Agreement with CDC*

On June 23, 2004, *Clark Electric* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succeeding six (6) years.

*IMC with PELCO II*

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of 20 years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.

*Agreement and Registration with PEZA*

*MERALCO* has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

*MERALCO* executed a tripartite agreement with *PEZA* and *TLI* for the billing and settlement of the supply of power from TLI to *CEZ* and its locators. Said tripartite agreement is from December 26, 2019 until December 25, 2021.With the extension of the *PSA* of *PEZA* with *TLI* for another year to expire on December 25, 2022, the tripartite agreement is likewise extended until December 25, 2022.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

*Joint Venture Agreement with New Clark City*

On April 3, 2019, *Shin Clark* signed a Joint Venture Agreement with the *BCDA* for the construction, operation and maintenance of the electric distribution system in New Clark City.

*Shin Clark* completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of Shin Clark Power Corporation ("*Shin Clark Power*"), the joint venture company. On May 10, 2022, the incorporation of *Shin Clark Power* has been approved by the *SEC*. *Shin Clark Power* is in the process of completing the registration with other necessary government agencies for its commercial operations.

## 31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

| | Unaudited | |
|---|---|---|
| | For the Three Months Ended March 31 | |
| | **2022** | 2021 |
| | *(Amounts in millions)* | |
| Net income attributable to equity holders of the Parent (a) | **₱5,564** | ₱4,334 |
| Weighted average common shares outstanding (b) | **1,127** | 1,127 |
| Per Share Amounts: | | |
| Basic and diluted earnings per share (a/b) | **₱4.94** | ₱3.85 |

Basic and diluted earnings per share amounts are calculated by dividing net income for the period attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2022 and 2021.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

## 32. Other Matters

*RCOA*

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

On 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 this information as basis for issuance of the certificates of contestability.

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

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

On March 8, 2016, the *ERC* promulgated Resolution No. 05 Series of 2016 entitled *"*A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (*RES*)

and Prescribing the Requirements and Conditions Therefor*"*. The Resolution removed the term local *RES* as one of the entities that may engage in the business of supplying electricity to the contestable market without need of obtaining a license therefor from the *ERC*. Moreover, while an affiliate of a *DU* is allowed to become a *RES*, the allowance is "subject to restrictions imposed by the *ERC* on market share limits and the conduct of business activities".

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

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

2. Prohibits *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 April 25, 2022, the *ERC* has yet to respond to *MERALCO*'s letter.

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

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

*Pre-Emptive Mitigating Measure in the WESM*

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

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO'*s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

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

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at April 25, 2022, the case is pending before the *SC*.

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

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling

average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

*PEZA – ERC Jurisdiction*

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

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

*Purchase of Subtransmission Assets* ("*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 *STA*s. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

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

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015,

*Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia. MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC*-Pasig. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

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

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

*FiT*

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

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

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

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

| Year | Applied Rate per *kWh* | Approved Rate per *kWh* | Date Approved |
|---|---|---|---|
| 2019 | 0.2780 | 0.0495 | October 28, 2019 |
| 2020 | 0.2278 | 0.0983 | November 23, 2020 |
| 2021 | 0.1881 | – | Pending final decision |
| 2022 | 0.3320 or 0.3165 (alternative rate in consideration of *Covid 19*) | – | Hearings are ongoing |

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC, DOE, TransCo, NREB* and *MERALCO*. The Petition seeks

(i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. As at April 25, 2022, the said petition is pending with the *SC.*

In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh. MERALCO* filed a *MR* on the Decision. As at April 25, 2022, the *MR* is pending further action of the *ERC*.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FiT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*. As at April 25, 2022, the said petition is ongoing and remains pending with the *ERC.*

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the consumer price index ("*CPI*") and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years. By way of example, the Wind *FiT* for ₱7.40 per *kWh* will be ₱8.53 per *kWh* for year 2020 and the Solar *FiT* for ₱8.69 per *kWh* will be ₱10.12 per *kWh* for year 2020.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River ("*ROR*") Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

*Renewable Portfolio Standards (RPS)*

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

*MERALCO* is also preparing to register with the Renewable Energy Market or "*REM*". On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at April 25, 2022, the *REM* is not yet operational.

*Green Energy Option Program (GEOP)*

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 "Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008" or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, "Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the GEOP" as a supplement to the *GEOP* Rules.

On November 24, 2020, the *ERC* released a draft "Resolution Adopting the *GEOP* Rules". This is in accordance with Section 15(e) of the *DOE*'s *GEOP* Rules stating that "The *ERC* shall issue the necessary regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to effect and achieve the objectives of the *GEOP*." On December 7 and 8, 2020, the *ERC* conducted public consultations on the draft. On August 17, 2021, the *ERC* released its *ERC* Resolution No. 8, Series of 2021 (dated April 22, 2021) and put into effect its regulatory framework to govern the *GEOP*. The rules became effective on September 3, 2021.

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

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

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

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

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

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

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

*Net Metering Program*

The *RE* Act mandates the *DU*s to provide the mechanism for the "physical connection and commercial arrangements necessary to ensure the success of the *RE* programs", specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system, appropriate for distributed

generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DU*s.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DU*s' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DU*s' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at March 31, 2022, *MERALCO* has already installed 5,649 meters and energized 4,953 net metering customers.

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

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program", *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program" and *ERC* Resolution No. 3, Series of 2019 "A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules".

As at March 31, 2022, there are 121 companies with a total committed de-loading capacity of 554.15 *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 April 25, 2022, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. As at April 25, 2022, *MERALCO* is awaiting final approval of the *ERC*.

*CSP Requirement for PSAs*

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

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

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

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

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

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

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

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

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

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

*SC Petitions on CSP*

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the *SC* claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the "*Bayan Muna Petition*"). The *Bayan Muna Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation of the on-going *CSP*s of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the *SC* by representatives of various consumer groups led by the Power for People (P4P) Coalition (the "*P4P Petition*") against the *DOE* and *MERALCO's TPBAC*. The petition claims that the terms of reference for the 1,800 *MW* baseload *CSP* completed in March 2021 are unfavorable to the consumers and non-compliant with the *2018 DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 *MW* baseload *CSP* of *MERALCO*. In a Resolution dated March 18, 2021, the *SC* dismissed the *P4P Petition*. The *SC* held that the issues raised by *P4P* are factual in nature, which require the *SC* to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that *DOE* has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the *CSP*.

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

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

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at April 25, 2022, the *ERC* has yet to act on the Motion.

*ECQ/MECQ due to COVID-19 Pandemic*

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

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

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

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

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

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

a. *DU*s are directed to cause the conduct of actual meter reading of their customers' electricity consumption;

b. *DU*s should provide their meter readers and other frontline personnel with complete Personal Protective Equipment ("*PPE*") and other logistical requirements, such as transportation, in order to ensure the safety and smooth performance of their duties; and

c. *DU*s are directed to submit a report to the *ERC* on their compliance to the above directives on a monthly basis.

*Clean Air Act*

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

*Energy Regulation (ER) 1-94*

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position) prospectively from the date of effectivity of *ER 1-94*. Such amount accrued is remitted to the trust account of the *DOE* upon their audit.