COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	1	0	2							

Company Name

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

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

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

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
41,689	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.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended DECEMBER 31, 2021

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

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

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

6. (SEC Use Only)
Industry Classification Code:

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

8. (+632) 8631-5567
Issuer's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	1,127,098,705
	Amount of Debt Outstanding
Debt Securities - bonds	₱7,000 million Fixed Rate Notes

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

Yes [/] No [ ]

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

PHILIPPINE STOCK EXCHANGE

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [/] No [ ]

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

Yes [/] No [ ]

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of December 31, 2021:

Shares: 280,815,621

Closing Price: ₱295.20

Aggregate: ₱82,896.77 Million

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

1) Business Development

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

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

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

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

Meralco Industrial Engineering Services Corporation ("*MIESCOR"*) is a wholly owned subsidiary of *MERALCO* and was formerly its Plant and Engineering Department. *MIESCOR* became an engineering and construction subsidiary on December 5, 1973. For 48 years, *MIESCOR* has provided safe, quality, timely, smart and best value services in the fields of power generation, transmission, distribution, as well as industrial plants, water resources, utility attachment, trading, and telecommunications. Backed by a highly competent technical team, the company has also provided consultancy, engineering, and integration services to major telecommunication service providers.

MIESCOR holds the highest category license of "AAAA", granted by the Philippine Contractor Accreditation Board ("*PCAB*"), for general engineering, building, electrical and mechanical works, and telecommunication facilities. In addition, *MIESCOR is* ISO 9001:2015 (QMS), ISO 14001:2015 (EMS), and ISO 45001:2018 (OHS) certified for its processes in Engineering, Procurement and Construction services, as audited and verified by certifying body, TUV Rheinland.

MIESCOR, together with its subsidiaries Miescor Builders Inc. ("*MBI*") and Miescor Logistics Inc. ("*MLI*"), offer a wide array of services in the fields of engineering, procurement, construction, operation, maintenance, distribution services, testing and commissioning, building and facilities management, renovation, vehicle leasing, and fleet management. *MBI* holds a *PCAB* license category "AAA" for electrical works, general engineering and building, foundation and waterproofing works. *MLI* on the other hand holds an "AA" license category for general building services.

In 2020, the Safety and Health Association of the Philippine Energy Sector ("*SHAPES*") awarded *MIESCOR* seven (7) Corporate Safety and Health Excellence Awards, including a special recognition for initiatives in safeguarding its employees against the *COVID-19* pandemic. *MIESCOR* was also given two (2) recognitions by MERALCO for its contribution in the Power Restoration Activities in areas severely affected by Typhoon Rolly and Typhoon Ulysses.

With more than 7,000 employees, the *MIESCOR Group* has brought solid value-for-money propositions to its clients, contributing to the nation's sustainable growth and development, and working on several notable projects in various industries all over the Philippines. Some of its projects include the 500kV Transmission Line for GNPower Dinginin in Bataan and the Alagao Switching Station for Meralco in Bulacan. These projects are critical to ensure stable and reliable power to homes, businesses, and industries in parts of the Luzon island."

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

CIS Bayad Center, Inc., ("*Bayad*") a pioneer in outsourced payment collection service, has now evolved into a full-service fintech company offering a whole suite of financial products and services, available in its extensive physical and digital payment touchpoints. Powering more than 45,000 over-the-counter payment locations and leading online and mobile payment applications, the company recently rebranded as "*Bayad*", launching its new identity, as well as introducing its revitalized all-in-one pera transaction mobile app and new online payment facility, Bayad App and Online. Providing a seamless onsite-to-online customer experience that caters to both traditional and next generation of payers, *Bayad* cements itself as the authority in payments.

To complement its suite of value offerings, *Bayad* established Customer Frontline Solutions, Inc. (*"CFS"*), and invested in Fieldtech Specialist, Inc. (*"FSI"*). *CFS* specializes in providing outsourced tellering and other administrative services to top corporations in the Philippines, while *FSI* operates as the largest "read-and-bill" or spot-billing field service in the country. Through these institutions, *Bayad* continues to trailblaze the industry as it elevates the Filipinos' payment experience, at the same time providing end-to-end payment solutions to major institutions and government agencies nationwide.

Meralco Energy, Inc. (*"MServ")* is a wholly owned subsidiary of *MERALCO*. It is a one-stop shop for energy services and solutions that will guarantee total system efficiency for customer facilities. *MServ*'s scope of activities include Engineering, Procurement and Construction ("*ECP*")/Installation of Electrical and Mechanical Facilities and Engineering Services. Its expertise is in the *EPC* of electrical facilities such as substations, powerhouses, and transmission lines. *MServ* offers low voltage/load side distribution services capitalizing on its capability to value-engineer electrical designs. *MServ* can also provide energy efficiency and urban services such as energy management system, smart streetlighting, sewage treatment plant, heating, ventilation and air conditioning and lighting solutions.

MServ is a AAA *PCAB*-licensed company and a *DOE*-accredited *Energy Service Company*.

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

Radius delivers its services on an end-to-end full fiber optic network covering more than 5,000 kms in the Mega Manila and nearby provinces, as well as Clark and Cebu, with plans to expand to other major cities in the Visayas and Mindanao region by 2021. It is also one of the first telecommunications companies in the Philippines certified by the Metro Ethernet Forum, a consortium certifying carrier ethernet services globally.

Radius provides world-class data connectivity solutions over its dense fiber optic network, with access nodes strategically located within business districts, industrial and Information Technology (“*IT*”) parks, data centers, and main thoroughfares. Currently, *Radius* affirms its role in nation building by providing leading edge connectivity solution, products and services, not just for the business sector but also for the consuming public. It aims to deliver an enhanced customer experience in every touchpoint.

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

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

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

Clark Electric Distribution Corporation (***“CEDC”***) is 65% owned by *MERALCO*. *CEDC* is a private stock corporation with a fully paid authorized capital stock of ₱700 million, divided into 7 million shares with par value of ₱100 each. To sustain its corporate purposes, the Board of Directors and the stockholders authorized the increase of *CEDC’s* authorized capital stock to ₱1.5 billion, for regulatory approval. *CEDC* is the grantee of a franchise to distribute electric power in the Clark Special Economic Zone (“*CSEZ”*), site of the former U.S. Clark Air Base in the Philippines transformed into a premier economic zone comprising the Clark Freeport Zone (“*CFZ*”) and contiguous subzones. In 2021, *CEDC’s* energy sales was posted at 557.6 GWh, a 10.3% increase compared with the 2020 sales. The higher sales was attributed to the resumption of operations of various Clark locators, especially the commercial establishments, with the easing of the COVID 19 restrictions. *CEDC* ended the year with an unaudited net income of ₱235.1 million, total assets of ₱3.4 billion, and a net worth of ₱2.1 billion.

CEDC serves a total of 2,613 customers composed of commercial (54.7%), industrial (43.2%), and residential and streetlight (2.1%) accounts, with a peak demand of 98.7 MW.

CEDC has an aggregate substation capacity of 283 MVA (100 MVA at 230 kV – 69 kV level and 183 MVA at 69 kV – 13.8 kV level), which is more than enough to meet the power requirements of existing and future customers in the next 3 to 5 years, inclusive of projected load growth in the franchise area, especially with the recent upgrading of its Kalaw substation. Over the years, *CEDC* has developed and grown its distribution network valued at ₱1.5 billion at the end of 2021. Its present distribution network consists of 2,008 distribution transformers, 37.8 circuit-km. linear length of sub-transmission lines, 153 circuit-km. and linear length of primary lines.

It continues to expand its asset base and upgrade its distribution network to ensure power adequacy, stability, reliability, and quality at reasonable cost within its franchise area, as well as customer service delight.

For system performance in 2021, *CEDC* excelled in meeting the standards set by the Energy Regulatory Commission (*ERC*). Majority of its system performance indicators were in the reward levels, such as voltage regulation, system loss, time to process application, and time to connect premises, and none in the penalty level. Unscheduled power interruptions were minimal at 1.7 times a year. System loss for the year was at 2.08%, much lower than the system loss cap and probably the lowest among all the distribution utilities in the country, which translated to a substantial reduction in customer bills by ₱0.1738 per kWh on the average or approximately ₱97 million.

CEDC's projects in the pipeline include the completion of the Mabalacat substation to serve the new Clark International Airport Terminal and to address the growing demand of big developers, like Clark Global Corporation, SM, and Clark Frontier; the installation of additional 8 Remote-Controlled Line Reclosers (*RCLR*s), as part of *CEDC's* smart grid initiatives, to minimize power interruptions and expedite power restoration; the acquisition and operation of an Advanced Distribution Management System (*ADMS*) to further improve system reliability and flexibility through the effective management of outages for the faster identification and isolation of line troubles and swift restoration of power. Among them are projects scheduled for completion in 2021 but were delayed due to the Covid-19 pandemic.

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

MGen's subsidiaries and affiliates are as follows:

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

     - The power plant, which provides baseload power supply to electricity consumers in Luzon, is a Board of Investments ("BOI") registered pioneer project that utilizes state-of-the-art

supercritical technology, which is more fuel efficient compared to coal plants currently in operation in the Philippines.

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

B. Investments:

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

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

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

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

  - Subsidiaries and affiliates:
    - Cebu Energy Development Corporation ("CEDC") owns and operates a 246MW clean coal-fired power plant located in Toledo City, Cebu. It is a consortium composed of GBP, Aboitiz Power Corporation, and Vivant Integrated Generation Corporation. It is 56% beneficially owned by GBP.

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

    - Panay Energy Development Corporation ("PEDC") owns and operates 164MW and 150MW clean coal-fired power plants located in Iloilo City, Iloilo. It is 89% beneficially owned by GBP.

    - Panay Power Corporation ("PPC") owns and operates four diesel-fired power plants. In Iloilo City, it has a 75MW plant and a 20 MW plant. It also has a 7.5MW plant and a 5MW plant in Nabas and New Washington, Aklan. It is 89% beneficially owned by GBP.

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

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

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

- PH Renewables, Inc. ("PHRI") is developing a 75MWac solar plant in Baras, Rizal. Target commercial operations is by third quarter of 2022. It is 54% beneficially owned by GBP.

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

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

  - Subsidiaries and affiliates:
    - PowerSource First Bulacan Solar, Inc. ("PFBSI") owns a 55MWac solar power plant in San Miguel, Bulacan. It is a joint venture between MGreen (60%) and PowerSource Energy Holdings Corporation. PFBSI provides clean and renewable power to the Luzon Grid through its 20-year PSA with MERALCO approved by the ERC on December 22, 2016. PFBSI started commercial operations in May 2021.

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

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

C. Development Projects:
- Atimonan One Energy, Inc. ("A1E"):
  - MGen's wholly owned subsidiary developing a 2 x 600 MW (net) coal-fired power plant in Atimonan, Quezon.

  - The Department of Energy ("DOE") issued A1E a Certificate of Energy Project of National Significance ("CEPNS") for commerciality under Executive Order No. 30 – a key

recognition of the project's importance to the country's future energy supply. Transmission right-of-way ("ROW") acquisition continues to progress well and is almost fully secured.

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

- The project has been granted a Foreshore Lease Agreement by the DENR and also received its Certificate of Registration from the BOI as a pioneer project – the first ultra-supercritical coal-fired power plant project in the country.

- Redondo Peninsula Energy, Inc. ("RP Energy"):
  - RP Energy is a joint undertaking among MGen (50%), Therma Power, Inc. of the Aboitiz Group (25%), and Taiwan Cogeneration International Corp. (25%). RP Energy is developing a 2 x 300 MW (net) circulating fluidized bed, coal-fired power plant in the Subic Freeport Zone.

MSpectrum Inc. ("*Spectrum***")** is a renewable energy ("*RE*") provider in the Philippines. Spectrum boasts of end-to-end technical capabilities, its synergy with the *MERALCO* Group of Companies, and support of world-class service and product providers. Its mission is to provide renewable energy solutions to businesses and communities, delight our stakeholders, improve lives, and build a sustainable future. Its vision is to be the most trusted *RE* company in the Philippines; trusted by its customers, the community, its employees, partners and shareholders.

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

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

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

eSakay, Inc. ("*eSakay")* is a wholly-owned subsidiary of *MERALCO*. It integrates vital components across electric mobility ecosystems, providing end-to-end and tailor-fit electric vehicle ("*EV*") and charging infrastructure solutions to private and public sector customers throughout the country, helping them modernize and electrify their transport systems. eSakay propagates sustainable and green mobility solutions – from the supply of *EV* and charging stations to the provision of managed services (i.e. *EV* operatorship, fleet management, and charging services).

In January 2019, *eSakay* launched its first electric Public Utility Vehicle ("*ePUV*") initiative with its Makati-Mandaluyong eJeep route, servicing commuters in the two (2) cities through 15 zero-

emission, zero-noise, and 100% electric jeeps. This is in full support of the Department of Transportation's Public Utility Vehicle Modernization Program ("*PUVMP*").

eSakay also supports multiple private sector clients supplying and/or providing operatorship services across *EV* types – from eVans and eShuttles to eMotorcycles and eScooters. Key initiatives such as these are all part of *eSakay*'s thrust to help build 'greener' roads and 'bluer' skies for customers, communities, and the country. eSakay's vision is to be the country's top green mobility solutions provider, spurring and driving the Philippines' journey towards an emissions-free transportation sector. eSakay's mission is to accelerate the adoption of electric mobility in the Philippines by providing the highest value tailor-fit and end-to-end EV and charging infrastructure solutions.

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

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

2) Business of Issuer

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

	2021	2020	2019
Residential	36.71%	37.84%	31.13%
Commercial	33.07%	33.89%	39.43%
Industrial	29.91%	27.94%	29.14%
Streetlights	0.31%	0.33%	0.30%
TOTAL	100.00%	100.00%	100.00%

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

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

	2021	2020	2019
First Gas Power Corporation ("*FGPC*") – *Sta. Rita Power Plant* and FGP Corp. ("*FGP*") – *San Lorenzo Power Plant*	24.97%	24.95%	26.37%
South Premier Power Corporation ("*SPPC*") – *Ilijan Power Plant*	14.57%	13.55%	15.33%
Philippine Electricity Market Corporation ("*PEMC*") - Wholesale Electricity Spot Market or *WESM*	9.79%	11.98%	10.34%
San Miguel Energy Corporation ("*SMEC*") – *Sual Coal-fired Plant*	10.57%	11.37%	11.18%
San Buenaventura Power Limited ("*SBPL*")	7.93%	7.92%	4.02%
Masinloc Power Partners Co., Ltd. ("*Masinloc*")	6.59%	5.97%	7.27%
Quezon Power (Philippines) Limited	6.82%	5.33%	6.72%
AC Energy Philippines, Inc. ("*AC Energy*")	5.71%	4.84%	-
Therma Luzon, Inc. ("*TLI*") – *Pagbilao Coal Plant*	1.18%	4.81%	4.93%
First NatGas Power Corporation ("*FNPC*")	4.82%	4.24%	6.66%
Sem-Calaca Power Corporation ("*Sem – Calaca*")	2.90%	3.03%	3.32%
Others	4.15%	2.01%	3.86%
TOTAL	100.00%	100.00%	100.00%

Franchise and Concession Agreements

MERALCO holds a congressional franchise under Republic Act ("*RA*") No. 9209 effective June 28, 2003. *RA* No. 9209 grants *MERALCO* a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the *ERC* granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*'s congressional franchise. The franchise area of *MERALCO* over specified areas in Luzon is approximately 9,685 square kilometers, covering 36 cities and 75 municipalities.

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

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

of *MERALCO*, have submitted the requirements for its *RES* licensing to *ERC*. The approval of its *RES* licensing is pending with the *ERC.*

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

Retail Competition and Open Access ("RCOA")

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

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

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

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

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

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

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

- Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 MW) shall result in the

physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SOLR*"), or, if applicable, procures power from the *WESM*;

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

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

- Imposes upon all *RES*s, including *DU*-affiliate *RES*s, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,

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

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

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

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

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

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

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

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

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

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

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

Government Approval of Principal Products or Services

On June 9, 2003, Republic Act ("*RA*") No. 9209, otherwise known as the "An Act Granting the Manila Electric Company A Franchise To Construct, Operate and Maintain A Distribution System for the Conveyance of Electric Power to the End-Users in the Cities/Municipalities of Metro Manila,

Bulacan, Cavite and Rizal and Certain Cities/Municipalities/Barangays in Batangas, Laguna, Quezon and Pampanga", was signed into law and took effect on June 28, 2003.

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

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

COVID-19 Pandemic

The *COVID-19* pandemic has resulted in health-related risks of the employees and business partners that may affect the business operations of the *MERALCO*.

The implementation of community quarantines or lockdowns may hamper the company in conducting its regular business process or activities such as implementation of electrification projects, processing of service applications, meter reading, delivery of bills and disconnection notices, and acceptance of payments. The *COVID-19* pandemic may also lead to corporate image/reputation risks if *MERALCO* will not be able to provide electric services and even financial impact if the affected customers will not be pay their bills.

MERALCO is currently implementing controls to prevent and minimize the spread of the virus among its workforce and partners such as safety and health protocols and flexible work arrangements. It is also implementing various initiatives to ensure the continuity of services such as coordination with government agencies to allow *MERALCO* personnel and partners to work within the lockdown areas, promote the use of digital channels such as online inquiries, online payments to avoid physical contacts between its workforce and the customers.

Government Approval and Regulation

Energy Regulatory Agency

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

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

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

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

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

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

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

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

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

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

Number of Employees

As at December 31, 2021, *MERALCO* has a total of 5,905 regular employees (Managerial/Executive - 1,511, Supervisory – 3,077 and Rank & File – 1,317) covered by two (2) unions, namely, First Line Association of Meralco Supervisory Employees ("*FLAMES*") and Meralco Employees and Workers Association ("*MEWA*"). The *Company* has existing Collective Bargaining Agreements with these unions expiring on November 30, 2024 (*FLAMES*) and November 30, 2022

(*MEWA*). The Company does not expect that there will be significant hiring nor reduction of employees in the next 12 months.

Item 2. Properties

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

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

As at December 31, 2021, in addition to the head office, *MERALCO* has 10 networks sector offices, 38 business centers and 17 customer centers or extension offices. Its network facilities consist of 131 substations (total capacity of 20,408 *MVA*), 1,002 circuits (total of 41,529 circuit-kms.) and 209,482 distribution transformers in service (total capacity of 17,689 *MVA*).

Separately, *CEDC* facilities consist of subtransmission and distribution assets and buildings and improvements located in *CSEZ*. *CEDC* distribution facilities include four (4) substations with a capacity of 100 *MVA* at 230 *kV* – 69 *kV* level and 183 *MVA* at 69 *kV* – 13.8 *kV* level (energize). Its present distribution network consists of 2,008 distribution transformers, 37.8 circuit-km. linear length of sub-transmission lines, 159.12 circuit-km. linear length of primary lines, and 27.82 circuit-km. linear length (111.29 conductor length) of secondary lines.

MGen, through its subsidiaries, Atimonan Land Ventures Development Corporation ("*ALVDC*") and Calamba Aero Power Corporation ("*CAPC*"), owns several parcels of land for the development and construction of power plant projects. The land of *ALVDC*, located in Atimonan, Quezon, is intended to be used by *A1E* for its 2 x 600 *MW* (net), ultra super-critical coal-fired plant project while the land of *CAPC* is held for future power plant project in Calamba, Laguna. *A1E* is a subsidiary of *MGen*.

Radius, *MERALCO*'s telecommunications subsidiary, owns 7,635 kilometers of fiber optic cables and telecommunications infrastructure in certain parts of Metro Manila.

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

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

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

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

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

Item 3. Legal Proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff ("*AWAT*") vis-à-vis ERC-approved average rate for the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from June 30, 2015 to November 2020 when *MERALCO* implemented the Interim Average Rate ("*IAR*").

MERALCO prayed that a Decision be rendered:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comment on the said Joint Motion. *MERALCO* is awaiting the *ERC*'s resolution of the *SGCs*' Joint Motion to Dismiss.

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

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

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

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

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

On January 9, 2014, *MERALCO* received copies of the *ERC*'s Comment and the Philippine Electric Power Operators Association's ("*PEPOA*") Comment-in-Intervention. On even date, *MERALCO* received an Order from the *SC* which directed the Petitioners in said case to implead the *PEMC* and [some] Suppliers with whom *MERALCO* has existing Power Supply Agreements ("*PSA*s"),

namely, *Sem-Calaca Power Corporation, Masinloc Power Partners Corporation, Therma Luzon Inc., San Miguel Energy Corporation, South Premiere Power Corporation, and Therma Mobile, Inc.*, as necessary parties to the case. Consequently, these additional respondents were required (i) to file their respective Comments on the Petitions no later than January 20, 2014 and (ii) to attend the preliminary conference set on January 13, 2014, or to file, on or before January 10, 2014, the necessary manifestation should they desire to waive their right to participate in the scheduled oral arguments on January 21, 2014. Incidentally, the *SC* also denied in said Order the *OSG*'s motion to be excused from filing Comment/s in behalf of the *ERC* and *DOE*. Accordingly, it was directed to file the necessary Comment/s and attend the preliminary conference.

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

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

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

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

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

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

In the meantime, on January 30, 2014, *MERALCO* filed an Urgent Motion with Manifestation with the *ERC*. *MERALCO* manifested that certain statements were made that there have been gross violations of *WESM* rules and regulations as well as protocols on generation offers and plant dispatch by certain *WESM* participants which affected the market clearing prices. *MERALCO* prayed for the issuance of an Order: (a) directing *PEMC* to conduct market re-runs or re-calculations of *WESM* transactions and dispatches, or determine substituted prices or undertake any other appropriate

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

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

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

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

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

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

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

the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

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

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

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

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

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

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribune that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve

the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In a Manifestation dated February 2, 2016, *MERALCO* informed the *ERC* that it was constrained to implement four (4) of its proposed major *CAPEX* projects subject of this Application. On June 15, 2016, *MERALCO* received a copy of the *ERC* Decision dated April 12, 2016 which partially approved *MERALCO*'s *CAPEX* program for *RY* 2016 amounting to ₱15.4 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration of the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* has filed its opposition to the Motion for Reconsideration. The *ERC* has yet to rule on the Motion for Reconsideration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In relation to the *ERC* and *DOE* Petitions, a separate Petition for Certiorari, Prohibition and Injunction was filed by several institutional customers. In said Petition, said customers sought to declare as null and void, as well as to enjoin the *DOE* and *ERC* from implementing *DOE* Circular No.

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

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

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

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

On September 24, 2021, 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.

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

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

proceedings until the *MSK* Petition has been resolved. The *ERC* has yet to act on *MERALCO*'s Omnibus Motion.

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

In the Matter of the Petition for the Adoption of the Proposed Issues Paper and Revised Rules for Setting Distribution Wheeling Rates for the 5th Regulatory Period of the First Entry Group under Performance Based Regulation, Manila Electric Company, Petitioner

ERC Case No. 2018-008 RM
Filed on December 21, 2018

Considering the approaching end of *MERALCO*'s 4th *RP* on June 30, 2019, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised Rules for Setting Distribution Wheeling Rates for the 5th *RP* of the First Entry Group Under Performance Based Regulation on December 21, 2018. The ERC has yet to issue any order or set the case for hearing.

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

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

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

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

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

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

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

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

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

In compliance with the provisions of the Public Service Act, on October 28, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed. On December 10, 2020, *MERALCO* submitted its Formal Offer of Evidence. On January 25, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution. *MERALCO* is awaiting further action of the *ERC* on the matter.

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

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

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

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

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

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

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

On August 4, 2020, *MERALCO* received a letter dated July 30, 2020 from the *ERC* granting *MERALCO*'s request for extension to defer its submission, but only until August 2020, or 27 days from its receipt of the letter, without further extension. Unfortunately, despite exerting its best efforts, *MERALCO* was only able submit its partial but substantial compliance through a letter dated August 31, 2020, which was sent by electronic mail on September 1, 2020, given the magnitude of the detailed information required. As such, *MERALCO* could only submit information covering the Third Regulatory Period as well as other system statistics. However, *MERALCO* undertook to submit the remaining information within the next three (3) months. On November 2020, the ERC sent a letter dated 29 October 2020 inviting MERALCO and its concerned officers to 4, a virtual clarificatory meeting to clarify *MERALCO*'s submission and discuss the Honorable Commission's initial review thereon on November 23, 2020. Similarly, the Honorable Commission informed *MERALCO* that it shall allow the submission of additional information as required during the meeting as well as

answers to the clarificatory questions no later than five (5) business days from the date of the clarificatory meeting.

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

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

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

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

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

(1) Market Information

The principal market where *MERALCO*'s common equity is traded in the Philippine Stock Exchange. The quarterly high and low sales prices for the fiscal years 2021 and 2020 and first quarter 2022 are as follows:

FROM	TO	HIGH	LOW
01/01/22	03/31/22	₱380.80	₱295.20
10/01/21	12/31/21	307.00	286.00
07/01/21	09/30/21	263.20	298.00
04/01/21	06/30/21	285.40	270.20
01/01/21	03/31/21	338.60	261.20
10/01/20	12/31/20	315.00	269.20
07/01/20	09/30/20	283.00	254.00
04/01/20	06/30/20	294.80	220.40
01/01/20	03/31/20	318.80	189.70

As of March 31, 2022, the share price of *MERALCO* is ₱373.60.

(2) Holders

As at March 31, 2022, Company has 41,638 stockholders.

Top 20 Stockholders as of March 31, 2022

	STOCKHOLDER NAME	NUMBER OF SHARES	PERCENT
1	Beacon Electric Asset Holdings, Inc.	394,059,235.00	34.96%
2	JG Summit Holdings, Inc.	333,189,397.00	29.56%
3	Philippine Central Depository ("PCD") Nominee Corporation - Filipino	140,609,1704.00	12.48%
4	Metro Pacific Investments Corporation	118,364,807.00	10.50%
5	PCD Nominee Corporation - Non-Filipino	56,565,448.00	5.02%
6	First Philippine Holdings Corporation	44,382,436.00	3.94%
7	Mantes Corporation	2,486,427.00	0.22%
8	Lucio W. Yan	403,208.00	0.04%
9	Charlotte Cua Cheng	314,534.00	0.03%
10	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	291,140.00	0.03%
11	Avesco Marketing Corporation	284,427.00	0.03%
12	B. P. Insurance Agency, Inc.	281,079.00	0.02%
13	Makati Supermarket Corporation	240,308.00	0.02%
14	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	182,500.00	0.02%
15	Laarni Nieman Enriquez	164,388.00	0.01%
16	Jose Ignacio A. Carlos	161,687.00	0.01%
17	Antonino T. Aquino and/or Evelina S. Aquino	133,855.00	0.01%
18	AGIKIK CORPORATION	120,100.00	0.01%
19	BP Insurance Agency, Inc.	116,730.00	0.01%
20	Raul Joseph Concepcion	112,431.00	0.01%

(3) Dividends

Following are the cash dividends declared by *MERALCO*'s *BOD* in favor of *MERALCO* common shares for the two (2) most recent years ended December 31, 2020 and 2021:

YEAR	RATE PER SHARE	RECORD DATE	PAYMENT DATE
2021	₱ 7.824	03/25/2021	04/26/2021
	5.057	08/18/2021	09/15/2021
2020	₱ 10.395	03/17/2020	04/15/2020
	4.697	08/17/2020	09/15/2020

On February 28, 2022, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.

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

MERALCO strictly implements its dividend policy, approved by the *BOD*, in 2010, which prescribes the regular payment of dividends equivalent to fifty percent (50%) of consolidated core net income for the year, which may be supplemented by a special dividend determined on a "look-back" basis. In 2021, *MERALCO* paid cash dividend of ₱15.283 per share to all its shareholders.

(4) Recent Issuance of Securities Constituting an Exempt Transaction

None.

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company ("*MERALCO*") and its subsidiaries, collectively referred to as the *"MERALCO Group*" should be read in conjunction with the audited consolidated financial statements as at December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (*"PFRSs")*. *PFRS* includes statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying audited consolidated financial statements is presented in Philippine peso, *MERALCO Group's* functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The Exchange rate used to translate U.S. dollars to Philippine peso in this report and in the accompanying audited consolidated financial statements is US$1.00 to ₱51.00, the closing rate as at December 31, 2021 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

	As at December 31		Increase (Decrease)	
	2021	2020	Amount	%
Condensed Statements of Financial Position				
Total assets	₱483,482	₱390,267	₱93,215	24
Current assets	137,019	128,382	8,637	7
Cash and cash equivalents	55,007	50,912	4,095	8
Equity attributable to equity holders of the parent	95,204	79,237	15,967	20
Total debt	90,668	40,144	50,524	126
Current liabilities	161,570	142,601	18,969	13

	For the Years Ended December 31			% Change	
	2021	2020	2019	2021 vs. 2020	2020 vs. 2019
Condensed Statements of Income					
Revenues	₱318,547	₱275,304	₱318,315	16	(14)
Costs and expenses	289,208	254,313	287,076	14	(11)
Other income, net of expenses	3,656	1,424	676	157	111
Income before income tax	32,995	22,415	31,915	47	(30)
Net income	24,083	16,149	23,372	49	(31)
Net income attributable to equity holders of the parent	23,498	16,316	23,285	44	(30)
Core net income [1]	24,608	21,711	23,832	13	(9)
EPS attributable to equity holders of the parent	20.85	14.48	20.66	44	(30)
Core EPS[2]	21.83	19.26	21.15	13	(9)

	For the Years Ended December 31			% Change	
	2021	2020	2019	2021 vs. 2020	2020 vs. 2019
Condensed Statements of Cash Flows					
Net cash provided by operating activities	43,181	29,872	42,176	45	(29)
Net cash provided by (used in) investing activities	(49,467)	2,776	(20,393)	(1,882)	(114)
Net cash provided by (used in) financing activities	10,861	(20,291)	(20,247)	(154)	–
Operational Data					
Number of customers (in thousands):					
Residential	6,839	6,575	6,339	4	4
Commercial	555	541	528	3	2
Industrial	11	11	11	–	–
Streetlight	5	5	5	–	–
Electricity sales volume (in *GWh*)	46,073	43,572	46,871	6	(7)
System loss (in percentage) :					
MERALCO	5.85	6.08	5.44	(4)	10
Clark Electric Distribution Corporation ("*Clark Electric*")	2.08	2.10	2.15	(1)	(2)

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

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

		For the Years Ended December 31		
Financial KPI	Definition	2021	2020	2019
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	44,581	35,287	38,026
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	0.95	0.51	0.49
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.85	0.90	0.92
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	7%	6%	7%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	25%	21%	28%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	73%	0.74	0.92

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 2,585 customer accounts as at December 31, 2021. *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone. The Bases Conversion and Development Authority ("*BCDA*") confirmed that the power distribution franchise of *Clark Electric* within the entire *CSEZ* is until July 30, 2047.

  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 February 28, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

  Power generation – The *MERALCO Group* 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. In 2021, it delivered a total of 3,234 *GWh* to *MERALCO* under an *ERC*-approved Power Supply Agreement ("*PSA")*.

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 February 28, 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 ● *MERALCO* ● *Clark Electric* ● *Shin Clark* Power generation • *MGen* and its subsidiaries *RES* • *MERALCO* through *MPower* business unit • *Clark Electric* through *Cogent Energy* business unit • *Clarion* • *GESC* • *MeridianX* • *Phoenix Power* • *Solvre* • *Vantage*	● *CIS Group* ● *Comstech* ● *e-MVI Group* ● *eSakay* ● *Finserve* ● *LOIL* ● *MIESCOR Group* ● *MRail* ● *MServ* ● *Spectrum*

RESULTS OF OPERATIONS

The tables below summarize the consolidated results of operations and the contribution of each business segment to *MERALCO Group*'s revenues, costs and expenses, other income, and net income for the years ended December 31, 2021, 2020 and 2019.

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

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

	For the Year Ended December 31, 2019			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱310,098	₱11,299	(₱3,082)	₱318,315
Costs and expenses	281,004	9,233	(3,161)	287,076
Other income (expense) - net	1,074	(319)	(79)	676
Net income attributable to equity holders of the parent	22,314	1,058	(87)	23,285

2021 compared with 2020

REVENUES

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

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

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

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

Power

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

Revenues of the power segment in 2021 was at ₱309,238 million, ₱41,292 million or 15% higher compared with 2020 mainly due to: (a) ₱23,203 million power generation revenues resulting from consolidation of GBPC beginning April 1, 2021, and (2) the higher energy sales volumes from electricity distribution and *RES*.

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

MERALCO's 12-month moving average system loss ("*SL*") rate was at 5.64% as at December 31, 2021, higher than that as of December 31, 2020 mainly due to the shift in customer mix to residential customers which have higher technical losses as power is served at the secondary voltage level. *Clark Electric*'s 12-month moving average *SL* rate was at 2.16%, 0.03 percentage point higher than last year.

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

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

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

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

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

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

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

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

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

Other Services

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

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

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

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

COSTS AND EXPENSES

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

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

Power

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

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

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

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

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

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

Contracted services amounted to ₱7,687 million, higher by ₱1,061 million compared with 2020. Contracted services include information system/*IT* services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the resumption of disconnecting services for customers with overdue accounts in 2021 resulting in higher collection and messengerial services. There was also an increase in maintenance activities for the distribution facilities amid easing quarantine restrictions.

Coal and fuel expenses pertain to costs incurred by the power generation companies for the nine months ended December 31, 2021, with the consolidation of *GBPC* beginning April 1, 2021. Other

cost and expense items of *GBPC* beginning April 1, 2021 are included in the consolidated costs and expenses for the year ended December 31, 2021.

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

Other Services

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

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

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

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

OTHER INCOME (EXPENSES)

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

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

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

Power

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

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2021	December 31, 2020	Increase (Decrease)	
			Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱225,779	₱163,009	₱62,770	39
Investments in associates and interests in joint ventures	23,450	15,688	7,762	49
Investment properties	1,496	1,499	(3)	–
Deferred tax assets - net	27,226	28,943	(1,717)	(6)
Intangible assets	15,387	2,233	13,154	589

	December 31, 2021	December 31, 2020	Increase (Decrease) Amount	%
Financial and other noncurrent assets	53,125	50,513	2,612	5
Total Noncurrent Assets	346,463	261,885	84,578	32
Current Assets				
Cash and cash equivalents	55,007	50,912	4,095	8
Trade and other receivables	45,013	58,120	(13,107)	(23)
Inventories	9,817	5,484	4,333	79
Financial and other current assets	27,182	13,866	13,316	96
Total Current Assets	137,019	128,382	8,637	7
Total Assets	₱483,482	₱390,267	₱93,215	24
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱95,204	₱79,237	₱15,967	20
Non-controlling interests	10,239	1,494	8,745	585
Total Equity	105,443	80,731	24,712	31
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	52,720	14,809	37,911	256
Customers' deposits - net of current portion	30,901	29,844	1,057	4
Long-term employee benefits	10,257	15,327	(5,070)	(33)
Provisions	13,554	17,065	(3,511)	(21)
Refundable service extension costs - net of current portion	5,334	6,632	(1,298)	(20)
Deferred tax liabilities - net	5,722	316	5,406	1,711
Other noncurrent liabilities	97,981	82,942	15,039	18
Total Noncurrent Liabilities	216,469	166,935	49,534	30
Current Liabilities				
Notes payable	28,834	23,373	5,461	20
Trade payables and other current liabilities	119,056	111,261	7,795	14
Customers' refund	2,929	2,949	(20)	(1)
Income tax payable	1,637	3,056	(1,419)	(46)
Current portion of interest-bearing long-term financial liabilities	9,114	1,962	7,152	365
Total Current Liabilities	161,570	142,601	18,969	13
Total Liabilities	378,039	309,536	68,503	22
Total Liabilities and Equity	₱483,482	₱390,267	₱93,215	24

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

Utility Plant and Others
The ₱62,770 million increase in utility plant and others reflects the consolidation of *GBPC*'s net property, plant and equipment amounting to ₱47,218 million as at December 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, most of which represents regulated capital expenditures by *ERC*'s definition, totaling to about ₱26,559 million, net of depreciation and amortization of ₱10,846 million for the year.

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

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

Intangible Assets
Intangible assets from the acquisition of *GBPC*based on provisional purchase price allocation, accounted for ₱13,833 million, of the total of ₱15,837 million as of December 31, 2021.

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

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

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

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

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

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

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

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

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

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

2020 compared with 2019

REVENUES

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

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

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

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

Power

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

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

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

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

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

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

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

Consolidated energy sales volumes, which include volumes distributed by *Clark Electric* of 505 *GWh* were at 43,572 *GWh*, 7% lower compared with 2019 volume. With the easing of community

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

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

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

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

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

Other Services

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

COSTS AND EXPENSES

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

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

Power

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

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

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

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

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

Contracted services include information system/*IT* services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase in contracted services is due to the convenience fees by third party payments shouldered by *MERALCO* and increase in call center seats to handle customer concerns during the pandemic. This was offset by lower disconnection/reconnection services with the suspension of service disconnection through December 31, 2020.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims, provision for expected credit losses, costs of materials, transportation, and other corporate expenses. The higher provision for expected credit losses were driven by uncollected

receivables as *DU*s were directed to extend payment terms and suspend disconnection of services.

Other Services

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

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

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

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

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

OTHER INCOME (EXPENSE)

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

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

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

Power

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱15,059	92	₱22,314	96	(₱7,255)	(33)
Other services	1,090	7	1,058	5	32	3
Inter-segment transactions	167	1	(87)	(1)	254	(292)
Total	₱16,316	100	₱23,285	100	(₱6,969)	(30)

The lower net income attributable to equity holders of the parent was contributed by the Power segment with reduced energy sales from both electricity distribution and *RES* units, additional provision for expected credit losses and lower yield from investments. This was partially offset by the higher contribution of *SBPL* which began operations in October 2019.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020	December 31, 2019	Increase (Decrease)	
			Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱163,009	151,441	₱11,568	34
Investments in associates and interests in joint ventures	15,688	14,965	723	40
Investment properties	1,499	1,502	(3)	–
Deferred tax assets - net	28,943	23,440	5,503	(48)
Financial and other noncurrent assets	52,746	47,982	4,764	8
Total Noncurrent Assets	261,885	239,330	22,555	29
Current Assets				
Cash and cash equivalents	50,912	38,262	12,650	(14)
Trade and other receivables	58,120	32,608	25,512	3
Inventories	5,484	4558	926	57
Financial and other current assets	13,866	42,261	(28,395)	103
Total Current Assets	128,382	117,689	10,693	9
Total Assets	₱390,267	₱357,019	₱33,248	22
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱79,237	84,230	(₱4,993)	2
Non-controlling interests	1,494	1,011	483	627
Total Equity	80,731	85,241	(4,510)	14
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	14,809	12,745	2,064	263
Customers' deposits - net of current portion	29,844	28,247	1,597	3
Long-term employee benefits	15,327	8,882	6,445	22
Provisions	17,065	17,356	(291)	(11)
Refundable service extension costs - net of current portion	6,632	6,932	(300)	(77)
Deferred tax liabilities - net	316	84	232	1,361
Other noncurrent liabilities	82,942	69,971	12,971	12
Total Noncurrent Liabilities	166,935	144,217	22,718	30

Current Liabilities				
Notes payable	23,373	23,393	(20)	20
Trade payables and other current liabilities	111,261	93,680	17,581	14
Customers' refund	2,949	3,032	(83)	(1)
Income tax payable	3,056	2,341	715	(41)
Current portion of interest-bearing long-term financial liabilities	1,962	5,115	(3,153)	351
Total Current Liabilities	142,601	127,561	15,040	18
Total Liabilities	309,536	271,778	37,758	25
Total Liabilities and Equity	₱390,267	₱357,019	₱33,248	21

CHANGES IN FINANCIAL POSITION

On December 17, 2020, *MGen*, through *MGreen*, acquired 20% equity in *First Bulacan*, increasing *MGreen*'s equity interest in *First Bulacan* to 60%. As such, *MERALCO*'s consolidated statement of financial position as at December 31, 2020 included the consolidation of *First Bulacan*'s assets and liabilities. In 2019, *MERALCO* accounted for its 40% investment in *First Bulacan* using equity method of accounting.

Utility Plant and Others
The ₱11,568 million increase in utility plant and others reflects 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 ₱19,937 million, net of depreciation and amortization of ₱8,065 million for the year. As at December 31, 2020, *First Bulacan*'s property, plant and equipment included in this account amounted to ₱2,582 million.

Investments in Associates and Interests in Joint Ventures
The movements in this account were (a) additional equity infusion of ₱466 million (b) equity in net earnings of ₱1,233 million largely coming from *SBPL*, and (c) dividends received of ₱476 million.

Deferred Tax Assets
The additional deferred tax assets mainly relate to provisions recognized in 2020.

Financial and Other Noncurrent Assets
The increase in other noncurrent assets was driven by investments in financial assets at *FVOCI* and additional under-recoveries of pass-through generation charges.

Cash and Cash Equivalents
Cash and cash equivalents were lower with the build-up of receivables until end of 2020.

Trade and Other Receivables
As *MERALCO* was directed to extend payment terms to its customers and suspend disconnection of services during the pandemic, significant amount of receivables remained outstanding at end of 2020. Provision for expected credit losses of ₱1.9 billion was also recognized in 2020.

Financial and Other Current Assets
Short-term investments and investments in debt securities at amortized cost were used to partially fund *MERALCO*'s operations and capital expenditures.

Interest-bearing Long-term Financial Liabilities

Interest-bearing long-term financial liabilities totaled ₱14,809 million as at December 31, 2020, ₱2,604 million higher than 2019. The increase in this account was attributed to long-term financial liabilities of *First Bulacan*.

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. Additional obligations were recognized in 2020.

2019 compared with 2018

REVENUES

The following table shows the composition of *MERALCO Group*'s consolidated revenues for the years ended December 31, 2019 and 2018 by business segment.

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱310,098	97	₱295,389	97	₱14,709	5
Other services	11,299	4	11,373	4	(74)	(1)
Inter-segment transactions	(3,082)	(1)	(2,308)	(1)	(774)	34
Total	₱318,315	100	₱304,454	100	₱13,861	5

Consolidated electric revenues, which accounted for 97% of total revenues in 2019, increased by 5% as a result mainly of higher sales volume and higher pass-through generation charges.

Non-electric revenues, which accounted for 4% of consolidated revenues in 2019, consist largely of revenues from non-electric operating subsidiaries.

Power

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

MERALCO's average generation charge in 2019 was ₱5.22 per *kWh*, up by 2% compared with the ₱5.12 per *kWh* in 2018. Although *WESM* prices were higher resulting from higher tight supply conditions in Luzon grid from March to July in 2019, this was offset by lower fuel prices and peso appreciation due to reduction in Power Supply Agreement ("*PSA*") and Independent Power Producers ("*IPP*") charges. Year 2019 had 51 Yellow Alerts and 15 Red Alters in Luzon compared with 7 Yellow Alerts in 2018.

Distribution revenues, which accounted for 23% of total electric revenues, increased by 6% mainly due to growth in energy sales volume and higher average distribution charge of ₱1.41 per *kWh* in 2019 from ₱1.40 per *kWh* in 2018.

MERALCO's 12-month moving average system loss ("*SL*") rate was 5.54% as at December 31, 2019. This is 1.71 percentage points below the revised *SL* regulatory cap of 7.25% promulgated under Resolution 20, Series of 2017 of the *ERC*. *Clark Electric*'s 12-month moving average *SL* rate was at 2.15%, 5.10 percentage points below the regulatory cap and 0.62 percentage point lower than last year.

The following table summarizes the customer count as at December 31, 2019 and 2018 and the corresponding electric consumption per customer class for the years ended December 31, 2019 and 2018:

	No. of Customers *(in thousands)*		Electricity Sales *(in GWh)*		% Change	
Customer Class	2019	2018	2019	2018	No. of Customers	Electricity Sales
Residential	6,339	6,086	14,589	13,555	4	8
Commercial	528	514	18,483	17,463	3	6
Industrial	11	10	13,659	13,156	10	4
Streetlights	5	5	140	139	–	1
Total	6,883	6,615	46,871	44,313	4	6

Consolidated energy sales volume grew by 6% to 46,871, which includes volume distributed by *Clark Electric* of 585 *GWh.* The volume of *Clark Electric* on a standalone basis grew by 11% over 2018. The combined contributions of *MERALCO* and *Clark Electric* came from all customer sectors with consolidated residential volume finishing strongest with an 8% growth and providing a total of 14,589 *GWh*, accounting for 31% of total volume.

MERALCO's customer base grew 4% ending the year with a total of 6.9 million customer accounts for a net 268,000 new customers accounts from 6.6 million at the end of 2018. The combined contributions of *MERALCO* and *Clark Electric* came from all customer sectors with consolidated residential volume finishing strongest with an 8% growth. Residential volume growth was most notable in the provinces of Batangas, Quezon, Cavite, Bulacan and Pampanga. Average temperature for the year was slightly higher at 28.2^{o}C (compared with 27.9^{o}C in 2018) while inflation was at a low of 2.5%.

As at December 31, 2019, combined volume of *MERALCO*'s local and affiliate *RES* entities within the franchise area grew 17% compared with 2018 as its customer count grew to 449. Together, the *RES* units have 43% of the market in terms of volume. Margins, however, are tighter as other *RES*s have continuously competed on price, fixing contracts over two (2) to three (3) years.

Other Services

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

(e) *eSakay* with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2019 amounted to ₱287,076 million, higher by ₱11,064 million compared with ₱276,012 million in 2018. The following table shows the breakdown of consolidated costs and expenses for the years ended December 31, 2019 and 2018 by business segment:

	2019		2018		Increase	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱281,004	98	₱268,962	98	₱12,042	4
Other services	9,233	3	9,405	3	(172)	(2)
Inter-segment transactions	(3,161)	(1)	(2,355)	(1)	(806)	34
Total	₱287,076	100	₱276,012	100	₱11,064	4

Power

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

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Purchased power	₱241,032	86	₱232,102	86	₱8,930	4
Salaries, wages and employee benefits	10,679	4	10,187	4	492	5
Depreciation and amortization	8,181	3	7,334	3	847	12
Contracted services	6,619	2	6,071	2	548	9
Others	14,493	5	13,268	5	1,225	9
Total	₱281,004	100	₱268,962	100	₱12,042	4

Purchased power accounted for 86% of the total costs and expenses for the year ended December 31, 2019 and 2018. All of the electricity distributed by *MERALCO* and *Clark Electric* were contracted through *PSAs* with generators and long-term Power Purchase Agreements *("PPA")* with *IPP*s. The balance was purchased from the *WESM.*

The purchased power cost in 2019 increased by 4% compared with 2018 due to (i) higher volume, and (ii) higher spot prices at *WESM* due to outages of a number of baseload plants and the strong demand particularly during peak hours, offset by the lower fuel prices due to reduction in *PSA* and *IPP* charges and peso appreciation. The average purchased power cost of *MERALCO* for the year ended December 31, 2019 was ₱5.70 per *kWh*.

Salaries, wages and employee benefits expense is higher by 5% as compared with the same period last year. The increase is attributed to the annual merit adjustment and 3% growth in manpower count.

Depreciation and amortization grew by 12% with the implementation and completion of emergency capital expenditures ("*CAPEX*") to address customer and load growth requirements, improve service efficiency and customer experience, ensure network resiliency and hardening, and meet information technology ("*IT*"), security and safety requirements.

Contracted services amounted to ₱6,619 million, higher by ₱548 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 growth in number of customer accounts.

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

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2019 amounted to ₱9,233 million, 2% lower compared with ₱9,405 million in 2018.

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Salaries, wages and employee benefits	₱3,534	38	₱3,047	32	₱487	16
Contracted services	1,937	21	2,066	22	(129)	(6)
Depreciation and amortization	549	6	493	5	56	11
Others	3,213	35	3,799	41	(586)	(15)
Total	₱9,233	100	₱9,405	100	(₱172)	(2)

Salaries, wages and employee benefits expense is higher by ₱487 million due to the increase in manpower count for new projects and project-hired personnel of *MIESCOR Group*, *MRail*, *CIS Group*, and *e-MVI*.

Decrease in contracted services by ₱129 million is consistent with the lower revenues generated by this segment.

Other expenses, which consisted mainly of materials, transportation and travel, rental and utility expenses, decreased by ₱586 million in 2019 due to lesser project completions of *MServ*.

OTHER INCOME (EXPENSES)

The following table shows the breakdown of other income, net of expenses, for the years ended December 31, 2019 and 2018 by business segment:

			Increase/Decrease	
	2019	2018	Amount	%
	(Amounts in millions)			
Power	₱1,074	₱2,199	(₱1,125)	(51)
Other services	(319)	(48)	(271)	565
Intersegment transaction	(79)	(48)	(31)	65
Total	₱676	₱2,103	(₱1,427)	(68)

Other income – net for the year ended December 31, 2019 is lower by ₱1,427 million compared with 2018 due to foreign exchange losses in 2019 as a result of the devaluation of peso against US dollars, and higher share in losses of associates and joint ventures, offset by higher interest yield from placements and lower interest and financial charges.

Power

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

			Increase/Decrease	
	2019	2018	Amount	%
	(Amounts in millions)			
Interest and other financial income	₱3,213	₱2,786	₱427	15
Interest and other financial charges	(1,477)	(1,934)	457	(24)
Equity in net losses of associates and joint ventures	(1,482)	(678)	(804)	119
Foreign exchange gains (losses)	(483)	1,103	(1,586)	(144)
Others	1,303	922	381	41
Total	₱1,074	₱2,199	(₱1,125)	(51)

Interest and other financial income in 2019 increased by ₱427 million due to higher yields of investments compared with 2018.

Interest and other financial charges decreased by ₱457 million in 2019 compared with 2018 due to : (i) accounting adjustments to recognize accretion of deemed interest in 2018, and (ii) lower interest bearing financial liabilities since holders of ₱8.7 billion of *MERALCO*'s 7-Year fixed rate notes exercised their "Put Option" in February 2019. The decrease was partially offset by the higher re-pricing of interest in 2019.

The year ended December 31, 2019 resulted in foreign exchange losses due to appreciation of peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱50.64 as at December 31, 2019 and ₱52.58 as at December 31, 2018.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2019 and 2018 by business segment:

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱22,314	96	₱21,701	94	₱613	3
Other services	1,058	5	1,401	6	(343)	(25)
Inter-segment transactions	(87)	(1)	(85)	–	(2)	2
Total	₱23,285	100	₱23,017	100	₱268	1

Net income attributable to equity holders of the parent increased by ₱268 million as a result of higher energy sales, improved performance of *RES* units and contribution of *SBPL* which began operations in October 2019.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the Years Ended December 31		
	2021	2020	2019
		(Amounts in millions)	
Cash Flows			
Net cash provided by operating activities	₱43,181	₱29,872	₱42,176
Net cash provided by (used in) investing activities	(49,467)	2,776	(20,393)
Net cash used in financing activities	10,861	20,291	20,247
Net increase (decrease) in cash and cash equivalents	4,095	12,650	1,161
Capital Expenditures	27,237	20,558	19,985

	2021	2020
	(Amounts in millions)	
Capitalization		
Interest-bearing long-term financial liabilities		
Current	₱9,114	₱1,962
Noncurrent	52,720	14,809
Notes payable	28,834	23,373
Equity attributable to equity holders of the parent	95,204	79,237
Other Selected Financial Data		
Total assets	483,482	390,267
Utility plant and others	225,779	163,009
Cash and cash equivalents	55,007	50,912

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 December 31, 2021, the *MERALCO Group* is in compliance with all of the covenants of its loan agreements.

Equity Financing

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

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

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,470 million and ₱1,472 million as at December 31, 2021 and 2020, respectively. Total unclaimed dividends amounted to ₱249 million as at December 31, 2021 and 2020. 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 in 2021, 2020 and 2019:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 26, 2021	August 23, 2021	September 15, 2021	₱5.06	₱5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716
July 29, 2019	August 20, 2019	September 20, 2019	5.46	6,159
February 26, 2019	March 22, 2019	April 15, 2019	10.59	11,941

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.

On February 28, 2022, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.

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 February 28, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence ("*FOE*") after the *ERC* has resolved pending motions. As at February 28, 2022, the *ERC*'s ruling on these motions remains pending.

In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other distribution utilities, to refund any remaining amount pertaining to regulatory reset costs for the previous *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 February 28, 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 February 28, 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*. The deadline for filing the regulatory reset application is set on February 9, 2022. However, *MERALCO* requested for an additional period, or until March 11, 2022, within which to file its reset application. On February 17, 2022, the *ERC* granted the request of *MERALCO* but with no further extension.

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.

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* and subsequent regulatory period, the approved *MAP* for *RY* 2015 was used beginning *RY* 2016. On February 18, 2016, December 29, 2016, May 17, 2018 and July 5, 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for *RY*s 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to the *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for *RY*s 2016, 2017 and 2018. As at February 28, 2022, the application is pending approval by the *ERC*.

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

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

Continued work-from-home and remote learning set-ups amid granular lockdowns pushed residential sales volume to grow 3% to 16,913 *GWh* from 16,488 *GWh* year-on-year, although slowdown was noted in the second half of 2021 as temperature dropped to 26.6^{o}C, the lowest recorded in the last five (5) years. The increased mobility of vaccinated individuals also reduced residential sales volume.

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

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

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

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

Power Supply and Demand Management

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

Below is the summary of *MERALCO* and *Clark Electric*'s electricity suppliers and the respective amounts of power purchased for the years ended December 31, 2021, 2020 and 2019. 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 years ended December 31, 2021, 2020 and 2019, follow:

	2021	2020	2019
		(Amounts in millions)	
First Gas Power Corporation	₱51,164	₱43,659	₱54,781
National Grid Corporation of the Philippines (“*NGCP”)*	34,539	37,230	35,724
South Premiere Power Corporation (“*SPPC*”)	25,643	24,166	31,903
Independent Electricity Market Operator of the Philippines Inc. (“*IEMOP*”)	21,721	14,523	27,084
Quezon Power (Philippines) Limited Company (“*QPPL*”)	16,289	13,990	17,032
SBPL	15,973	12,902	4,950
San Miguel Energy Corporation (“*SMEC*”)	15,535	16,639	19,971
AC Energy Philippines, Inc. (“*AC Energy*”)	10,790	9,023	–
First NatGas Power Corp.	9,309	8,456	12,855
Masinloc Power Partners Co. Ltd. (“*MPPCL”*)	8,522	8,056	12,998
Sem-Calaca Power Corporation (“*Sem-Calaca*”)	4,933	3,650	5,172
First Gen Hydro Power Corporation	2,507	723	–
PEDC	2,264	1,812	1,788
Therma Luzon, Inc. (“*TLI*”)	2,219	7,033	12,178

	2021	2020	2019
		(Amounts in millions)	
Southwest Luzon Power Generation Corporation	1,982	34	903
Solar Philippines Tarlac Corporation	425	338	–
Therma Mobile, Inc. ("*TMO*")	–	516	1,928
Millenium Energy, Inc.	–	307	500
Others	1,100	1,363	1,365
	₱224,915	₱204,420	₱241,032

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. Adequacy of power supply is critical to ensure reliable service to critical COVID-19 facilities and the 2022 National Elections facilities.

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.

On March 31, 2021, *MGen* completed the acquisition of the combined 86% interests of Metro Pacific Investments Corporation ("*Metro Pacific*") through Beacon Powergen Holdings Inc. ("*BPHI*"), and JG Summit Holdings, Inc. ("*JG Summit*") in *GBPC* for a total consideration of ₱32,575 million, net of adjustments in accordance with the terms of the respective Share Purchase Agreements ("*SPA*"). The consideration is payable 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, *MGen* owned 14% 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 December 31, 2021, ₱6,515 million of the consideration is outstanding and due in September 2022.

(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 February 28, 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 February 28, 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 February 28, 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 February 28, 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.

2021 Capital Expenditure Requirements (*in millions)*

Electric capital projects	₱17,845
Non-electric projects and other capitalized items	6,375
Total capital expenditures	₱24,220

MERALCO has a *BOD*-approved capital expenditure budget of ₱24,220 million for the year ended December 31, 2021, of which about 74% represents planned expenditures for the electric capital projects of the power distribution business. The capital expenditure budget shall address requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries' capital expenditure budget for 2021 mainly covers the requirements of *A1E*'s development of its 2 x 600 *MW* coal-fired power plant in Atimonan Quezon; expansion of *Radius* to new areas and segments; and evolvement of *Bayad* into a full-service fintech company.

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

1. Retail Competition

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 February 28, 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 February 28, 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 February 28, 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 February 28, 2022, the Joint Motion to Dismiss is pending resolution by the *ERC*.

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

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

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order

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

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

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 28, 2022, the Petition is pending resolution by the *ERC*.

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

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

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

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

February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *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 February 28, 2022, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

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

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

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

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

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

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

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

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

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

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

In 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 February 28, 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 February 28, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

8. *SPPC* vs. *PSALM*

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

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

On July 26, 2019, *PSALM* filed a Petition for Certiorari to assail the September 24, 2018 Order and April 29, 2019 Order of the *RTC* which directed *PSALM* to respond to *SPPC*'s interrogaroties and submit certain documents. *PSALM* subsequently filed an Amended Petition on March 14, 2020. In a Resolution dated June 17, 2020, the *CA* directed the respondents to file their comment to the Amended Petition. *MERALCO* filed its Compliance with Motion to Drop Party-Respondent on July 13, 2020. In a Resolution dated February 1, 2021, the *CA* granted *MERALCO*'s motion.

In the meantime, on February 14, 2020, *MERALCO* filed its Motion to Withdraw as *MERALCO* no longer possessed any legal interest in the subject matter of the case as its *PSA* with *SPPC* subject of the dispute already expired. While *PSALM* has no objection to *MERALCO*'s withdrawal from the case, *SPPC* requested for time to file its comment. In an Order dated July 20, 2020, the *RTC* granted *MERALCO*'s Motion to Withdraw.

9. Ombudsman Case Against Directors

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

therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *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 February 28, 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 February 28, 2022, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

10. 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 February 28, 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 February 28, 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.

The following table sets forth *MERALCO Group* quarterly sales in *GWh* for the year ended December 31, 2021 and 2020.

Period	2021	2020
First Quarter	10,473	10,879
Second Quarter	12,190	10,260
Third Quarter	11,735	11,400
Fourth Quarter	11,675	11,033
Total	46,073	43,572

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

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

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

The Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO* Group's liquidity as at December 31, 2021, other than those already disclosed in this report and in the consolidated financial statements.

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

Listed hereunder are *MERALCO*'s five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR,*
e-MVI and *CIS*. The following table summarizes their key financial performance and indicators as at and for the years ended December 31, 2021 and 2020.

Financial Highlights and Ratios[1] of Major Subsidiaries
As at and for the Year Ended December 31, 2021 and 2020
(Amounts in million pesos except for financial ratios and % change)

	Clark Electric			*MGen*			*MIESCOR*			*e-MVI*			*CIS*		
	2021	2020	% change	2021	2020	% change	2021	2020	% change	2021	2020	% change	2021	2020	% chang
Percentage of ownership	65%	65%		100%	100%		99%	99%		100%	100%		100%	100%	
Condensed Statements of Financial Position															
Total assets	₱3,378	₱	5	₱119,124	₱26,937	342	₱7,176	₱5,564	29	₱4,271	₱3,426	25	₱	₱	(20)
Current assets	1,433	1,441	(1)	20,227	2,052	886	6,385	4,951	29	1,155	1,986	(42)	3,089	3,827	(19)
Cash and cash	1,017	941	8	9,194	641	1,334	840	477	76	679	1,509	(55)	1,389	1,376	1
Equity	2,145	1,983	8	39,253	22,647	73	1,657	1,123	48	2,704	2,559	6	932	901	3
Total debt[2]	–	–	–	48,578	2,622	1,753	683	729	(6)	–	–	–	–	–	–
Current liabilities	408	703	71	21,471	1,011	2,024	4,797	4,131	16	1,449	722	101	2,172	3,060	(29)
Financial Ratios															
Debt-to-equity ratio	–	–	–	1.24	0.12	969	0.41	0.65	(37)	–	–		–	–	–
Current ratio	3.51	2.05	71	0.94	2.03	(54)	1.33	1.20	11	0.80	2.75	(71)	1.42	1.25	14
Condensed Statements of Income															
Revenues	2,537	2,407	5	18,486	–	–	5,074	4,130	23	1,506	1,447	4	1,880	1,722	9
Costs and expenses	2,295	2,175	6	17,977	3,381	432	4,713	3,835	23	1,197	794	51	1,747	1,678	4
Net income (loss)	231	243	(5)	2,001	(2,352)	(185)	110	129	(15)	255	465	(45)	37	(50)	(174)
Financial Ratios															
Profit margin	9.1%	10.1%	(10)	10.8%	–	–	2.2%	3.1%	(31)	16.9%	32.1%	(47)	2.0%	(2.9%)	(168)
Return on equity	10.8%	12.3%	(12)	5.1%	(10.4%)	(149)	6.6%	11.5%	(42)	9.4%	18.2%	(48)	4.0%	38.8%	(90)
Asset turnover	0.77	0.91	(15)	0.25	–	–	0.80	0.87	(8)	0.39	0.56	(30)	0.52	0.63	(16)

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

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

ANNEX – Aging of Trade and Other Receivables
As at December 31, 2021
(Amounts in millions)

	Total	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	₱42,998	₱26,929	₱2,013	₱1,471	₱12,585
Other trade receivables	3,814	969	251	182	2,412
Gross trade receivables	46,812	27,898	2,264	1,653	14,997
Non-trade receivables	4,125	3,263	77	16	769
Total receivables	50,937	31,161	2,341	1,669	15,766
Allowance for doubtful accounts	(5,924)	(93)	(273)	(808)	(4,750)
Net receivables	₱45,013	₱31,068	₱2,068	₱861	₱11,016

Item 7. Financial Statements

Refer to Index to Financial Statements

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

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

External Audit Fees

The External Auditors

The shareholders of *MERALCO* has reappointed *SGV* as its external auditors for the year ended December 31, 2021 during the annual stockholders' meeting on May 25, 2021. The signing partner of *SGV* for *MERALCO* is Mr. Narciso T. Torres Jr.

(a) Audit and Audit-Related Fees

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

	2021	2020
	(Amounts in millions)	
Financial statements audit*	₱18.1	₱9.8
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the *ERC* and audit of universal charge reports as required by PSALM	0.7	0.7

* 2021 includes the audit fees of GBPC and subsidiaries.

(b) Tax Fees

Not applicable.

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

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

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

Not applicable.

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

Not applicable.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

As of March 31, 2022, the names of the incumbent Directors, nominees for election as directors and Executive Officers of *MERALCO* and their respective ages, citizenship, current positions, periods of service and business experiences during the past five (5) years are as follows:

MANUEL V. PANGILINAN
Filipino, 75 years old
Chairman, Board of Directors
Chairman, Executive Committee
Chairman, Remuneration and Leadership Development Committee
Director of Manila Electric Company since May 26, 2009

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

- Beacon Electric Asset Holdings, Inc.
- Smart Communications, Inc.
- PLDT Communications and Energy Ventures Inc.
- Landco Pacific Corporation
- Medical Doctors, Inc.
- Colinas Verdes Corporation
- Davao Doctors Hospital
- Riverside Medical Center, Inc.
- Our Lady of Lourdes Hospital
- Asian Hospital Inc.
- Maynilad Water Services, Inc.

- Mediaquest, Inc.
- Associated Broadcasting Corporation (TV5)
- NLEX Corporation
- MERALCO PowerGen Corporation
- Philex Petroleum Corporation
- Metro Pacific Hospital Holdings, Inc.
- Makati Medical Center
- Cardinal Santos Medical Center
- Digital Telecommunications Phils. Inc.
- Digitel Mobile Philippines, Inc.

Position and Membership in Other Organizations and Corporations:

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

LANCE Y. GOKONGWEI
Filipino, 55 years old
Vice-Chairman, Board of Directors
Member, Executive Committee
Member, Finance Committee
Member, Remuneration and Leadership Development Committee
Director of Manila Electric Company since December 16, 2013

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-listed Companies:

- JG Summit Petrochemical Corporation
- Robinsons Bank Corporation
- Gokongwei Brothers Foundation, Inc.
- JG Summit Olefins Corporation
- Altus Property Ventures, Inc.

Position and Membership in Other Organizations and Corporations:

- Chairman of Universal Robina Corporation, Robinsons Land Corporation, Robinsons Retail Holdings, Inc., Robinsons Bank Corporation, JG Summit Petrochemical Corporation, and JG Summit Olefins Corporation
- President and Chief Executive Officer of Cebu Air, Inc. and JG Summit Holdings, Inc.
- Chairman and Trustee of Gokongwei Brothers Foundation, Inc.

RAY C. ESPINOSA
Filipino, 65 years old
President and CEO since May 28, 2019
Director of Manila Electric Company since May 26, 2009

Education and Training:

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

Membership in Board of Publicly Listed Companies:

- PLDT Inc.
- Metro Pacific Investments Corporation
- Lepanto Consolidated Mining Company
- Roxas Holdings, Inc.

Membership in Board of Non-Listed Companies:

- Smart Communications, Inc.
- Maybank Philippines, Inc.
- Mediaquest Holdings, Inc.
- Philstar Daily, Inc.
- Business World Publishing, Inc.
- Cignal TV, Inc.
- First Pacific Company Limited

Position and Membership in Other Organizations and Corporations:

- Audit Committee Chairman of Lepanto Consolidated Mining Company
- Senior Advisor to the President and Chief Executive Officer of PLDT Inc.
- Member of the Integrated Bar of the Philippines, Philippine Bar Association, and Inter-Pacific Bar Association

- Nomination, Election and Governance Committee Member of Roxas Holdings. Inc.
- Executive Committee Member of LAWASIA Energy Section
- President of Mediaquest Holdings, Inc.
- Chairman of Business World Publishing, Inc. and Philstar Daily, Inc.

ANABELLE L. CHUA
Filipino, 61 years old
Chairman, Finance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since May 31, 2016

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

Membership in Board of Listed Companies:
- Philippine Stock Exchange

Membership in Board of Non-Listed Companies:
- Beacon Electric Asset Holdings, Inc.
- PLDT Communications and Energy Ventures, Inc.
- Smart Communications, Inc.
- Digital Telecommunications Phils. Inc.
- ePLDT, Inc.
- Philippine Telecommunications Investment Corporation
- Voyager Innovations, Inc.
- PayMaya Philippines, Inc.
- Mediaquest Holdings Inc.
- Cignal TV, Inc.
- TV5 Network, Inc.
- Philstar Daily, Inc.
- Securities Clearing Corporation of the Philippines

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

FREDERICK D. GO
Filipino, 52 years old
Member, Nomination and Governance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since November 25, 2019

Education and Training:

- BS Management Engineering, Ateneo de Manila University

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Robinsons Bank Corporation
- Luzon International Premier Airport Development Corporation
- Cebu Light Industrial Park

Position and Membership in Other Organizations and Companies:

- President and Chief Executive Officer, Robinsons Land Corporation
- Chairman and President, Altus Property Ventures, Inc.
- Chairman, Luzon International Premier Airport Development Corporation
- Vice Chairman, Robinsons Bank Corporation
- Group General Manager, Shanghai Ding Feng Real Estate Development Company Limited
- Group General Manager, Xiamen Pacific Estate Investment Company Limited
- Group General Manager, Chengdu Ding Feng Real Estate Investment Company Limited
- Group General Manager, Taicang Ding Feng Real Estate Development Company Limited
- Vice Chairman, Philippine Retailers Association

JAMES L. GO
Filipino, 82 years old
Member, Executive Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Finance Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since December 16, 2013

Education and Training:

- BS Chemical Engineering, Massachusetts Institute of Technology
- Masters in Chemical Engineering, Massachusetts Institute of Technology

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Marina Center Holdings, Inc.
- Hotel Marina City Private Limited
- Gokongwei Brothers Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

- Chairman of JG Summit Holdings, Inc. and Cebu Air, Inc. and Chairman and Chief Executive Officer of Oriental Petroleum and Minerals Corporation
- Chairman Emeritus of Robinsons Land Corporation, Universal Robina Corporation, JG Summit
  Petrochemical Corporation and JG Summit Olefins Corporation
- Vice-Chairman of Robinsons Retail Holdings, Inc.
- President and Trustee of Gokongwei Brothers Foundation, Inc.

JOSE MA. K. LIM
Filipino, 69 years old
Chairman, Risk Management Committee
Member, Executive Committee
Member, Audit Committee
Member, Related Party Transactions
Member, Nomination and Governance Committee
Member, Remuneration and Leadership Development Committee
Director of Manila Electric Company since May 29, 2012

Education and Training:

- BA Philosophy, Ateneo de Manila University
- Masters in Business Administration, Asian Institute of Management

Membership in Board of Listed Companies:

- Metro Pacific Investments Corporation

Membership in Board of Non-listed Companies:

- MERALCO PowerGen Corporation
- Beacon Electric Asset Holdings, Inc.
- Global Business Power Corporation
- Maynilad Water Services, Inc.

- Metro Pacific Tollways Corporation
- NLEX Corporation
- Light Rail Manila Corporation
- AF Payments Inc.
- MetroPac Water Investment Corporation
- EasyTrip Services Corporation
- Metropac Movers Inc.
- Medical Doctors, Inc.
- Manila Medical Services Inc.
- Asian Hospital Inc.
- Our Lady of Lourdes Hospital
- Manila Doctors Hospital
- Davao Doctors Hospital.
- Asian Institute of Management
- Ateneo Graduate School of Business
- Indra Philippines, Inc.
- Light Rail Manila Holdings, Inc.
- Light Rail Manila Holdings 6, Inc.
- Metro Pacific Light Rail Corporation
- AHI Hospital Holdings Corp.
- Colinas Verdes Hospital Managers Corporation
- Metro Pacific Tollways Development Corporation
- Metro Pacific Tollways North Corporation
- Metro Pacific Tollways Vizmin Corporation
- Metro Pacific Tollways South Corporation
- Beacon Powergen Holdings, Inc.
- MetroPac Iloilo Holdings Corporation
- MetroPac Iloilo Bulk Water Supply Corporation
- MetroPac Cagayan de Oro, Inc.
- MetroPac Logistics Company, Inc.
- Eco-System Technologies International, Inc.
- Maynilad Water Holding Company, Inc.
- Cagayan de Oro Bulk Water Inc.
- Collared Wren Holdings, Inc.
- MPCALA Holdings, Inc.
- Larkwing Holdings, Inc.
- CAVITEX Infrastructure Corporation
- Cebu Cordova Link Expressway Corporation
- Pacific Global One Aviation Company
- Metro Vantage Properties, Inc.
- Surallah Biogas Ventures, Inc.
- Philippine Disaster and Risk Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

- President and Chief Executive Officer of Metro Pacific Investments Corporation
- Trustee of Metro Pacific Investments Foundation Inc.
- President and Director of Beacon Electric Asset Holdings, Inc., Metro Strategic Infrastructure Holdings, MPIC-JGS Airports Holdings, Inc.
- Chairman of MetPower Ventures Partners Holdings, Inc.

- President and Chairman of Neo Oracle Holdings Inc.
- Trustee of Philippine Disaster Recovery Foundation
- Founding Member of the Shareholders Association of the Philippines

LYDIA B. ECHAUZ
Filipino, 74 years old
Independent Director of Manila Electric Company since May 25, 2021
Member, Finance Committee
Member, Nomination and Governance Committee
Member, Audit Committee

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

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

Membership in Board of Non-Listed Companies:
- PLDT Beneficial Trust Fund
- MediaQuest Holdings, Inc.
- Tahanan Mutual Building and Liam Association, Inc.
- Superior Parañaque Homes, Inc.
- Bancholders, Inc.
- Philstar Group
- FERN Realty Corporation
- Riverside College Inc.
- NBS College
- De La Salle College of St. Benilde
- Mano Amiga Academy
- Henry Sy Foundation, Inc.
- Felicidad Sy Foundation, Inc.
- SM Foundation, Inc.
- Akademyang Filipino Asso. Inc.
- Museo de Galeon Foundation, Inc.

ARTEMIO V. PANGANIBAN
Filipino, 85 years old
Lead Independent Director
Chairman, Audit Committee
Member, Executive Committee
Member, Risk Management Committee
Member, Related Party Transactions Committee
Independent Director of Manila Electric Company since May 27, 2008

Education and Training:

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

Membership in Boards of Listed Companies:

- Petron Corporation
- First Philippine Holdings Corporation
- PLDT Inc.
- Metro Pacific Investments Corporation
- Robinsons Land Corporation
- GMA Network, Inc.
- GMA Holdings, Inc.
- Asian Terminals, Inc.
- Jollibee Foods Corporation

Membership in Boards of Non-Listed Large Companies:

- Metro Pacific Tollways Corporation
- TeaM Energy Corporation
- Tollways Management Corporation
- Asian Hospital Inc.

Position and Membership in Other Organizations, Foundation and Corporations:

- Chairman, Board of Advisers of Metrobank Foundation; President, Manila Metropolitan Cathedral-Basilica Foundation, Inc.; Chairman, Board of Trustees, Foundation for Liberty and Prosperity and the Philippine Judges Foundation; Chairman, Philippine National Committee of the Asean Law Association; Trustee, Tan Yan Kee Foundation; ACN (Aid to the Church in Need) Philippines; Claudio Teehankee Foundation; and Member (and Chairman of the Philippine National Group) of the Permanent Court of Arbitration (The Hague, Netherlands)
- Senior Adviser of Metropolitan Bank and Trust Company
- Member, Advisory Council of the Bank of the Philippine Islands
- Adviser of Double Dragon Properties Corp. and MerryMart Consumer Corp.
- Columnist, Philippine Daily Inquirer
- Retired Chief Justice of the Supreme Court of the Philippines

PEDRO O. ROXAS
Filipino, 66 years old
Independent Director
Chairman, Nomination and Governance Committee
Chairman, Related Party Transactions Committee
Member, Finance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Remuneration and Leadership Development Committee
Independent Director of Manila Electric Company since May 25, 2010

Education and Training:

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

Membership in Board of Listed Companies:

- Roxas and Company, Inc.
- Roxas Holdings, Inc.
- PLDT Inc.
- Cemex Holdings Inc.

Membership in Board of Non-listed Companies:

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

Position and Membership in Other Organizations and Corporations:

- Chairman of Roxas and Company, Inc., Roxaco Land Corporation, Roxas Holdings, Inc. and Club Punta Fuego, Inc.
- President, Philippine Sugar Millers Association
- Independent Director of PLDT Inc., Cemex Holdings Inc. and BDO Private Bank, Inc.
- Trustee of Philippine Business for Social Progress
- Trustee of Roxas Foundation, Inc.

VICTORICO P. VARGAS
Filipino, 70 years old
Director of Manila Electric Company since May 28, 2019
Member, Finance Committee
Member, Remuneration and Leadership Development Committee

Education and Training:

- BS Psychology, University of Santo Tomas

Membership in Board of Non-Listed Companies:

- Smart Communications, Inc.
- PLDT Global, Inc.
- PLDT Subic Telecom, Inc.
- PLDT Clark Telecom, Inc.

Position and Membership in Other Organizations and Companies

- Associate Director of First Pacific Company Limited
- Head of the Business Transformation Office of the PLDT Group
- President of the Board of Trustees of First Pacific Leadership Academy
- Trustee of the MVP Sports Foundation and Ideaspace Foundation
- Trustee of the PLDT-Smart Foundation.
- President of PhilPop Music Fest Foundation
- President of the Association of Boxing Alliances in the Philippines
- Chairman of the Philippines Basketball Association for Season 2017-Present
- Immediate Past President of the Philippine Olympic Committee and currently a member of the Board of Directors

- Former President and Chief Executive Officer of Maynilad Water Services, Inc.
- Former Member of the Executive Committee of the Asian Boxing Confederation
- Former Vice Chairman of the Samahang Basketbol ng Pilipinas

Executive Officers

SIMEON KEN R. FERRER, 65, Filipino
Corporate Secretary (since May 26, 2009)
Atty. Ferrer is the Corporate Secretary of two other public companies: Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc. and an Independent Director of Grand Plaza Hotel Corporation, a company listed on the Philippine Stock Exchange. He is also the Corporate Secretary or Board member of various non-public companies. He is Of Counsel at SyCip Salazar Hernandez & Gatmaitan, having recently retired as Senior Partner and head of the Corporate Services Department. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow of the Institute of Corporate Directors. Atty. Ferrer is an *SEC*-accredited lecturer on corporate governance and is a member of the faculty of the School of Law of the Ateneo de Manila University. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines and obtained his Master of Laws degree from the University of Michigan as a DeWitt Fellow.

RAY C. ESPINOSA, 65, Filipino
President and CEO (since May 28, 2019)
(*Refer to his profile on page 110)*

ROBERTO R. ALMAZORA, 61, Filipino
Senior Vice President (since March 2009)
Head, MPower
Mr. Almazora heads MPower, the Local Retail Electricity Supply business segment of *MERALCO*. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management. Previously, he held various executive positions during his 33 years with MERALCO and served as Board of Director in various subsidiaries/affiliates of *MERALCO*, among which include Indra Philippines, Inc., Meralco Energy Inc., Meralco Industrial Engineering Services Corporation, Miescor Builders Inc. ("*MBI*"), Miescor Logistics Inc., Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation and Bauang Private Power Corporation. He served as President of *MBI* in 2011. He currently serves as Director in Comstech Integration Alliance, Incorporated. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of University of the Philippines. In 2011, he was granted the Professional Degree Award from Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as a resource speaker in various energy conferences and has served as an energy adviser to business groups and associations.

RONNIE L. APEROCHO, 53, Filipino
Senior Vice President (since January 1, 2017)
Head, Networks
Mr. Aperocho also serves as the President and CEO of Meralco Energy, Inc., MRAIL, Inc. and Meralco Industrial Engineering Services Corporation, and the Chairman of the Board of Directors of its two (2) subsidiaries, namely, Miescor Logistics Inc. and Miescor Builders Inc. He is also a member

of the Board of Directors of Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation, MGen Renewable Energy Inc., Radius Telecoms, Inc. and MSpectrum, Inc. He sits in the Board of Trustees of the Meralco Power Academy and One Meralco Foundation. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and topped the 1991 Electrical Engineering Board Exams. A registered Professional Electrical Engineer and ASEAN Chartered Professional Engineer, he holds a Masters Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

WILLIAM S. PAMINTUAN, 60, Filipino
Senior Vice President and Chief Legal Counsel
Assistant Corporate Secretary
Compliance Officer and Head, Legal and Corporate Governance Office
Data Protection Officer
Atty. Pamintuan is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Kalilayan Power, Inc., MPG Mauban LP Corporation, MPG Asia Ltd., Redondo Peninsula Energy, Inc., St. Raphael Power Generation Corporation, First Pacific Leadership Academy, Inc., MRAIL, Inc., Meralco Industrial Engineering Services Corporation, MGen Renewable Energy, Inc. and Nortesol III, Inc. and LagunaSol Corporation. He also serves as Director of Atimonan Land Ventures Development Corporation, MPG Holdings Phils., Inc., Radius Telecoms, Inc., MSpectrum, Inc., Pure Meridian Hydropower Corporation, Comstech Integration Alliance, Inc., Meridian Atlantic Light Company Ltd., PMHC Pulanai Inc., PMHC Lalawinan Inc., Aurora Managed Power Services, Inc., eSakay, Inc., MPioneer Insurance, Inc., Aclara Meters Philippines, Inc., Lighthouse Overseas Insurance Limited, e-Meralco Ventures, Inc., Paragon Vertical Corporation and Meralco Energy, Inc. He is a trustee of Meralco Pension Fund and Meralco Power Foundation, Inc. He is a former Trustee of Shareholders' Association of the Philippines, Inc. He is the Vice Chairman of MAP Energy Committee. He served as Officer-in-Charge and Acting President of Meralco Energy, Inc. He was a former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc.; and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc. He is also a member of the Board of Directors of the University of the Philippines Alumni Association and Board Governor of the UP Vanguard, Inc.. He is a member of the Management Association of the Philippines, Integrated Bar of the Philippines and Philippine Bar Association. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

BETTY C. SIY-YAP, 60, Filipino
Senior Vice President and Chief Finance Officer (since July 2009)
Chief Risk Officer
Ms. Siy-Yap is a Director of Clark Electric Distribution Corporation, CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Aclara Meters Philippines, Inc., Radius Telecoms, Inc., MPioneer Insurance Inc., Indra Philippines, Inc., Redondo Peninsula Energy, Inc., Atimonan One Energy Inc., MERALCO PowerGen Corporation, MRAIL, Inc.; among others. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., and Treasurer of First Pacific Leadership Academy, Inc. and MVP Sports Foundation, Inc. She was previously a Director of Rockwell Land Corporation, a member of the Market Governance Board of the Philippine Dealing Exchange Corp., Vice Chairman and member of the Board of Accountancy of the Professional Regulation Commission. She was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) from 1995 to 2009. Ms. Siy-Yap holds

a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Master's in Business Administration from J.L. Kellogg School of Management at Northwestern University/The Hong Kong University of Science and Technology.

MARIA LUISA V. ALVENDIA, 59, Filipino
First Vice President (since March 2019)
Chief of Staff and Supply Chain Advisor
Ms. Alvendia is the Chief of Staff of *MERALCO's* President and Chief Executive Officer. Concurrently, she performs the role of Supply Chain Advisor. Prior to joining *MERALCO*, she was the Chief of Staff to the Chief Corporate Services Officer of PLDT, Inc. ("*PLDT*") and Smart Communications, Inc. ("*SMART*") and Group Head of *PLDT* and *SMART* Supply Chain Planning and Procurement. With her industry-recognized supply chain expertise, she became Director of Philippine Institute of Supply Management. She also led various Supply Chain process improvements and system implementation for different companies and held global procurement roles. Ms. Alvendia is a certified Purchasing Manager and holds a Bachelor of Science degree in Psychology from the University of the Philippines.

ROQUE D. BACANI, 46, Filipino
First Vice President (since January 1, 2022)
Head, Information, Communication, Technology and Transformation
Chief Information Officer, CIS Bayad Center, Inc.
Chief Technology Advisor, Radius Telecoms, Inc.
Mr. Bacani is the First Vice President and Head of Meralco's Information, Communication, Technology and Transformation since October 2019. He also serves as the Chief Information Officer of CIS Bayad Center, Inc., and the Chief Technology Advisor of Radius Telecoms, Inc. He has over 25 years of experience in the field of information technology and telecommunications. Prior to joining *MERALCO*, he took on concurrent roles as Vice President and Head of Group IT Corporate Technology and Head of Data Management Office of Smart Communications, Inc. and *PLDT*, Inc. He was also a former Chief Technology Officer of Talas Data Intelligence Inc. (A wholly owned subsidiary of *PLDT*). He holds a Bachelor of Science degree in Industrial Engineering from Polytechnic University of the Philippines.

EDGARDO V. CARASIG, 57, Filipino
First Vice President (since January 1, 2020)
Head, HR and Corporate Services Meralco
Mr. Carasig is the Chairman of Customer Frontline Solutions, Inc. and a Director of Meralco Industrial Engineering Services Corporation, Miescor Builders, Inc., Miescor Logistics, Inc., MRAIL, Inc., and CIS Bayad Center, Inc. He is also a trustee of Meralco Pension Fund and Meralco Power Academy. He holds a Bachelor of Science degree in Industrial Management Engineering from the De La Salle University.

FERDINAND O. GELUZ, 57, Filipino
First Vice President (since January 1, 2020)
Chief Commercial Officer of Customer Retail Services
Mr. Geluzis the First Vice President and Chief Commercial Officer of Meralco's Customer Retail Services since August 2020. He was also appointed Director, President and Chief Executive Officer of MSpectrum, Inc. He is also a Director of Miescor Logistics Inc., Miescor Builders Inc., Radius Telecoms Inc., CIS Bayad Center, Inc., eSakay, Inc., Meralco Energy Inc. and Aclara Meters Philippines, Inc. He previously occupied the position of First Vice President and Head of *MERALCO*'s Supply Chain and Logistics Management from July 2018 to July 2020, managing the Supply Chain

(Strategic Sourcing/Vendor Management, Procurement and Materials Management) and Facilities Engineering and Security Services. He holds a Bachelor of Science Electrical Engineering from the University of the Philippines. He was 6th Placer in the Board Examination for Registered Electrical Engineer in 1998 and was recipient of the 2019 Professional Degree Award in Electrical Engineering UP Alumni Engineers/UP College of Engineering.

MELANIE T. OTEYZA, 51, Filipino
First Vice President (since October 1, 2018)
Chief Audit Executive
Ms. Oteyza was a former Director of Rajawali Corpora in Indonesia handling Corporate Governance and Internal Audit. She was also previously the Ethics Committee Chairman, Audit and Risk Committee Deputy Chairman and a Member of the HR and IT Board Committees for RC Holding. In Singapore, she was appointed as the Audit Director of Singapore Telecommunications Limited Inc. ("SingTel") handling the international investments, joint ventures and regional mobile associates in Africa and Asia Pacific of the SingTel group. She was also the Assistant Vice President for Internal Audit of San Miguel Corporation and the Country Audit Head for National Foods Limited handling internal audit across Australia as well as other international entities in the Asia Pacific region. She was also the Audit Center Head of PLDT Inc. and an Internal Audit Executive at Digital Telecommunications Philippines Inc. She worked in various assurance and consulting companies such as Protiviti Singapore and SyCip, Gorres and Velayo (a Member Firm of Ernst & Young Global). She also served as a Board of Governor for the Singapore Institute of Internal Auditors ("*IIA*") and Board of Director for the Philippine Institute of Internal Auditors ("*IIA*"). Ms. Oteyza holds a Bachelor of Science Degree in Commerce Major in Accounting, Magna Cum Laude, and a Masters Degree in Business Administration, Summa Cum Laude, at University of Santo Tomas. She also completed her Executive Management Leadership Program from the Asian Institute of Management with Superior Performance Award. Ms. Oteyza is a Certified Public Accountant with international certifications from IIA USA such as Certified Internal Auditor ("*CIA*") – William S. Smith Awardee, Certification in Risk Management Assurance ("*CRMA*"), Certification in Control Self-Assessment ("*CCSA*") and a Qualified Validator in Quality Assurance for Internal Audit. She successfully passed the Professional Directors Program ("*PDP*") examination and completed the PDP program of the Institute of Corporate Directors ("*ICD*") on September 2019 where she is currently a Graduate Member and a Teaching Faculty. She is actively involved in the Corporate Governance Standards Committee of *ICD* and also pursuing a global certification for Qualification in Internal Audit Leadership in IIA USA.

RAYMOND B. RAVELO, 44, Filipino
First Vice President (since January 1, 2022)
Chief Sustainability Officer
Concurrent to his role as Chief Sustainability Officer, Mr. Ravelo is also the President and Chief Executive Officer ("*CEO*") of eSakay, Inc. He is a Director on the Boards of eSakay, Inc., MSpectrum, Inc., MGEN Renewable Energy, Inc. (*"MGreen"*) and Powersource First Bulacan, Solar Inc. He previously served as *MERALCO's* Head of Strategy and Business Development from 2011 to 2019 and was also the President and *CEO* and a member of the Board of Directors of Radius Telecoms, Inc. from 2011 to 2016. Prior to joining *MERALCO*, he was part of McKinsey and Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where

he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

JOSE RONALD V. VALLES, 51, Filipino
First Vice President (since January 1, 2020)
Head, Regulatory Management Office (since July 2018)
Atty. Valles is a member of the Board of Directors of Clark Electric Distribution Corporation and Philippine Electricity Market Corporation. He holds a Bachelor of Science degree in Commerce Major in Management of Financial Institutions from the De La Salle University, a Bachelor of Laws degree from San Beda College, and a Master's degree in Business Economics from University of Asia and the Pacific ("UA&P"). He attended the Public Utility Research Center – World Bank International Training Program on Utility Regulation and Strategy at the University of Florida and the Global Strategic Leadership Program by Wharton University of Pennsylvania and First Pacific Leadership Academy. He is currently teaching at the UA&P – School of Law and Governance, Institute of Law.

ANTONIO M. ABUEL, JR., 53, Filipino
Vice President (since January 1, 2014)
Head, Organizational Safety and Business Continuity Management Office
Mr. Abuel has been employed in *MERALCO* for 31 years. Over the last four (5) years, he has been leading the *MERALCO*'s Environment, Health and Safety ("*ESH*") and Business Continuity Programs. Prior to this, he had extensive work experience in Networks for 26 years which included headships of Network Planning and Project Management, North and Central Distribution Services and Subtransmission Services. Mr. Abuel has also been serving as Chairman of the *MERALCO* Kuryenteng Ligtas (KLigtas) Awards Program for the years 2017 topresent. He was appointed as Chairman of the Institute of Integrated Electrical Engineers Electrical Safety Committee for 2019, 2021 & 2022. He was elected and serves as Board of Director of Safety Organization of the Philippines and is the Director-in-Charge of its Industrial Safety Division for the years 2018 to present as well as Board of Trustee and President of the Department of Energy ("*DOE*")-supported Safety and Health Association for the Power and Energy Sector for the years 2019 to 2022. He is one of *MERALCO*'s representatives in the *DOE* Task Force on Energy Resiliency and Philippine Disaster Resiliency Foundation – Power and Energy Cluster Committee. He is currently serving as Trustee and President of the Meralco Savings and Loan Association and Meralco Employees Mutual Aid and Benefits Association, Inc. Mr. Abuel is a Professional Electrical Engineer, ASEAN Certified Professional Engineer, Department of Labor and Employment ("*DOLE*") Accredited Occupational Safety and Health Consultant, Bureau of Fire Accredited Fire Safety Practitioner and Fire Brigade Member Practitioner, Department of Environment and Natural Resources and Laguna Lake Development Authority accredited Pollution Control Officer. He was also an active contributor to the *DOLE* Republic Act 11058 Implementing Rules and Regulations technical working group. He achieved a Pass with Merit in the Certificate of the Business Continuity Institute Examination in December 2016. He completed his academic requirements for Executive Masters in Business Administration at the Asian Institute of Management in 2009. He holds a Bachelor of Science degree in Electrical Engineering from the University of Santo Tomas.

FRANCIS EUSTON R. ACERO, 44, Filipino
Vice President (Since January 1, 2022)
Data Protection Officer (since December 13, 2021)
Atty. Acero joined MERALCO in November 2019, where he was assigned as the Deputy Data Protection Officer and thereafter as Data Protection Officer. Prior to joining MERALCO, he was the Division Chief of the Data Security and Technical Standards Division of the National Privacy Commission from March to October 2019, and the Complaints and Investigation Division of the National Privacy Commission from August 2016, where he was an active contributor to the Implementing Rules and Regulations of the Data Privacy Act and for other issuances of the National Privacy Commission. Atty. Acero is also a faculty member of the Far Eastern University, where he has taught since 2016. Atty. Acero is a Certified Information Privacy Professional (Europe) from the International Association of Privacy Professionals. Atty. Acero is also a Certified Data Protection Trainer from the National Association of Data Protection Officers of the Philippines. Atty. Acero completed his Bachelor of Arts degree in Journalism at the University of the Philippines and his Juris Doctor from the Ateneo de Manila University.

IRENEO B. ACUÑA, 55, Filipino
Vice President (since January 1, 2013)
Head, Electric Distribution Development Group
Mr. Acuña heads the Electricity and Distribution Development Group which is responsible for the development of business opportunities in electricity distribution and the operations for Cavite Ecozone and Pampanga Electric Cooperative II. Mr. Acuña is concurrently a Director of Comstech Integration Alliance Inc. and Fieldtech Specialist, Inc. He graduated with a Bachelor of Science degree in Electrical Engineering from Far Eastern University – Institute of Engineering. He received his Masters in Business Administration from the Asian Institute of Management (with Distinction).

JOSEPH L. AMOSCO, 53, FILIPINO
Vice President (since January 1, 2022)
Head, Energy Management, MPower
Mr. Amosco heads the Energy Management organization of the Retail Electricity Supply unit of Meralco. He previously held headship positions in Energy Sourcing Office of Meralco and was part of the Management Team who established Meralco Energy, Inc. He holds a Bachelor of Science degree in Mechanical Engineering from De La Salle University, a Bachelor of Science degree in Electrical Engineering and ranked 6th in the 1991 Mechanical Engineering Board Examinations. He completed his Masters in Management at the Asian Institute of Management.

PATRICK DAVE B. BACANI, 51, Filipino
Vice President (since January 1, 2017)
Head, Sustainability Programs, Reporting & Partnerships
Mr. Bacani has been with MERALCO since August 2012. He joined the Corporate Sustainability Office in September 2021. Prior to his current role, he performed various roles under Human Resources & Corporate Services. As an HR practitioner for over 25 years, Mr. Bacani served companies across various industries – 24/7, Convergys, Chevron, Change Management International, and SyCip Gorres Velayo & Co. He holds a degree in Management major in Human Resources Management from De La Salle University - College of St. Benilde and Masters in Business Administration from De La Salle University.

BENNETTE D. BACHOCO, 53, Filipino
Vice President (since July 7, 2011)
Head, Financial Planning and Reporting
Ms. Bachoco is a Director of Miescor Builders Inc., Customer Frontline Solutions, Inc., Inc., Meralco Financial Services Corporation. She is also an agent of Meralco Pension Fund. Prior to joining *MERALCO*, she was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) and was a former Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation. Ms. Bachoco holds a Bachelor of Science degree in Business Administration and Accountancy degree from the University of the Philippines and a Master in Business Management from the Asian Institute of Management.

JOSEPH ALLAN C. BALTAZAR, 55, Filipino
Vice President (since January 1, 2016)
Head, South Distribution Services
Mr. Baltazar is a Trustee of Meralco Employees Fund for Charity, Inc. He was a former Director and Corporate Secretary of the Grid Management Committee and was a member of the WESM Technical Committee under the Philippine Electricity Market Corporation. Mr. Baltazar is a Professional Electrical Engineer and a graduate of Bachelor of Science in Electrical Engineering at Mapua Institute of Technology.

RITA D. BANTIGUE, 58, Filipino
Vice President (January 1, 2020)
Corporate Human Resource and Transformation Office Head, Miescor and Head, HR Business Partner for Subsidiaries.
Ms. Bantigue has had 32 years of experience as a Human Resource Practitioner. She holds a Bachelor of Arts degree major in Psychology, Guidance and Counseling from St. Scholastica's College. She received her Masters of Arts major in Guidance and Counseling and Doctor of Philosophy major in Counseling Psychology from the De La Salle University.

SANTE C. BUELLA, 55, Filipino
Vice President (January 1, 2022)
Head, Revenue Assurance and Metering Services
Mr. Buella has been with MERALCO since September 1990. He held various key positions under Networks organization prior to his assignment as Head of Revenue Assurance and Metering Services in July 2019. He holds a Bachelor of Science in Electrical Engineering Degree (BSEE) from the Technological Institute of the Philippines (TIP) Manila.

RICARDO CARMELO D. BUENAFE, 53, Filipino
Vice President (since January 1, 2022)
Head, Regulatory Risk & Compliance
Mr. Buenafe has been the Head of Regulatory Compliance Office of MERALCO since 2008. Prior to this, he was part of the Executive Staff of the President and Chief Operating Officer, a member of the Interruption Frequency Rate/Cumulative Interruption Time (IFR/CIT) Task Force Secretariat, Power Quality Office and Technical Quality Assurance Staff. He holds a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and a Master of Business Administration degree from the University of the Philippines. He has been with MERALCO for 31 years.

ALBERTO N. CASTILLO, 55, Filipino
Vice President (since January 1, 2022)
Head, Sub-Transmission Services
Mr. Castillo has been employed in Meralco for 33 years. Prior to his assignment as Head of Sub-transmission Services (STS) last 2021, he led Substation for five (5) years with his expertise in substation construction, operation and maintenance works. He is a graduate of Bachelor Science in Electrical Engineering at Mapua Institute of Technology and a holder Professional Electrical Engineering (PEE) license.

RICARDO L. CONCEPCION, 57, Filipino
Vice President (January 1, 2022)
Head, MERALCO Employee and Labor Relations (since 2001)
General Manager, MIESCOR BUILDERS INC. (since 2017)
Head, MIESCOR GROUP Corporate Labor Relations (since 2019)
Mr. Concepcion has been an HR practitioner for 37 years. He joined Meralco in 1989 and he was assigned as Head of Meralco's Employee and Labor Relations office from 2001 to present. In 2017, he was also assigned the role of General Manager for Miescor Builders, Inc. or MBI – a subsidiary of MIESCOR. In 2019, he also headed, in concurrent capacity, MIESCOR Group's Corporate Labor Relations, including its Security office. Mr. Concepcion was also the former head of MIESCOR Group's Human Resources from 2015 to 2019. He is currently a member of the People Management Association of the Philippines (PMAP) - Labor and Industrial Relations Committee and MERALCO's representative to the Employers Confederation of the Philippines (ECOP). Mr. Concepcion graduated from the University of Santo Tomas with a degree in AB-Behavioral Science, achieved his Certificate Course on Human Resources Management in Ateneo de Manila University and he also holds a Bachelor of Laws degree from Jose Rizal University.

BENJAMIN U. CUSI, 59, Filipino
Vice President (since January 1, 2015)
Head of Facilities, Security and General Services
Mr. Cusi is a Professional Electrical Engineer (*"PEE"*) and is currently the President of Meralco Financial Services (*"FinServe"*), Chairman of Meralco Employees Fund for Charity, Inc ("*MEFCI*"), and Director of MIESCOR Logistics Inc ("*MLI"*). He was a former Chairman of AESIEAP (Association of Electricity Supply Industry of East Asia and the Western Pacific) Technical Working Group 3 (2019-2020). He was a former President and Director of Meralco Employees Mutual Aid and Benefits Association. He graduated with Bachelor's Degree in Electrical Engineering from the Mapua Institute of Technology.

JENEVI L. DELA PAZ, 47, Filipino
Vice President (since June 2019)
Chief Operating Officer, Radius Telecoms, Inc.
Mr. Dela Paz joined *MERALCO* in February 2019. He was assigned as Officer-in-Charge for Operations of Radius Telecoms, Inc. in March 2019 and thereafter as Chief Operating Officer. Prior to joining *MERALCO*, he was First Vice President for Corporate Services of First Coconut Manufacturing Inc., a subsidiary of First Agri Holdings Corp. under First Pacific Company Ltd. Before rejoining the MVP group in 2015, he was the Corporate Vice President and part of the Management Committee of Atlantic Gulf & Pacific Company of Manila (AG&P), steering committee of the AG&P/Flour Joint Venture Company, President of AG&P Estates Management, Inc. and a member of the Board of Directors of AG&P Fieldcom, Inc. Before AG&P, he worked for 13 years with the PLDT Group under various capacities. He was part of the founding management team of ePLDT, Inc.,

Group Treasury Head for ePLDT, Chief Finance Officer and Board Director of Digital Paradise, Inc. (Netopia), Chief Operating Officer of NetGames, Inc., and Vice-President for Group Treasury of MediaQuest Holdings, Inc. Mr. Dela Paz graduated from Ateneo de Manila University with a degree in Management Economics, having received scholarship grants from the Ateneo for both his high school and undergraduate studies. He received his Masters in Business Management, also under a scholarship grant, from the Asian Institute of Management.

MA. CECILIA M. DOMINGO, 53, Filipino
Vice President (since January 1, 2019)
Head, Corporate Business Group
Ms. Domingo is the head of *MERALCO* Corporate Business Group since July 2019, the segment that caters to the needs of *MERALCO*'s top 2000 Enterprises, conglomerates and multinationals. She started in *MERALCO* as a cadet engineer in 1990 and has been assigned in different offices and positions within the Company. She is a registered electrical engineer who graduated Magna Cum Laude from Nueva Ecija University of Science and Technology in Cabanatuan City. She holds an Executive Masters in Business Administration from the Asian Institute of Management. She serves as Council Leader of Capitol City Foursquare Church, a Born-Again Christian church where she and her family actively worship and serve.

LAWRENCE S. FERNANDEZ, 53, Filipino
Vice President (since January 1, 2015)
Head, Utility Economics
Mr. Fernandez received a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines and is a licensed mechanical engineer. He is member of the Renewable Energy Market Governance Committee, representing private distribution utilities. Mr. Fernandez was a Director of the Philippine Economics Society and had served as a Director of the Energy Efficiency Practitioners of the Philippines ("*ENPAP*") (formerly Energy Management Association of the Philippines)).

JERRY B. LAO, 50, Filipino
Vice President (January 1, 2022)
Head, Central Distribution Services
Mr. Lao has been employed in *MERALCO* for 28 years and for the last 8 years he has been the Sector Head of San Pablo, Balintawak, Manila and Pasig. This eventually led him to become the present head of Central Distribution Services. He previously served as Chairman of Meralco Employees Mutual Aid and Benefits Association, Inc. (2018-2019). He has also been serving as Member of the MERALCO Kuryenteng Ligtas (KLigtas) Awards Program from 2017 to present. He is a Professional Electrical Engineer and holds a Bachelor of Science degree in Electrical Engineering from Holy Angel University.

ERVILLE D. MAGTUBO, 47, Filipino
Vice President (January 1, 2022)
Head, Customer Care Group
Mr. Magtubo joined Meralco in August 2020 to head the newly formed Customer Care Group of Meralco. With a Bachelor of Computer Science degree from the University of the Philippines, he has a combined experience of 27 years in the areas of IT services and outsourcing services. Mr. Magtubo was part of the ePLDT group for 12 years. He was Assistant Vice-President and Head of the Systems Integration Group that provided various IT integration services for the customers of ePLDT. He was later appointed as Vice President and General Manager of iPlus Intelligent Networks, Inc, an ePLDT

subsidiary that provided managed IT services and outsourcing services. Concurrently, he was the Sales Director of Infocom Technologies, Inc, another subsidiary that provided connectivity services and contact center services. Prior to joining ePLDT, he was the Channels Manager for Southeast Asia and India of Internet Security Systems, a U.S. based data security company.

MARIA CARMELA T. MIGRIÑO, 46, Filipino
Vice President (since October 28, 2019)
Head, Group Chief Information Security Officer
Ms. Migriño heads the Cyber Security of *MERALCO*, CIS Bayad Center and Customer Frontline Solutions and provides oversight functions to the rest of the *MERALCO* subsidiaries by defining and maintaining the cybersecurity strategy and ensuring technology and process initiatives are designed, implemented and maintained in accordance to *MERALCO*'s information security policies and global cybersecurity standards for both Technology and Operational Technology. Prior to joining *MERALCO*, Ms. Migriño was the Vice President of Globe Fintech Innovations, Inc. (A joint venture of Globe Telecom, Ant Financial Services Group, an affiliate company of the Chinese Alibaba Group) which she served as the Head of Information Security, Data Privacy and Enterprise Risk Management and was a former Director for Cyber Risk Services and a Resiliency Practice Leader from Navarro Amper and Company/Deloitte Southeast Asia (a Member Firm of Deloitte Touche Tohmatsu). Ms. Migriño holds a Bachelor of Science degree in Information Technology from St. Paul College with Academic Excellence.

RICHARD O. OCHAVA, 54, Filipino
Vice President (since January 1, 2019)
Chief Operating Officer, Meralco Industrial Engineering Services Corporation
President and CEO of Miescor Builders Inc.
President and CEO of Miescor Logistics Inc.
Mr. Ochava was the former Chairman and Vice President of Meralco Mutual Aide Benefit Association. He was a senior manager for Subtransmission Services, former head of *MERALCO*'s Substation Support Services, Project Management Office and Distribution Services Design Office. He was also the head of Networks Contracts and Outsourcing Management Office. Mr. Ochava is a registered electrical engineer and holds a Bachelor of Science degree in Electrical Engineering from the Technological University of the Philippines.

CHARINA P. PADUA, 53, Filipino
Vice President (since January 1, 2018)
Head, Home and Micro Business - North Business Area
Ms. Padua has been the Head of Home and Micro Business for North Business Area since February 1, 2019. She served as Head of Commercial Operations of *MERALCO* since October 2012 until January 31, 2019. She holds a Bachelor of Science degree in Business Economics from the University of the Philippines and an Executive Masters in Business Administration from the Asian Institute of Management. She served as a Trustee in the Board of Meralco Savings and Loans Association from 2013 to 2016.

GLEN N. SAN PEDRO, 57, Filipino
Vice President (since December 1, 2020)
Head of Supply Chain Management
Mr. San Pedro was the Head of Procurement of PLDT, Inc. and then as Group Head of Procurement and Logistics for eight (8) years at ePLDT, Inc. He continued to specialize in Supply Chain Management and procurement when he migrated to Alberta, Canada. He was the purchaser for food processing specialist of Newly Weds Foods Inc. that further exposed him to international standards and best practice. He holds a Bachelor of Science degree in Management Engineering from Manuel L. Quezon University. He completed "Supply Management Training in Procurement" as well as "Principles of Buying" from The Purchasing Management Association of Canada (in Edmonton, Alberta, Canada.

JOSE S. REYES JR., 52, Filipino
Vice President (since January 1, 2018)
Head, North Distribution Services
Mr. Reyes is a Registered Electrical Engineer by profession and holds a degree in Bachelor of Science in Electrical Engineering from the Mapúa Institute of Technology and Master of Science in Electrical Engineering from the University of the Philippines. He also completed his Management Development Program from the Asian Institute of Management with Academic Excellence award and the New Frontiers Middle Management Program with Outstanding Action Learning Project award. He is currently the President and Trustee of the Meralco Employees Fund for Charity, Inc.. He joined *MERALCO* in 1991 as a Cadet Engineer and completed the course with the Academic Excellence and Exemplary Leadership Awards. He was also recognized as *MERALCO*'s outstanding employees in 2008 and 2009, and his office was awarded with the Presidential Awards - Technical Services category in 2005 and 2008.

FROILAN J. SAVET, 54, Filipino
Vice President (since January 1, 2017)
Head, Network Planning and Design
Mr. Savet is a registered ASEAN Chartered Professional Engineer since November 2018 and a Professional Electrical Engineer since March 2015. He is a Senior Institute of Integrated Electrical Engineers (IIEE) Member who served as the 2019 Chairman of the IIEE Professional Training and Development Committee. He earned his Master of Science in Electrical Engineering – Major in Power Systems from the University of the Philippines in October 2003 and a Bachelor of Science degree in Electrical Engineering from Mapua University in May 1990 graduating as a silver medalist, and he ranked second in the April 1992 Electrical Engineering Licensure Examinations. He is a Director of the Distribution Management Committee, Inc. from 2014 to 2019.He is the incumbent Vice Chairman and Committee member of the Third-Party Bids and Awards Committee (TPBAC) administering MERALCO's Competitive Selection Process for its Power Supply Agreements. He is a member of the PRC's Career Progression and Specialization Program-Credit Accumulation and Transfer System (CPSP-CATS) Committee – Board of Electrical Engineering. Most recently, he was elected to Mesala, Inc.'s Board of Trustees as an independent trustee with tenure until May 2023.

JEFFREY O. TARAYAO, 42, Filipino
Vice President (since January 1, 2022)
Chief Corporate Social Responsibility Officer
President, One Meralco Foundation (since June 2011)
Mr. Tarayao has led and managed corporate social responsibility (*"CSR"*), community relations, sustainability and communications programs in the last 20 years. He is a Global Reporting Initiative-certified sustainability reporting specialist. When he joined Meralco in 2011, he led the transformation

of its CSR and community relations initiatives into a more strategic and business-aligned program. He is currently the private sector representative in the Philippine National Volunteer Services Coordinating Agency, Trustee of the Archdiocese of Manila's Caritas Margins program and a member of the Management Association of the Philippines. He also served in the inaugural board of trustees of the Humanitarian Leadership Academy based in London, United Kingdom from 2016 to 2019 and previously Chaired the League of Corporate Foundations, President of the Coalition for Better Education and Trustee of the International Association of Business Communicators Philippines. In 2011, he was chosen as one of the Asia 21 Fellows of Asia Society, a group of emerging leaders of Asia below 40 and in 2012, one of the 40 under 40 International Development Leaders by the Washington DC-based Development Exchange. Prior to joining Meralco, he served as Head of Community Relations and CSR of Globe Telecom. Tarayao obtained his Master of Sustainable Development degree from Macquarie University in Sydney, Australia in 2018 as an Australia Awards Scholar and completed his undergraduate studies from the University of Santo Tomas, Manila, Philippines where he is also a lecturer on Corporate Social Responsibility and Good Governance in the College of Commerce and Business Administration.

MARIA ZARAH R. VILLANUEVA-CASTRO, 51, Filipino
Vice President (since January 1, 2019)
Head, Corporate Legal Services
Atty. Villanueva-Castro holds a Bachelor of Arts degree major in Political Science from the University of the Philippines and a Bachelor of Laws degree from San Beda University. She is also the Corporate Secretary of One Meralco Foundation, Inc., Comstech Integration Alliance, Inc., Meralco Pension Fund, Meralco Employees Fund for Charity, Inc., Pure Meridian Hydropower Corporation, Inc. and Meralco Employees Savings and Loan Association. She is also a professor of law and bar review lecturer for Commercial Laws.

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

MA. CYNTHIA C. SOLUREN, 57, Filipino
Senior Assistant Vice President (since January 1, 2018)
Head, Treasury for Distribution Utility
Ms. Soluren is the Treasurer of Meralco Financial Services Corporation and Comstech Integration Alliance Inc. She has been a Trustee of the Meralco Savings and Loan Association Inc. ("*MESALA*") since 2013 and is the President of the *MESALA*. Ms. Soluren holds a Bachelor of Science degree in Statistics and a Masters degree in Business Administration from the University of the Philippines.

Term of Office

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

Attendance of Directors in Board and Committee Meetings

Below is the record of attendance of the directors in 2021:

2021 ASM and Board Meeting Attendance			
Director	Designation	25-May-21 **Annual Stockholders'** Meeting	Board Meetings / Organizational Meeting
Manuel V. Pangilinan	Chairman	Present	12/13
Ray C. Espinosa[1]	Director	Present	13/13
Anabelle L. Chua	Director	Present	13/13
James L. Go	Director	Present	13/13
Frederick D. Go	Director	Present	13/13
Lance Y. Gokongwei	Director	Present	13/13
Elpidio L. Ibañez	Director	Present	6/6
Lydia B. Echauz[2]	Independent Director	Present	8/8
Jose Ma. K. Lim	Director	Present	13/13
Artemio V. Panganiban	Lead Independent Director	Present	13/13
Pedro O. Roxas	Independent Director	Present	13/13
[1] President and CEO			
[2] Ms. Lydia B. Echauz replaced Mr. Elpidio L. Ibañez during ASM May 25, 2021			

2021 Board Committee Meeting Attendance								
	Finance	Audit	Risk Management	Related Party Transactions	Nomination and Governance	Remuneration and Leadership Development	Executive Committee	Sustainability
Manuel V. Pangilinan[1]	N/A	N/A	N/A	N/A	N/A	3/3	4/4	1/1
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anabelle L. Chua[2]	12/12	6/6	2/2	2/2	4/4	N/A	N/A	N/A
James L. Go	12/12	6/6	2/2	2/2	4/4	N/A	3/4	N/A
Frederick D. Go	N/A	6/6	2/2	2/2	4/4	N/A	N/A	1/1
Lance Y. Gokongwei	9/12	N/A	N/A	N/A	N/A	3/3	3/4	0/1
Elpidio L. Ibañez[3]	5/5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lydia B. Echauz[3]	7/7	3/3	N/A	N/A	2/2	N/A	N/A	N/A
Jose Ma. K. Lim[4]	N/A	6/6	2/2	2/2	4/4	N/A	4/4	1/1
Artemio V. Panganiban[5]	N/A	6/6	2/2	2/2	N/A	N/A	4/4	N/A
Pedro O. Roxas[6]	12/12	5/6	1/2	2/2	4/4	3/3	N/A	1/1
Victorico P. Vargas	12/12	N/A	N/A	N/A	N/A	3/3	N/A	N/A
[1] Chairman, Executive Committee, Remuneration & Leadership Committee, and Sustainability Committee								
[2] Chairman, Finance Committee								
[3] Ms. Lydia B. Echauz replaced Mr. Elpidio L. Ibañez during ASM May 25, 2021								
[4] Chairman, Risk Management Committee								
[5] Chairman, Audit Committee; Lead Independent Director								
[6] Chairman, Nomination & Governance Committee, and Related Party Transaction Committee; Independent Director								

The Board recognizes the importance of a regular performance assessment, individually and collectively as part of their accountability. Assessments are conducted annually to evaluate their specific and overall performance for the past calendar year. The Board evaluated their individual and collective performances regarding the Board and its committees' structures, processes and responsibilities. The assessment likewise identified the training and skills development program needed by the Board. The Board also reviewed the performance of the President and CEO based on his leadership, working relations with the Board, Management, and communication. Four (4)

assessment instruments with corresponding evaluation criteria were accomplished by the directors, namely the Board Self-Assessment, General Board Committee Assessment, Board Committee Self-Assessment, and the President and CEO Performance Assessment. The assessment criteria or metrics include board structure and qualification, board duties and responsibilities, duties and responsibilities as an individual director, and board committee functions and over-all performance vis-à-vis the respective charters. The aggregated results are presented to the Board during meeting immediately following the end of the assessment process. Every three years, the assessments are supported by an external facilitator. The Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines ("*GGAPP*") for the evaluation of the 2019 Board, Committee, and CEO performance assessment.

Significant Employees

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

Family Relationships

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

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

Involvement in Certain Legal Proceedings

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

Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2021 and 2020 and for each of the three (3) years ended December 31, 2021, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO's* total outstanding shares and members of their immediate family had a material interest.

Resignation of Directors

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

Item 10. Executive Compensation

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

NAME	YEAR	SALARIES[1]	BONUS[2]	OTHER ANNUAL COMPENSATION[3]
		Amounts in Millions		
Chief Executive Officer (*CEO)* and four (4) most highly compensated executive officers[4]	Projected 2022	₱131	₱75	₱18
	2021	132	75	16
	2020	117	184	7
All other key officers, other officers and directors as a group (excluding the *CEO* and four most highly compensated executive officers)	Projected 2022	272	133	36
	2021	216	107	27
	2020	204	309	23

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

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

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

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

Below are the details of the remuneration paid to the directors in 2021:

	Remuneration for Board Meetings Attended in 2021	Remuneration for Committee Meetings Attended in 2021	TOTAL
EXECUTIVE DIRECTOR			
Ray C. Espinosa	₱1,680,000	₱-	₱1,680,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,540,000	192,000	1,732,000
Lance Y. Gokongwei	1,680,000	360,000	2,040,000
Anabelle L. Chua	1,680,000	624,000	2,304,000
James L. Go	1,680,000	696,000	2,376,000
Frederick D. Go	1,680,000	360,000	2,040,000
Elpidio L. Ibañez	700,000	120,000	820,000
Jose Ma. K. Lim	1,680,000	456,000	2,136,000
Victorico P. Vargas	1,680,000	360,000	2,040,000
INDEPENDENT DIRECTORS			
Lydia B. Echauz	980,000	288,000	1,268,000
Artemio V. Panganiban	1,680,000	336,000	2,016,000
Pedro E. Roxas	1,680,000	672,000	2,352,000
TOTAL INDEPENDENT DIRECTORS	4,340,000	1,296,000	5,636,000
GRAND TOTAL	₱18,340,000	₱4,464,000	₱22,804,000

The Directors and Officers are covered by a Casualty Line Insurance Policy effective until June 27, 2022. The policy covers Company Securities, Company Employment Practices Breach, Regulatory Crisis Event Costs, Investigation Costs, Public Relations Expenses, Investigation Costs for Derivative Demands, Tax Liability and other additional limits such as Bodily Injury and Property Damage Defence Costs, Health and Safety Costs, Gross Negligence Manslaughter Defence Costs and Environmental Violation (Defence Costs Including Civil and admin Fines).

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Based on *MERALCO*'s stock and transfer book, the security ownership as of March 31, 2022 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Beacon Electric Asset Holdings, Inc. 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	394,059,235	34.96%
Common	JG Summit Holdings, Inc. 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center Pasig City Stockholder	Same as the record owner	Filipino	333,189,397	29.56%
Common	PCD Nominee Corporation 29th Floor, BDO Equitable Tower 8751 Paseo de Roxas Makati City 1226 No relationship with Issuer	PCD Participants	Filipino and Foreign	197,175,152	17.49%
Common	Metro Pacific Investments Corporation 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	118,364,807	10.50%

Beacon Electric Asset Holdings, Inc. ("*Beacon Electric*") is a special purpose entity wholly-owned by Metro Pacific Investments Corporation ("*MPIC*") beginning June 2017. It was organized to hold *MPIC*'s shares in *MERALCO*. Mr. Manuel V. Pangilinan, Mr. Jose Ma. K. Lim, Atty. Ray C. Espinosa, Ms. Anabelle L. Chua, or the Chairman of the Stockholders' Meeting of *MERALCO*, is duly authorized as proxy to vote its *MERALCO* shares as he or she may deem proper or beneficial to *Beacon Electric.*

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

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

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

(2) Security Ownership of Management

As of March 31, 2022, the securities owned beneficially, directly or indirectly, by directors and executive officers of *MERALCO* are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	10,010 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	51,000 (Direct)	Filipino	0.00%
4.	Common	Anabelle L. Chua	16,060 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	1,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	James L. Go	194,450 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	55,010 (Direct)	Filipino	0.00%
9.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.02%
10.	Common	Pedro O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Victorico P. Vargas	8,917 (Direct)	Filipino	0.00%
12.	Common	Simeon Ken R. Ferrer	767 (Direct)	Filipino	0.00%
13.	Common	Roberto R. Almazora	93,082 (Direct)	Filipino	0.01%
14.	Common	Ronnie L. Aperocho	14 (Direct)	Filipino	0.00%
15.	Common	William S. Pamintuan	-	Filipino	0.00%
16.	Common	Betty C. Siy-Yap	-	Filipino	0.00%
17.	Common	Maria Luisa V. Alvendia	-	Filipino	0.00%
18.	Common	Edgardo V. Carasig	-	Filipino	0.00%
19.	Common	Ferdinand O. Geluz	12,877 (Direct)	Filipino	0.00%
20.	Common	Melanie T. Oteyza	-	Filipino	0.00%
21.	Common	Jose Ronald V. Valles	-	Filipino	0.00%
22.	Common	Antonio M. Abuel, Jr.	7,927 (Direct)	Filipino	0.00%
23.	Common	Francis Euston R. Acero	500 (Direct)	Filipino	0.00%
24.	Common	Ireneo B. Acuña	18,355 (Direct)	Filipino	0.00%
25.	Common	Patrick Dave B. Bacani	-	Filipino	0.00%
26.	Common	Joseph L. Amosco	5,198 (Direct)	Filipino	0.00%
27.	Common	Roque D. Bacani	-	Filipino	0.00%
28.	Common	Bennette D. Bachoco	-	Filipino	0.00%
29.	Common	Joseph Allan C. Baltazar	-	Filipino	0.00%
30.	Common	Rita D. Bantigue	-	Filipino	0.00%
31.	Common	Benjamin U. Cusi	24,050 (Direct)	Filipino	0.00%
32.	Common	Sante C. Buella	-	Filipino	0.00%
33.	Common	Ricardo Carmelo D. Buenafe	5,070 (Direct)	Filipino	0.00%
34.	Common	Alberto N. Castillo	600 (Direct)	Filipino	0.00%
35.	Common	Ricardo L. Concepcion	-	Filipino	0.00%
36.	Common	Jenevi L. Dela Paz	-	Filipino	0.00%
37.	Common	Ma. Cecilia M. Domingo	1,495 (Direct)	Filipino	0.00%
38.	Common	Lawrence S. Fernandez	4,500 (Direct)	Filipino	0.00%
39.	Common	Maria Carmela T. Migriño	-	Filipino	0.00%
40.	Common	Richard O. Ochava	-	Filipino	0.00%
41.	Common	Charina P. Padua	41,609 (Direct)	Filipino	0.00%
42.	Common	Raymond B. Ravelo	-	Filipino	0.00%
43.	Common	Glen N. San Pedro	-	Filipino	0.00%
44.	Common	Jerry B. Lao	-	Filipino	0.00%
45.	Common	Erville D. Magtubo	-	Filipino	0.00%
46.	Common	Jose S. Reyes, Jr.	8,827 (Direct)	Filipino	0.00%

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
47.	Common	Froilan J. Savet	8,435 (Direct)	Filipino	0.00%
48.	Common	Jeffrey O. Tarayao	-	Filipino	0.00%
49.	Common	Maria Zarah R. Villanueva-Castro	-	Filipino	0.00%
50.	Common	Agapito R. Zaldarriaga	10,369 (Direct)	Filipino	0.00%
51.	Common	Ma. Cynthia C. Soluren	11,575 (Direct)	Filipino	0.00%

As of March 31, 2022, the securities owned beneficially by the nominees for election to the Board of Directors ("*BOD")* are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	10,010 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	51,000 (Direct)	Filipino	0.00%
4.	Common	Anabelle L. Chua	16,060 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	1,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	James L. Go	194,450 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	55,010 (Direct)	Filipino	0.00%
9.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.00%
10.	Common	Pedro O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Victorico P. Vargas	8,917 (Direct)	Filipino	0.00%

The aggregate number of shares owned on record by the Chief Executive Officer, Executive Officers, Directors and Nominees as of March 31, 2022 is 671,828 shares or 0.06% of *MERALCO*'s total outstanding shares.

(3) Voting Trust Holders

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

(4) Changes in Control

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

Item 12. Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2021 and 2020 and for each of the three (3) years ended December 31, 2021, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO's* total outstanding shares and members of their immediate family had a material interest.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Compliance with Leading Practices on Corporate Governance

MERALCO, as a Philippine publicly listed company ("*PLC*"), is in full compliance with the rules and regulations of the Securities and Exchange Commission ("*SEC*"), including the Code of Corporate Governance, the Philippine Stock Exchange ("*PSE*"), the Philippine Dealing and Exchange Corporation ("*PDEx*") and all other rules and regulations for the development of the Philippine capital market.

As a testament to the *Company's* good corporate governance, the Institute of Corporate Directors ("*ICD*"), acting as the domestic ranking body of the ASEAN Capital Markets Forum ("*ACMF*") for the ASEAN Corporate Governance Scorecard ("ACGS"), recognized *MERALCO* as one of the top Philippine PLCs. *MERALCO* was awarded with Four Golden Arrows for its remarkable governance structure, programs, and practices in the 2020 ACGS assessment wherein Meralco attained a score of 110.33.

Pursuant to the governance principle of transparency, *MERALCO* fully complied with the *SEC* and *PSE*'s reportorial requirements on corporate governance, including:

1. The 2021 Certification by the Compliance Officer of *MERALCO*'s full compliance with the Revised Manual of Corporate Governance. No deviations from the Manual transpired.

2. Certification of Board attendance, reports involving financial statements, disclosure of material information and events, clarifications on specific news articles concerning *MERALCO*, and trainings attended by Board members and key officers on corporate governance.

3. Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code, and the reporting of trading transactions of directors and concerned officers of *MERALCO* by the Compliance Officer not later than the following day after the required event or transaction. There has been no case of insider trading involving directors and management of *MERALCO*.

Annual Corporate Governance Performance Assessments

The Company continues to strengthen policies and programs in accordance with best corporate governance practices aligned with the recommendations under the SEC's 2017 Code of Corporate Governance for Publicly-Listed Companies, the Integrated Annual Corporate Governance Scorecard (I-ACGR) and the ASEAN Corporate Governance Scorecard ("*ACGS*").

MERALCO's Performance in the field of corporate governance was assessed and found to be exemplary in the ACGS which evaluates the level of CG practices of Philippine *PLC*s vis-à-vis regional and international standards and best practices. This was conducted by the *ICD* in cooperation with *SEC* and *PSE*.

Continuing Education for the Board and Senior Management

Corporate governance education continues with orientations and trainings for the Board and Senior Management. In fulfillment of the requirements of the Company's Revised Manual of Corporate Governance, the *ERC* Resolution No. 1, Series of 2004, *SEC* Memo Circular No. 19, Series of 2016, the Directors, together with the Senior Management, attended the 16th Annual Corporate Governance Enhancement Session (ACGES) on September 17 and November 12, 2021 entitled "Becoming Obsessed with the Customer" and "Agile Leadership: A Conversation with Ms. Anna Wintour." The *ACGES* covers four (4) hours of governance training and was accredited by the *SEC*. A Corporate Governance Webinar on Whistleblowing entitled, "An Insider's Guide to Workplace Whistleblowing Investigations: Building the Process in Your Company" was also conducted for the Company*'s* Senior Management on October 20, 2021.

Continuing Policy Formulation

With the creation of a Corporate Governance Office ("*CGO*") in *MERALCO* in 2010, several corporate policies and programs were implemented such as the Revised Manual of Corporate Governance, Revised Code of Ethics, Policy on Blackout Period/Restriction on Trading of Shares, Policy on Solicitation and Acceptance of Gifts, "Be Right" Open Communication (integrated whistle-blowing) Policy, Conflict of Interest Policy, Related Party Transactions Policy, Suppliers Business Conduct Policy, and Social Media Policy, among others. In compliance with the recommendations under the *I-ACGR*, *MERALCO* adopted an Anti-Bribery and Corruption Policy which formalizes its stand against corrupt practices and specifies in detail the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption. The Board also adopted and made available, at the option of a shareholder, an established Alternative Dispute Resolution ("*ADR*") mechanism to resolve intra-corporate disputes in an amicable and effective manner as provided in the Revised Manual of Corporate Governance.

The Company, through its Board of Directors, annually reviews, confirms and/or updates the vision, mission, and corporate strategic objectives of the Company. In 2021, the Board reviewed and updated its vision, mission and value statements to align with the Company's current strategic imperatives and initiatives:

> VISION: To be a world-class energy solutions provider, powering our nation and empowering our people today and for generations to come.
>
> MISSION: To provide our customers the best value energy solutions—reliably, affordably, superbly, and sustainably.
>
> CORE VALUES: Excellence, Customer Centricity, Sustainability, Integrity, Innovation, *Malasakit,* and *Bayanihan.*

The Company likewise identified the following strategic objectives to ensure that its obligations to shareholders and to all stakeholders are understood and met:

1. Revenue enhancement and expansion;
2. Customer-centricity;
3. Digital Transformation; and
4. Sustainability.

Furthermore, to reinforce board independence and pursuant to the recommendation under ASEAN Corporate Governance Scorecard and the *SEC*'s Code of Corporate Governance for *PLC*s, the Board appointed Independent Director ("*ID*"), Ret. Chief Justice Artemio V. Panganiban, as the Lead Independent Director. In 2021, the shareholders of the Company elected its first lady independent director, Ms. Lydia Echauz. The Charter of the Board of Directors was also drafted to sets the Board's purposes, authority, duties, and responsibilities, structure and procedures. The Board Charter also included the provision for guidelines on Board Meetings through Teleconferencing and Videoconferencing.

Following developments in governance policies and practices that are aligned with the recommendations under the Code of Corporate Governance for *PLC*s, the *I-ACGR*, and the ASEAN Corporate Governance Scorecard, *MERALCO* also introduced amendments to existing policies such as the Related Party Transactions (RPT) Policy. Amendment of the Related Party Transactions Policy was made to include the defined thresholds for disclosure and approval of related party transactions and the treatment for de minimis transactions and incorporated provisions that seek to comply with the SEC Rules on Material RPTs for Publicly-listed Companies. Existing governance policies of the company are also continuously reviewed to align with developments in regulations and governance best practices.

Corporate Governance Advocacies and Outlook

Believing that corporate governance is about shining a light through the whole organization, *MERALCO* has institutionalized the Be Right Open Communication Policy in the corporate culture, which has paved the way to an extensive good governance awareness program for its internal stakeholders. *CG* orientations for its new employees and roadshows for its directors, officers, employees, and suppliers are regularly held, and online *CG* policy information campaigns are periodically issued. *MERALCO* has also enhanced its *CG* compliance monitoring through a unique online HR Express Corporate Governance Facility and SharePoint platform where employees can file their annual *CG* commitment, conflict-of-interest disclosures and gift registry. In 2021, 100% of MERALCO employees complied with these disclosure requirements and attended the CG Refresher program containing discussions on relevant CG policies of the Company.

MERALCO is in the process of embedding *CG* policies and programs in its business responsibility unit through its line leadership to make the full transition from compliance to a culture of good governance from Top Management to the ranks in the Company in pursuit of sustainability of relationships with and interests of all stakeholders.

MERALCO also ensures that the governance structure and policies of subsidiaries and affiliates are aligned with its current standards. The Company aided them in the review and drafting of their own Corporate Governance manuals, policies, codes, and best practices.

MERALCO believes that it is necessary to maintain a culture of good governance by utilizing innovative ways in reaching out to its stakeholders in these challenging times. In line with this, *MERALCO* afforded stockholders the right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. Also, the Company introduced its enhanced Stockholders Electronic Registration and Voting Express (SERVE). SERVE allows the Company's stockholders to cast their votes online and participate in the Annual Stockholders' Meeting ("*ASM*") via remote communication. This also allows the stockholders to send their questions and clarifications regarding other agenda items.

The Company also provided online learning modules to its employees in January 2021 to strengthen the awareness of all employees on the governance policies promulgated by the Board. This provided an accessible platform that helped ensure that employees are continuously updated on the best practices in corporate governance.

In pursuit of further improvements in the discipline of governance, *MERALCO* is also actively involved with national and international *CG* advocates and organizations such as the *ICD*, and the Good Governance Advocates and Practitioners of the Philippines *("GGAPP")*. The Company participates in best practice and knowledge-sharing events organized by these organizations with *CG* practitioners, *BOD* and Senior Management, as unified by their *CG* principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.

For a full discussion on the Corporate Governance practices and achievements of *MERALCO*, please refer to the Company website: www.meralco.com.ph.

PART V. SUSTAINABILITY REPORT

Refer to attached 2021 Sustainability Report

PART VI. EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports

(a) Report on SEC Form 17-C and other Disclosures

JANUARY 2021	
January 4	Clarification of News Article - "ERC tells Meralco to refund ₱1.4 billion in over collections"
January 5	Clarification of News Article - "MGen raises stake in PFBSI"
January 7	SEC 17-C - (Reply to PSE query) Acquisition of additional 20% equity in PFBSI
January 7	Meralco 2020 Amended GIS - Retirement of Mr. Jose Mari P. Melendres
January 8	Foreign ownership Report as of December 31, 2020
January 8	Report on Number of Shareholders as of December 31, 2020 (Board Lots report)
January 11	Public Ownership Report December 2020
January 11	List of Top 100 Stockholders as Top 100 December 31, 2020
January 20	Certificate of Attendance and Compliance to Corporate Governance Manual for the Year 2020
January 21	[Amended-1] Public Ownership Report December 2020
January 25	SEC 17-C Approval of the record date deadline of submission of proxies and nomination of the Board
FEBRUARY 2021	
February 2	Statement of Changes in Beneficial Ownership of Securities SEC Form 23-B (Ma. Cecilia M. Domingo) 2020
February 5	Foreign ownership Report as of January 31, 2021
February 5	Report on Number of Shareholders as of January 31, 2021 (Board Lots report)
February 16	SEC 17-C - Invitation to the Presentation of the Company's FY2020 Financial and Operating Results
MARCH 2021	
March 1	SEC 17-C - Results of Board Meeting & Meralco 2020YE Press Release
March 1	SEC 17-C - 2020 Audited Consolidated Financial Results of the Company.
March 3	Clarification of News Article - “Meralco mulls venture into gas business”
March 5	Foreign ownership Report as of February 28, 2021
March 5	Report on Number of Shareholders as of February 28, 2021 (Board Lots report)
March 12	Meralco List of Stockholders entitled to Notice and to Vote as of March 5, 2021
March 29	Manila Electric Company Preliminary Information Statement
APRIL 2021	
April 8	Foreign ownership Report as of March 31, 2021
April 8	Report on Number of Shareholders as of March 31, 2021 (Board Lots report)
April 12	Public Ownership Report as of March 2021
April 15	MERALCO List of Top 100 Stockholders as of March 2021
April 27	MERALCO 2020 Definitive Information Statement
MAY 2021	
May 3	Clarification of News Article - “Supreme Court denies Muntinlupa tax claim on Meralco franchise”
May 7	Foreign ownership Report as of April 30, 2021
May 7	Report on Number of Shareholders as of April 30, 2021 (Board Lots report)
May 13	MANILA ELECTRIC COMPANY SEC 17-A Final 2020
May 17	SEC 17-Q 1st Quarter 2021
May 19	SEC Form 23-B Frederick D. Go

May 25	SEC 17-C Results of the 2020 annual Stockholders' Meeting and Organizational Meeting
May 25	SEC 17-C Results of the 2020 annual Stockholders' Meeting and Organizational Meeting
May 26	SEC Form 23-A – Lydia B. Echauz
May 26	SEC Form 23-B Artemio V. Panganiban
May 28	2021 MANILA ELECTRIC COMPANY I-ACGR 2020
May 31	Amended_MANILA ELECTRIC COMPANY I-ACGR 2020
JUNE 2021	
June 4	Foreign ownership Report as of May 31, 2021
June 4	Report on Number of Shareholders as of May 31, 2021 (Board Lots report)
June 7	SEC Form 23-B Charina P. Paduna
June 14	General Form for Financial Statements 2020
June 18	MERALCO 2021 GIS
JULY 2021	
July 6	Foreign ownership Report as of June 30, 2021
July 6	Report on Number of Shareholders as of June 30, 2021 (Board Lots report)
July 8	SEC 17-C Invitation to the Presentation of the Company's First Half 2021 Financial and Operating Results
July 13	2021 POR AND SHAREHOLDINGS OF BENEFICIAL OWNERS AND OFFICERS June 2021
July 13	Top 100 stockholders report June 30, 2021
July 26	SEC 17-C Results of Board Meeting - July 26, 2021
AUGUST 2021	
August 2	Clarification of News Articles - "Meralco allots ₱24 billion CAPEX for next year"
August 5	Foreign ownership Report as of July 31, 2021
August 5	Report on Number of Shareholders as of July 31, 2021 (Board Lots report)
August 16	MANILA ELECTRIC COMPANY_SecForm17Q1H2021
August 31	Meralco_SEC 23-B_25August2021 – Artemio V. Panganiban
August 31	[Amended-1] Meralco_SEC 23-B_25August2021 - Artemio V. Panganiban
SEPTEMBER 2021	
September 6	Report on Number of Shareholders as of August 31, 2021 (Board Lots report)
September 6	Foreign ownership Report as of August 31, 2021
September 13	Clarification of News Articles - "Meralco to build new substation in Paco lot"
September 24	SEC Advisement Letter September 24, 2021 ACGES - Training of Directors and Officers
September 29	SEC Advisement Letter September 29, 2021 - Training of a Director – Lance Y. Gokongwei
OCTOBER 2021	
October 7	Report on Number of Shareholders as of September 30, 2021 (Board Lots report)
October 7	Foreign ownership Report as of September 30, 2021
October 7	Invitation to the Presentation of the Company's 9M 2021 Financial and Operating Results
October 11	Top 100 stockholders report September 30, 2021
October 12	Public Ownership Report as of September 2021
October 25	Results of Board Meeting
October 29	Clarification of News Articles - "Meralco Powergen to spend ₱6 billion for solar projects"
NOVEMBER 2021	
November 4	SEC Advisement Letter November 4, 2021 Training of A Director – Frederick D. Go

November 5	Report on Number of Shareholders as of October 31, 2021 (Board Lots report)
November 5	Foreign ownership Report as of October 31, 2021
November 5	2021 SEC Form 23-B – Ray C. Espinosa
November 5	2021 SEC Form 23-B – Lance Y. Gokongwei
November 9	2021 SEC Form 23-B Victorico P. Vargas
November 9	2021 SEC Form 23-B – James L. Go
November 9	SEC 17-C - Transaction of James L. Go November 2, 2021
November 11	Clarification of News Article - "MPIC keen on Shell assets, other business as it eyes expansion"
November 15	SEC 17-Q - 3Q 2021
November 17	SEC Advisement Letter November 17, 2021 ACGES - Training of Directors and Officers
November 23	2021 SEC Form 23-B – Jose Ma. K. Lim
November 23	[Amended-1] MERALCO 2021 AGIS
DECEMBER 2021	
December 6	Report on Number of Shareholders as of November 30, 2021 (Board Lots report)
December 6	Foreign ownership Report as of November 30, 2021
December 13	SEC 17-C Rank Conferment of Officers December 13, 2021
December 17	Clarification of News Article - "MPIC on expansion mode in 2022"

SIGNATURES

REFER TO THE FOLLOWING PAGE

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Pasig this _____ day of _____ 2022.

APR 27 2022

By:

RAY C. ESPINOSA
President and CEO

BENNETTE D. BACHOCO
Vice President and Head,
Financial Planning and Reporting

MA. CYNTHIA C. SOLUREN
Senior Assistant Vice President,
Interim Treasurer
Head, Investment and Debt Management

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

APR 27 2022

SUBSCRIBED AND SWORN to before me this _____ 2022 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Ray C. Espinosa	113-248-897
Ma. Cynthia C. Soluren	109-268-543
Bennette D. Bachoco	129-433-970
William S. Pamintuan	146-473-562

Doc. No. 315 ;
Page No. 72 ;
Book No. XXIV ;
Series of 2022.

ATTY. CORNELIO MANUEL MC DICCION, CPA
Notary Public
Pasig, San Juan and Pateros
Issued on Dec. 17, 2019 at Pasig City
Appointment No. 44 (2020-2021)
Roll No. 42453 IBP No. 139541/01-14-2021 RSM Chapter
PTR ... 7[illegible] Pasig City
MCLE Vol- 0001097 / 10-17-2019
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

MANILA ELECTRIC COMPANY
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

- Statement of Management's Responsibility for Consolidated Financial Statements
- Report of Independent Auditors
- Consolidated Statement of Financial Position as at December 31, 2021 (With Comparative Figures as at December 31, 2020)
- Consolidated Statement of Income for the Year Ended December 31, 2021 (With Comparative Figures for the Years Ended December 31, 2020 and 2019)
- Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2021 (With Comparative Figures for the Years Ended December 31, 2020 and 2019)
- Consolidated Statement of Changes in Equity for the Year Ended December 31, 2021 (With Comparative Figures for the Years Ended December 31, 2020 and 2019)
- Consolidated Statement of Cash Flows for the Year Ended December 31, 2021 (With Comparative Figures for the Years Ended December 31, 2020 and 2019)
- Notes to Consolidated Financial Statements
- Supplementary Schedules
    - Report of Independent Auditors on Supplementary Schedules
    - Schedule A. Financial Assets*
    - Schedule B. Amounts Receivable From Directors, Officers, Employees Related Parties and Principal Stockholders (Other than Related Parties)*
    - Schedule C. Amounts Receivable From Related Parties which are Eliminated during the Consolidation of Financial Statements
    - Schedule D. The Movement of Intangible Assets - Other Assets*
    - Schedule E. Long-term Debt
    - Schedule F. Indebtedness to Related Parties*
    - Schedule G. Guarantees of Securities of Other Issuers*
    - Schedule H. Capital Stock
    - Schedule I. List of Effective Standards and Interpretations*ss
    - Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
    - Schedule K. Map Showing the Relationships among the Companies within the Group
    - Financial Soundness Indicators
- Parent Company Financial Statements

**These schedules have been omitted because they are either not applicable or schedule is in the Consolidated Financial Statements.*

MERALCO

ORTIGAS AVENUE, PASIG CITY
0300 PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, as at December 31, 2021 and 2020, and for each of the three years ended December 31, 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

MANUEL V. PANGILINAN
Chairman of the Board

RAY C. ESPINOSA
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Finance Officer

MAR 17 2022

SUBSCRIBED AND SWORN to before me this ___ day of _____ 2022 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Manuel V. Pangilinan	914-481-801
Ray C. Espinosa	113-248-897
Betty C. Siy-Yap	102-100-627

Doc. No. 100;
Page No. 101;
Book No. V;
Series of 2022.

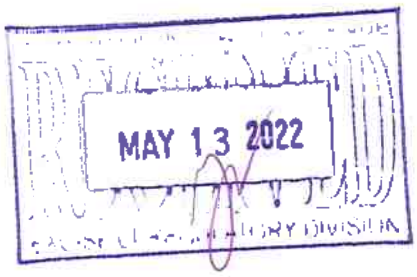
ISAGANI C. [illegible]
NOTARY PUBLIC
Appointment No. [illegible]
Pasig, San Juan and [illegible]
Issued on 05 July 2021 [illegible]
Roll of Attorneys No. [illegible]
IBP No. [illegible]
PTR No. 8131478; [illegible] Pasig City
[illegible]

SGV
Building a better working world

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

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT



The Board of Directors and the Stockholders
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

Opinion

We have audited the consolidated financial statements of Manila Electric Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including those in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

BUREAU OF INTERNAL REVENUE
RECEIVED
MAY 13 2022

Revenue from sale of electricity

The Group's revenue from its electricity distribution business represents 92% of its consolidated revenues and arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within the Group's franchise area. This matter is significant to our audit because the revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes including the application of adjustments promulgated by the Energy Regulatory Commission (ERC); and (c) the reliability of the IT systems involved in processing the billing transactions.

Notes 2, 23, 24, 30 and 32 provide the relevant disclosures related to the rate-making regulations and regulatory policies of the ERC.

Audit response

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

Adequacy of Allowance for Expected Credit Losses for Receivables

Under PFRS 9, *Financial Instruments*, the Group is required to estimate expected credit loss (ECL) for its financial assets, particularly its trade receivables which, as of December 31, 2021, represent 9% of the consolidated assets of the Group. The allowance for ECL and the provision for ECL as at and for the year ended December 31, 2021 amounted to ₱5,924 million and ₱551 million, respectively.

The Group's use of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model; and incorporating forward-looking information (called overlays), including the impact of coronavirus pandemic, in calculating ECL.

The disclosures in relation to allowance and provisions for ECL using the ECL model are included in Notes 5, 13 and 27 to the consolidated financial statements.

Audit response

We obtained an understanding of the methodologies and models used for the Group's varying credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome and the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical collections, recoveries and write-offs (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default and recovery data, by reconciling data from the billing system to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced the disaggregation from source systems to the loss allowance analysis.

We reviewed the completeness of the disclosures made in the consolidated financial statements.

Retirement and other long-term post-employment benefits

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

Note 26 to the consolidated financial statements provides the relevant disclosures related to this matter.

Audit response

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

Provisions and contingencies

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

Notes 2, 19, 22 and 29 to the consolidated financial statements provide the relevant disclosures related to this matter.

BUREAU OF INTERNAL REVENUE
RECEIVED
MAY 13 2022
EXCISE TAX REGULATORY DIVISION

Audit response

We examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized and/or disclosed in the Group's financial statements and involved our internal specialist when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from the internal and external legal counsels. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence. We also reviewed the disclosures on provisions and contingencies in the Group's consolidated financial statements.

Accounting for business combination

As disclosed in Notes 3 and 6 to the consolidated financial statements, MERALCO PowerGen Corporation, a wholly owned subsidiary of the Company, acquired an additional 86% interest in Global Business Power Corporation (GBPC) for a total consideration of ₱32,575 million and performed a provisional purchase price allocation. Apart from the significance of the amounts involved, we consider the accounting for this acquisition to be a key audit matter because it requires significant management judgment in determining the fair values of the assets acquired and liabilities assumed from GBPC, based on the available information as at the acquisition date, specifically the acquired property and equipment and intangible assets.

Audit response

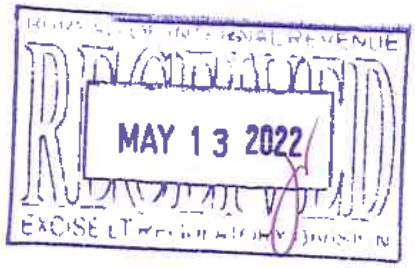
We reviewed the share purchase agreements covering the acquisition and assessed whether the acquisition has been appropriately accounted for. We evaluated management's basis in determining the fair value of the assets acquired and liabilities assumed from GBPC using the available information as of the acquisition date. We assessed the competence, capabilities and objectivity of the external appraiser who have been engaged to prepare the appraisal report used in the purchase price allocation, by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the provisional fair values of the property and equipment and intangible assets. We also assessed the adequacy of the related disclosures in Notes 3 and 6 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditor's report.

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

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



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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

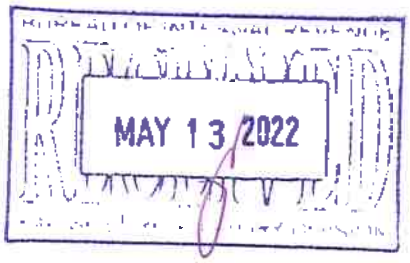
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
Tax Identification No. 102-099-147
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 84208-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023
PTR No. 8854376, January 3, 2022, Makati City

February 28, 2022

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31	
		2021	2020
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	*7 and 10*	**₱225,779**	₱163,009
Investments in associates and interests in joint ventures	*8 and 23*	**23,450**	15,688
Investment properties	*9*	**1,496**	1,499
Intangible assets	*7 and 10*	**15,387**	2,233
Deferred tax assets - net	*28*	**27,226**	28,943
Financial and other noncurrent assets	*2, 11, 15, 26, 27 and 30*	**53,125**	50,513
Total Noncurrent Assets		**346,463**	261,885
Current Assets			
Cash and cash equivalents	*12 and 27*	**55,007**	50,912
Trade and other receivables	*13, 24 and 27*	**45,013**	58,120
Inventories	*14*	**9,817**	5,484
Financial and other current assets	*11, 15, 23 and 27*	**27,182**	13,866
Total Current Assets		**137,019**	128,382
Total Assets		**₱483,482**	₱390,267
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	*16*	**₱11,273**	₱11,273
Additional paid-in capital		**4,111**	4,111
Equity reserve		**(116)**	(116)
Employee stock purchase plan	*16*	**1,049**	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income (*"FVOCI"*)	*11*	**502**	324
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**2,681**	(3,822)
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(25)**	(13)
Cumulative translation adjustments of associates	*8*	**306**	6
Cumulative translation adjustments of subsidiaries		**40**	22
Treasury shares	*16*	**(11)**	(11)
Retained earnings	*16*	**75,394**	66,414
Equity Attributable to Equity Holders of the Parent		**95,204**	79,237
Non-controlling Interests		**10,239**	1,494
Total Equity		**105,443**	80,731

(Forward)

BUREAU OF INTERNAL REVENUE
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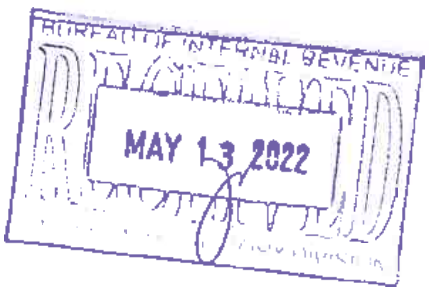
	Note	December 31	
		2021	2020
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*17 and 27*	**₱52,720**	₱14,809
Customers' deposits - net of current portion	*18, 22 and 27*	**30,901**	29,844
Long-term employee benefits	*26*	**10,257**	15,327
Provisions	*19, 22 and 29*	**13,554**	17,065
Refundable service extension costs - net of current portion	*22 and 27*	**5,334**	6,632
Deferred tax liabilities - net	*28*	**5,722**	316
Other noncurrent liabilities	*2, 5, 7, 24 and 29*	**97,981**	82,942
Total Noncurrent Liabilities		**216,469**	166,935
Current Liabilities			
Notes payable	*21 and 27*	**28,834**	23,373
Trade payables and other current liabilities	*16, 22, 23, 27 and 29*	**119,056**	111,261
Customers' refund	*2, 20 and 27*	**2,929**	2,949
Income tax payable		**1,637**	3,056
Current portion of interest-bearing long-term financial liabilities	*17 and 27*	**9,114**	1,962
Total Current Liabilities		**161,570**	142,601
Total Liabilities		**378,039**	309,536
Total Liabilities and Equity		**₱483,482**	₱390,267

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Note	Years Ended December 31 2021	2020	2019
		(Amounts in millions, except per share data)		
REVENUES				
Sale of electricity	*6, 23, 24, 30 and 32*	**₱309,238**	₱267,946	₱310,098
Sale of other services	*23*	**9,309**	7,358	8,217
		318,547	275,304	318,315
COSTS AND EXPENSES				
Purchased power	*24 and 30*	**224,915**	204,420	241,032
Salaries, wages and employee benefits	*25 and 26*	**15,892**	12,301	13,106
Depreciation and amortization	*7, 9, 10 and 25*	**12,499**	8,555	8,730
Provision for probable losses and expenses from claims	*2, 19 and 29*	**10,175**	15,526	10,119
Coal and fuel		**8,793**	–	–
Contracted services		**7,074**	6,348	6,637
Taxes, fees and permits		**1,939**	1,069	1,118
Power plant operations and maintenance cost		**1,103**	–	–
Provision for expected credit losses (*"ECL"*)		**506**	1,827	435
Other expenses	*23 and 25*	**6,312**	4,267	5,899
		289,208	254,313	287,076
OTHER INCOME (EXPENSES)				
Interest and other financial income	*11 and12*	**2,197**	2,323	3,269
Interest and other financial charges	*17, 18 and 21*	**(3,728)**	(1,594)	(1,607)
Equity in net earnings (losses) of associates and joint ventures	*8*	**3,127**	1,233	(1,486)
Foreign exchange gains (losses)		**487**	(839)	(508)
Others	*2, 23, 30 and 32*	**1,573**	301	1,008
		3,656	1,424	676
INCOME BEFORE INCOME TAX		**32,995**	22,415	31,915
PROVISION FOR (BENEFIT FROM) INCOME TAX	*28*			
Current		**8,728**	10,295	11,503
Deferred		**184**	(4,029)	(2,960)
		8,912	6,266	8,543
NET INCOME		**₱24,083**	₱16,149	₱23,372
Attributable To				
Equity holders of the Parent	*31*	**₱23,498**	₱16,316	₱23,285
Non-controlling interests		**585**	(167)	87
		₱24,083	₱16,149	₱23,372
Earnings Per Share Attributable to Equity Holders of the Parent	*31*			
Basic		**₱20.85**	₱14.48	₱20.66
Diluted		**20.85**	14.48	20.66

See accompanying Notes to Consolidated Financial Statements.

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MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

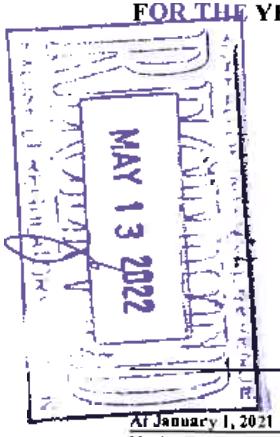
	Note	Years Ended December 31 2021	2020	2019
			(Amounts in millions)	
NET INCOME		**₱24,083**	₱16,149	₱23,372
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gains on fair value through other comprehensive ("*FVOCI*") financial assets	*11*	**139**	100	507
Cumulative translation adjustments of subsidiaries		**18**	(10)	(1)
Cumulative translation adjustments of associates		**300**	(756)	211
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent years		**457**	(666)	717
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**8,671**	(5,186)	(5,327)
Income tax effect		**(2,168)**	1,557	1,599
		6,503	(3,629)	(3,728)
Unrealized fair value gains (losses) on equity securities at *FVOCI*		**43**	(3)	17
Income tax effect		**(4)**	–	(2)
		39	(3)	15
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(12)**	(1)	(2)
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years		**6,530**	(3,633)	(3,715)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**6,987**	(4,299)	(2,998)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱31,070**	₱11,850	₱20,374
Total Comprehensive Income Attributable To				
Equity holders of the Parent		**₱30,485**	₱12,017	₱20,287
Non-controlling interests		**585**	(167)	87
		₱31,070	₱11,850	₱20,374

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

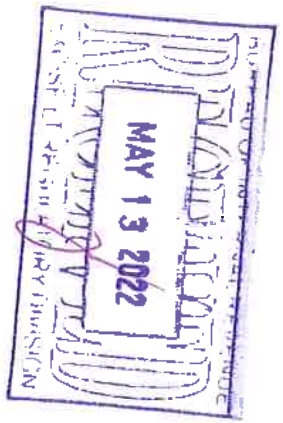
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019



	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)	Remeasurement Adjustments on Retirement and Other Post-Employment Liabilities (Note 26)	Share in Remeasurement 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, 2021	**₱11,273**	**₱4,111**	**(₱116)**	**₱1,049**	**₱324**	**(₱3,822)**	**(₱13)**	**₱6**	**₱22**	**(₱11)**	**₱66,414**	**₱79,237**	**₱1,494**	**₱80,731**
Net income	–	–	–	–	–	–	–	–	–	–	23,498	23,498	585	24,083
Other comprehensive income (loss)	–	–	–	–	178	6,503	(12)	300	18	–	–	6,987	–	6,987
Total comprehensive income (loss)	–	–	–	–	178	6,503	(12)	300	18	–	23,498	30,485	585	31,070
Dividends	–	–	–	–	–	–	–	–	–	–	(14,518)	(14,518)	(1,358)	(15,876)
Effect of consolidation of Global Business Power Corporation (*"GBPC"*)	–	–	–	–	–	–	–	–	–	–	–	–	9,474	9,474
Others	–	–	–	–	–	–	–	–	–	–	–	–	44	44
	–	–	–	–	–	–	–	–	–	–	(14,518)	(14,518)	8,160	(6,358)
At December 31, 2021	**₱11,273**	**₱4,111**	**(₱116)**	**₱1,049**	**₱502**	**₱2,681**	**(₱25)**	**₱306**	**₱40**	**(₱11)**	**₱75,394**	**₱95,204**	**₱10,239**	**₱105,443**
At January 1, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱227	(₱193)	(₱12)	₱762	₱32	(₱11)	₱67,108	₱84,230	₱1,011	₱85,241
Net income	–	–	–	–	–	–	–	–	–	–	16,316	16,316	(167)	16,149
Other comprehensive income (loss)	–	–	–	–	97	(3,629)	(1)	(756)	(10)	–	–	(4,299)	–	(4,299)
Total comprehensive income (loss)	–	–	–	–	97	(3,629)	(1)	(756)	(10)	–	16,316	12,017	(167)	11,850
Dividends	–	–	–	–	–	–	–	–	–	–	(17,010)	(17,010)	644	(16,366)
Appropriation of unrestricted retained earnings	–	–	–	–	–	–	–	–	–	–	–	–	6	6
	–	–	–	–	–	–	–	–	–	–	(17,010)	(17,010)	650	(16,360)
At December 31, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731

	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)	Remeasurement Adjustments on Retirement and Other Post-Employment Liabilities (Note 26)	Share in Remeasurement Adjustments on Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Associates (Note 8)	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares (Note 16)	Retained Earnings (Note 16)	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests (Note 6)	Total Equity
	(Amounts in millions)													
At January 1, 2019	₱11,273	₱4,111	(₱116)	₱1,049	(₱295)	₱3,535	(₱10)	₱551	₱33	(₱11)	₱61,922	₱82,042	₱845	₱82,887
Net income	–	–	–	–	–	–	–	–	–	–	23,285	23,285	87	23,372
Other comprehensive income (loss)	–	–	–	–	522	(3,728)	(2)	211	(1)	–	–	(2,998)	–	(2,998)
Total comprehensive income (loss)	–	–	–	–	522	(3,728)	(2)	211	(1)	–	23,285	20,287	87	20,374
Dividends	–	–	–	–	–	–	–	–	–	–	(18,099)	(18,099)	(32)	(18,131)
Additions to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	111	111
	–	–	–	–	–	–	–	–	–	–	(18,099)	(18,099)	79	(18,020)
At December 31, 2019	₱11,273	₱4,111	(₱116)	₱1,049	₱227	(₱193)	(₱12)	₱762	₱32	(₱11)	₱67,108	₱84,230	₱1,011	₱85,241

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31		
		2021	2020	2019
		(Amounts in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱32,995**	₱22,415	₱31,915
Adjustments for:				
Provision for probable losses and expenses from claims - net	*2 and 29*	**7,951**	14,473	9,696
Depreciation and amortization	*7, 9 and 10*	**12,499**	8,555	8,730
Interest and other financial charges	*17, 18 and 21*	**3,728**	1,594	1,607
Interest and other financial income	*11 and12*	**(2,197)**	(2,323)	(3,269)
Equity in net losses (earnings) of associates and joint ventures	*8*	**(3,127)**	(1,233)	1,486
Provision for expected credit losses (*"ECL"*)		**557**	1,827	435
Others		**12**	(151)	(213)
Operating income before working capital changes		**52,418**	45,157	50,387
Decrease (increase) in:				
Trade and other receivables		**11,127**	(27,922)	(2,645)
Inventories		**(2,136)**	(926)	(746)
Financial and other current assets		**(2,573)**	184	(324)
Increase (decrease) in:				
Trade payables and other current liabilities		**(12,832)**	18,215	1,419
Customers' deposits		**1,244**	1,282	1,635
Customers' refund		**(20)**	(83)	(1,327)
Long-term employee benefits		**2,855**	1,573	2,220
Cash generated from operations		**50,083**	37,480	50,619
Income tax paid		**(6,902)**	(7,608)	(8,443)
Net cash flows provided by operating activities		**43,181**	29,872	42,176
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Global Business Power Corporation (*"GBPC"*) – net of *GBPC*'s cash upon acquisition	*3*	**(16,476)**	–	–
Additions to:				
Debt securities at amortized cost	*11*	**(23,115)**	(15,949)	(11,974)
Financial assets at *FVOCI*	*11*	**(42,458)**	(92,057)	(51,065)
Utility plant and others	*7*	**(26,260)**	(19,662)	(19,438)
Intangible assets	*10*	**(976)**	(896)	(547)
Investments in associates and interests in joint ventures	*8*	**(992)**	(466)	(6,421)
Short-term investments		**(435)**	(5,472)	(37,957)
Investment properties	*9*	**(1)**	–	(1)
Proceeds from maturity of:				
Financial assets at *FVOCI*		**43,070**	85,268	51,874
Debt securities at amortized cost		**14,059**	23,999	11,065
Short-term investments		**–**	23,680	41,618
Interest and other financial income received		**2,184**	2,657	3,395
Proceeds from disposal of utility plant and others		**161**	353	490
Dividends received from associates and joint ventures		**1,778**	475	546
Increase (decrease) in minority interests		**(1,364)**	651	69
Decrease (increase) in financial and other noncurrent assets		**1,358**	195	(2,047)
Net cash provided by (used in) investing activities		**(49,467)**	[illegible]	(20,393)

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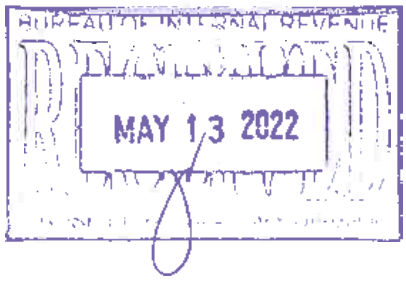
SECURITIES AND EXCHANGE COMMISSION
[illegible] DIVISION

	Note	Years Ended December 31 2021	2020	2019
			(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of:				
Interest-bearing long-term financial liabilities	*17*	**₱24,513**	₱2,578	₱28
Notes payable	*21*	**22,880**	179	10,179
Payments of:				
Notes payable		**(17,419)**	(199)	(283)
Dividends	*16*	**(13,748)**	(16,796)	(18,008)
Interest-bearing long-term financial liabilities	*17*	**(7,388)**	(3,669)	(8,712)
Interest and other financial charges		**(215)**	(1,446)	(1,620)
Increase (decrease) in other noncurrent liabilities		**2,238**	(938)	(1,831)
Net cash provided by (used in) financing activities		**10,861**	(20,291)	(20,247)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**4,575**	12,357	1,536
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**50,912**	38,262	36,471
NET UNREALIZED FOREIGN EXCHANGE LOSSES (GAINS)		**(480)**	293	255
CASH AND CASH EQUIVALENTS AT END OF YEAR	*12*	**₱55,007**	₱50,912	₱38,262

See accompanying Notes to Consolidated Financial Statements.



1. Corporate Information

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

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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 February 28, 2022.

2. Rate Regulations

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

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

Performance-Based Regulations ("*PBR*")

MERALCO

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *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 February 28, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence ("*FOE*") after the *ERC* has resolved pending motions. As at February 28, 2022, the *ERC*'s ruling on these motions remains pending.

In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other distribution utilities, to refund any remaining amount pertaining to regulatory reset costs for the previous *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 February 28, 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 ("*PFRSs*") 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. The refund was reflected as a separate line item in the billings to customers starting March 2021. As at February 28, 2022, the refund and the hearings on the case are ongoing.

As at December 31, 2021, the outstanding balance of *DRTU* for refund amounted to ₱7,578 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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*. The deadline for filing the regulatory reset application is set on February 9, 2022. However, *MERALCO* requested for an additional period, or until March 11, 2022, within which to file its reset application. On February 17, 2022, the *ERC* granted the request of *MERALCO* but with no further extension.

Clark Electric

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

3rd and 4th RP PBR Reset for Clark Electric

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

On February 18, 2016, December 29, 2016, May 17, 2018 and July 5, 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for *RY*s 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to the *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for *RY*s 2016, 2017 and 2018. As at February 28, 2022, the application is pending approval by the *ERC*.

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

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

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

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

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

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

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

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

MERALCO, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DU*s filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 28, 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 June 1, 2015, the *ERC* approved with modification *MERALCO*'s applications for the confirmation of its under- or over-recoveries of its pass-through costs for the periods June 2003 to December 2010 and January to December 2011, directing *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges until such time that the full amount has been collected. As at December 31, 2021, the net under-recoveries were fully recovered.

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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 a *MR* on the decision of the *ERC*. As at February 28, 2022, the *MR* is pending decision by the *ERC*.

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. Refund and collection of under- or over-recoveries of these pass-through charges is for a period of six (6) months starting the next billing period from the receipt of the *ERC* Order or such time that the full amount shall have been refunded.

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 August 20, 2021, *Clark Electric* received a Comfort Letter from *ERC* directing *Clark Electric* to refund over-recoveries of generation, transmission and system loss amounting to ₱5 million, ₱4 million and ₱26 million, respectively. Refund of the over-recoveries of these pass-through charges is for a period of twelve (12) months starting the next billing period from the receipt of the Comfort Letter or such time that the full amount shall have been refunded.

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

On January 31, 2017, *MERALCO* filed an Application seeking the *ERC*'s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the *ERC* provisionally approved the recovery of the incremental fuel cost through a staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 *PFRSs*.

Basis of Consolidation

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

Subsidiaries	Place of Incorporation	Principal Business Activity	2021 Percentage of Ownership Direct	2021 Indirect	2020 Direct	2020 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"*) [5]	Philippines	Bills payment collection	–	–	–	48
Meralco Energy, Inc. (*"MServ"*)	Philippines	Energy systems management	100	–	100	–
Aurora Managed Power Services, Inc. (*"AMPSI"*) [1]	Philippines	Energy systems management	–	60	–	60
eMeralco Ventures, Inc. (*"e-MVI"*)	Philippines	e-Business development	100	–	100	–
Paragon Vertical Corporation (*"Paragon"*)	Philippines	Information technology *("IT")* and multi-media services	–	100	–	100
Radius Telecoms, Inc. (*"Radius"*)	Philippines	Telecommunication services	–	100	–	100
MGen	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation[2]	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. (*"AIE"*) [3]	Philippines	Power generation	–	100	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	–	100	–	100
MPG Asia Limited (*"MPG Asia"*)	British Virgin Islands	Holding company	–	100	–	100
Solvre, Inc. [3]	Philippines	Retail electricity supplier	–	100	–	100
MGen Renewable Energy, Inc. (*"MGreen"*) [6]	Philippines	Renewable energy	–	100	–	100
LagunaSol Corporation (*"LagunaSol"*) [2]	Philippines	Renewable energy	–	100	–	100
Nortesol III Inc. (*"NorteSol"*) [2]	Philippines	Renewable energy	–	70	–	70
Powersource First Bulacan Solar, Inc. (*"First Bulacan"*)	Philippines	Renewable energy	–	60	–	60
Greentech Solar Energy, Inc. ("GSEI")	Philippines	Renewable energy	–	100	–	–
CACI Power Corporation [6]	Philippines	Power generation	–	60	–	–
PH Renewables Inc. (*"PHRI"*) [6]	Philippines	Power generation	–	60	–	–
GBPC [4]	Philippines	Holding company	–	100	–	–
ARB Power Ventures, Inc.	Philippines	Holding company	–	100	–	–
Toledo Power Company (*"TPC"*)	Philippines	Power generation	–	100	–	–
Toledo Holdings Corporation	Philippines	Real estate		100		
Global Trade Energy Resources Corp.	Philippines	Trading of coal	–	100	–	–
Panay Power Holdings Corporation	Philippines	Holding company	–	89	–	–
Panay Energy Development Corporation (*"PEDC"*)	Philippines	Power generation	–	89	–	–
Panay Power Corporation	Philippines	Power generation		89		
GBH Power Resources, Inc.	Philippines	Power generation	–	100	–	–
Global Formosa Power Holdings, Inc.	Philippines	Holding company	–	93	–	–
Cebu Energy Development Corporation (*"CEDC"*)	Philippines	Power generation	–	52	–	–
GESC	Philippines	Retail electricity supplier	–	100	–	–
Mindanao Energy Development Corporation	Philippines	Power generation	–	100	–	–
Global Hydro Power Corporation	Philippines	Power generation	–	100	–	–
Global Luzon Energy Development Corporation (*"GLEDC"*)	Philippines	Power generation	–	57	–	–
Lunar Power Core, Inc.	Philippines	Holding company	–	57	–	–
Global Renewable Power Corporation	Philippines	Renewable energy	–	100	–	–
Spectrum	Philippines	Renewable energy	100	–	100	–
Vantage	Philippines	Retail electricity supplier	100	–	100	–

(*Forward*)

Subsidiaries	Place of Incorporation	Principal Business Activity	2021 Percentage of Ownership Direct	2021 Indirect	2020 Direct	2020 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*") [2]	Philippines	Retail electricity supplier	–	**65**	–	65
Comstech	Philippines	Management of power distribution	**60**	–	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	–	**60**	–	60
Meridian Power Ventures Limited ("*MPV Limited*") [2]	Hongkong	Investment holdings	**100**	–	100	–
Shin Clark	Philippines	Holding company	**60**	–	60	–
Phoenix Power [2]	Philippines	Retail electricity supplier	**100**	–	100	–

[1] *The BOD of AMPSI approved the dissolution and shortening of corporate life until March 31, 2021.*
[2] *Has not started commercial operations.*
[3] *In development stage as at December 31, 2021.*
[4] *Became a wholly owned subsidiary beginning March 31, 2021 (See Note 3).*
[5] *Bayad disposed its 51% share in FSI on October 20, 2021.*
[6] *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 December 31, 2021, *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.

From the date of acquisition, *GBPC* contributed ₱18,191 million of revenue and ₱306 million net income in *MERALCO Group*'s revenues and net income, respectively, in 2021. If the acquisition had taken place at the beginning of 2021, the *MERALCO Group*'s consolidated revenue and net income would have been ₱323,559 million and ₱24,666 million, respectively.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2021.

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

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

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

Amendment to PFRS 16, COVID-19-related Rent Concessions beyond June 30, 2021.

The amendment provides relief to lessees from applying the *PFRS 16* requirement on lease modifications to rent concessions arising as a direct consequence of the *COVID-19* pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of *COVID-19*;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the *COVID-19* related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The *MERALCO Group* disclosed information, as applicable:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to *IBOR* reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

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

Effective beginning on or after January 1, 2022

Amendments to PFRS 3, Reference to the Conceptual Framework

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. 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 are not expected to have a material impact on the *MERALCO Group*.

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

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

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

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

Annual Improvements to PFRSs 2018-2020 Cycle

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2023

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

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 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 year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively, if appropriate, at each reporting 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 expensed.

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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 solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at FVOCI (debt instruments)

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

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

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

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under

PAS 32, Financial Instruments: Presentation, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of profit or loss when the right to receive payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

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

Derecognition

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

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

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

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

Modification of Financial Assets

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

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

- Change in currency
- Introduction of an equity feature

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

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

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

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

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

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

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

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

Impairment of Financial Assets

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

ECLs are measured in a way that reflects the following:

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

Initial Recognition and Measurement

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

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

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

Subsequent Measurement

Financial liabilities at FVPL

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

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

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

Loans and borrowings

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

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

Derecognition

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

Exchange or modification of financial liabilities

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

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

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

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

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

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

Offsetting of Financial Instruments

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

Redeemable Preferred Stock

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

Inventories

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

Prepayments

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

Value-Added Tax ("VAT")

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

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

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

Provisions

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

Retirement Benefits

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

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

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

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

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

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

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

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

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

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

Termination Benefits

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

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

Employee Leave Entitlements

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

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

Long-term Incentive Plan

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

Equity

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

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

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

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

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

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

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

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

Revenue Recognition

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

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

Sale of Electricity

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

Revenue from Contracts with Customers - Recognized Over Time.

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

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

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

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

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

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

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

Coal Sales

Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer. 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 year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

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 year in which these are earned.

Foreign Currency-Denominated Transactions and Translations

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

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

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

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

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

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

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

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

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

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

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

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

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

Earnings per Share

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

Diluted earnings per share is calculated by dividing the net income for the 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 years.

Judgments

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

Determination of Functional Currency

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

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

Uncertain Tax Position

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

Operating Lease Commitments

As Lessor

The *MERALCO Group* has several lease arrangements as a lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by the *MERALCO Group*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option 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 year when the services are expected to be provided.

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

MERALCO, through *MGen*, has a 51% interest in *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 Board and *MGen* does not hold the majority of the Board.

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

Prior to April 1, 2021, *MERALCO*, through *MGen*, has a 14% equity interest in *GBPC*. *GBPC* was considered an associate and, thus, *MERALCO*'s interest in *GBPC* was accounted for using the equity method until March 31, 2021 as *MERALCO* was deemed to have significant influence in *GBPC* as evidenced by its representation in the *BOD* and Executive Committee and the provision of essential technical information to *GBPC*. This representation guarantees *MGen*'s participation in the decision-making acts and policy making process of *GBPC*.

On March 31, 2021, *MGen* acquired the 86% combined equity of *GBPC* from *MPIC* and *JG Summit*, resulting in *MGen*'s 100% ownership in *GBPC* (see Note 3).

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 years 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 ₱10,846 million, ₱8,065 million and ₱8,003 million for the years ended December 31, 2021, 2020 and 2019, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱225,779 million and ₱163,009 million as at December 31, 2021 and 2020, respectively.

Total depreciation of investment properties amounted to ₱4 million for each of the years ended December 31, 2021, 2020 and 2019. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,496 million and ₱1,499 million as at December 31, 2021 and 2020, respectively.

Total amortization of intangible assets with finite lives amounted to ₱1,649 million, ₱486 million and ₱723 million for the years ended December 31, 2021, 2020 and 2019, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱15,387 million and ₱2,233 million as at December 31, 2021 and 2020, respectively.

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

Impairment of Nonfinancial Assets

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

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

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

Account	2021	2020
	(Amounts in millions)	
Utility plant, generation plant and others	**₱225,779**	₱163,009
Investments in associates and interests in joint ventures	**23,450**	15,688
Intangible assets	**15,387**	2,233
Investment properties	**1,496**	1,499
Receivable from the *BIR*	**181**	181
Goodwill	**35**	35

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

Realizability of Deferred Income Tax Assets

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

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

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

	2021	2020
	(Amounts in millions)	
Recognized deferred income tax assets	**₱34,660**	₱37,019
Unrecognized deferred income tax assets	**3,808**	4,115

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

Provision for ECL of Receivables and Contract Assets

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

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in

2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the 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 *ECLs* 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 *ECLs*.

ECLs for trade and other receivables amounted to ₱551 million, ₱1,933 million and ₱708 million for the years ended December 31, 2021, 2020 and 2019, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱45,013 million and ₱58,120 million as at December 31, 2021 and 2020, 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 ₱9,817 million and ₱5,484 million as at December 31, 2021 and 2020, respectively.

See *Note 14 – Inventories.*

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at

each reporting date. Retirement and other post-employment benefits expense amounted to ₱2,241 million, ₱1,610 million and ₱1,068 million for the years ended December 31, 2021, 2020 and 2019, respectively. Retirement and other post-employment benefit liabilities as at December 31, 2021 and 2020 amounted to ₱7,716 million and ₱14,020 million, respectively.

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

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

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

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 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 ₱10,175 million, ₱15,526 million and ₱10,119 million for the years ended December 31, 2021, 2020 and 2019, 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 December 31, 2021 and 2020, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱860 million and ₱2,275 million, respectively.

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

Revenue Recognition

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

Revenues from sale of electricity by *MERALCO* and *Clark Electric* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of

unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by power generation companies is taken up in the subsequent period. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

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

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

Revenue from Contracts with Customers

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

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

   The *MGen* Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:
   a. each distinct good or services in the series are transferred over time; and
   b. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

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

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

   Factors such as the following are considered:
   a. high susceptibility to factors outside the Group's influence;
   b. timing of the resolution of the uncertainty; and
   c. having a large number and broad range of possible outcomes.

   Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the *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 *EPPAs*, *ASPA* and spot market sales to *WESM*, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the *MGen* Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the *MGen* Group.

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

The *MGen* Group concluded that revenue from sale of electricity from contracts with customers are to be recognized over time, since customers simultaneously receive and consume the benefits as the *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 February 28, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

  Power generation – The *MERALCO Group* 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 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, *AIE*. It will be the first ultra-supercritical coal-fired facility to be built

in the country. Site preparation is in an advanced stage and engineering activities are ongoing to meet the targeted operations date.

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

MGen Renewable Energy, Inc. ("*MGreen*") is a wholly owned subsidiary of *MGen* engaged in the development, financing, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*. *First Bulacan* 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 February 28, 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 year, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization ("consolidated core *EBITDA*"); and (iii) consolidated core net income ("*CCNI*"). Net income is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, 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		
	Note	**2021**	2020	2019	**2021**	2020	2019	**2021**	2020	2019	2021	2020	2019
Revenues		**₱309,238**	₱267,946	₱310,098	**₱15,250**	₱10,382	₱11,299	**(₱5,941)**	(₱3,024)	(₱3,082)	**₱318,547**	₱275,304	₱318,315
Segment results		**₱50,912**	₱42,074	₱48,213	**₱3,161**	₱2,460	₱2,375	**₱–**	₱–	₱–	**₱54,073**	₱44,534	₱50,588
Provision for probable losses and expenses from claims		**(10,120)**	(15,511)	(10,119)	**(55)**	(15)	–	–	–	–	**(10,175)**	(15,526)	(10,119)
Depreciation and amortization	*7, 9 and 10*	**(11,913)**	(8,003)	(8,181)	**(586)**	(552)	(549)	–	–	–	**(12,499)**	(8,555)	(8,730)
Interest and other financial income	*24*	**2,145**	2,282	3,213	**52**	41	56	–	–	–	**2,197**	2,323	3,269
Equity in net earnings (losses) of associates and joint ventures	*8*	**3,162**	1,276	(1,482)	**(35)**	(43)	**(4)**	–	–		**3,127**	1,233	(1,486)
Interest and other financial charges	*24*	**(3,633)**	(1,490)	(1,477)	**(95)**	(104)	(130)	–	–	–	**(3,728)**	(1,594)	(1,607)
Provision for income tax - net	*27*	**(8,158)**	(5,569)	(7,853)	**(754)**	(697)	(690)	–	–	–	**(8,912)**	(6,266)	(8,543)
Net income (loss) attributable to non-controlling interests		**–**	–	–	**–**	–	–	**(585)**	167	(87)	**(585)**	167	(87)
Net income attributable to equity holders of the Parent		**₱22,395**	₱15,059	₱22,314	**₱1,688**	₱1,090	₱1,058	**(₱585)**	₱167	(₱87)	**₱23,498**	₱16,316	₱23,285

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:

	2021	2020	2019
		(Amounts in millions)	
EBITDA	**₱43,411**	₱29,847	₱40,977
Add (deduct):			
Depreciation and amortization	**(12,499)**	(8,555)	(8,730)
Equity in net earnings (losses) of associates and joint ventures	**3,127**	1,233	(1,486)
Interest and other financial income net of charges and foreign exchange gains and losses	**(1,044)**	(110)	1,154
Income before income tax	**32,995**	22,415	31,915
Provision for income tax - net	**(8,912)**	(6,266)	(8,543)
Net income	**₱24,083**	₱16,149	₱23,372

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

	2021	2020	2019
		(Amounts in millions)	
CCNI	**₱24,608**	₱21,711	₱23,832
Add (deduct) non-core items, net of tax:			
Non-core expenses	**(1,487)**	(4,556)	(124)
Foreign exchange gains (losses)	**377**	(839)	(423)
Net income for the year attributable to equity holders of the Parent	**23,498**	16,316	23,285
Net income for the year attributable to non-controlling interests	**585**	(167)	87
Net income	**₱24,083**	₱16,149	₱23,372

7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

		2021									
	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 year		₱196,793	₱–	₱15,752	₱7,401	₱3,339	₱4,079	₱3,973	₱5,755	₱25,822	₱262,914
Effect of consolidation of *GBPC*	*3*	–	63,872	1,436	6,649	283	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 year		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 year		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 year		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

		2020								
	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						(Amounts in millions)				
Cost:										
Balance at beginning of year		₱189,492	₱15,410	₱7,054	₱2,882	₱3,683	₱3,769	₱5,326	₱17,340	₱244,956
Additions		340	342	67	240	172	269	286	18,221	19,937
Transfers from construction in progress		8,506	–	416	269	296	1	122	(9,610)	–
Disposals/retirements		(2,199)	–	(57)	(71)	(3)	(66)	(60)	–	(2,456)
Reclassifications	*10*	654	–	(79)	19	(69)	–	81	(129)	477
Balance at end of year		196,793	15,752	7,401	3,339	4,079	3,973	5,755	25,822	262,914
Less accumulated depreciation and amortization:										
Balance at beginning of year		80,851	–	3,087	1,541	2,475	2,457	3,104	–	93,515
Depreciation and amortization		6,649	–	189	274	340	268	345	–	8,065
Disposals/retirements		(2,199)	–	(5)	–	(2)	(52)	(23)	–	(2,281)
Reclassifications		612	–	(34)	81	(75)	–	22	–	606
Balance at end of year		85,913	–	3,237	1,896	2,738	2,673	3,448	–	99,905
Net book value		₱110,880	₱15,752	₱4,164	₱1,443	₱1,341	₱1,300	₱2,307	₱25,822	₱163,009

As at December 31, 2021 and 2020, the net book values of customer-funded assets included in "Utility plant, generation plant and others" account amounted to ₱5,764 million and ₱5,437 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2021 and 2020 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

The power plant complex of *TPC* and the generation plant and equipment of *PEDC*, with aggregate carrying value of ₱29,385 million as at December 31, 2021 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 ₱304 million, ₱276 million and ₱247 million based on average capitalization rate of 5% for the years ended December 31, 2021, 2020 and 2019, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

	Place of Incorporation	Principal Activity	2021	2020
			Percentage of Ownership	
Associates				
Alsons Thermal Energy Corporation ("*ATEC*")	Philippines	Power generation	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	28
Bauang Private Power Corporation ("*BPPC*")	Philippines	Power generation	38	38
Aclara Meters Philippines, Inc. ("*Aclara Meters*")	Philippines	Sale of metering products and services	35	35
Power Distribution Services Ghana Limited ("*PDS Ghana*")	Ghana	Distribution of power	30	30
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	25	25
GBPC [1]	Philippines	Power generation	–	14
Greenergy For Global Inc. ("*Greenergy*")	Philippines	Renewable energy	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	–

[1] *Beginning March 31, 2021, GBPC is accounted as a subsidiary (see Note 3).*

The movements in investments in associates and interests in joint ventures are as follows:

	Note	**2021**	2020
		(Amounts in millions)	
Acquisition cost:			
Balance at beginning of year		**₱21,447**	₱21,619
Additions		**779**	466
Effect of consolidation of *GBPC*	*3*	**10,447**	–
Reclassification [1]	*11*	**(5,293)**	(534)
Disposal [2]		**–**	(104)
Balance at end of year		**27,380**	21,447
Accumulated equity in net losses:			
Balance at beginning of year		**(5,752)**	(7,404)
Equity in net earnings		**3,127**	1,233
Impairment losses		**(12)**	–
Reclassification [1]		**206**	895
Dividends received		**(1,780)**	(476)
Balance at end of year		**(4,211)**	(5,752)
Share in remeasurement adjustments on retirement liabilities			
Balance at beginning of year		**(13)**	(12)
Share in actuarial losses		**(12)**	(1)
Balance at end of year		**(25)**	(13)
Share in cumulative translation adjustments:			
Balance at beginning of year		**6**	762
Cumulative translation adjustments		**300**	–
Reclassification		**–**	(756)
Balance at end of year		**306**	6
		₱23,450	₱15,688

[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.

[2] Following the termination of the joint venture agreement with Semirara Mining Power Corporation ("SMPP") in November 2020 MGen disposed its shareholding in St. Raphael in favor of SMPC.

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

	Note	**2021**	2020
		(Amounts in millions)	
Associates			
ATEC	*3*	**₱10,186**	₱–
FPM Power / PacificLight Power		**2,434**	–
RP Energy		**706**	717
Aclara Meters		**59**	63
Greenergy		**35**	–
GBPC	*3*	**–**	5,032
BPPC		**–**	2
Joint ventures			
SBPL		**8,138**	7,912
RBC JV		**907**	1,055
Indra Philippines		**416**	353
MPioneer		**354**	390
Pure Meridian		**123**	131
NSEC		**64**	–
MDJV		**28**	33
		₱23,450	₱15,688

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.

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.

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.

In 2019, *MERALCO* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the continued depressed market condition in Singapore. As a result of the re-assessment, *MERALCO* recognized impairment on its investment.

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.*

RBC JV

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

RP Energy

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.

MPioneer

MPioneer is 35% owned by *MERALCO*, with Pioneer Insurance and Surety Company holding 65%. It is engaged in the non-life insurance business.

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.

Greenenergy

In February 2021, *GBPC* acquired 28% equity interest in *Greenergy*, which is developing a 40 *MWac* solar power plant in Cordon, Isabela.

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.

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.

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 December 31, 2021 and 2020, the investment in *AF Payments* is fully impaired.

The condensed statements of financial position of material associates follow:

	2021		
	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

	2020	
	GBPC	*RP Energy*
	(Amounts in millions)	
Current assets	₱18,645	₱272
Noncurrent assets	53,572	1,177
Current liabilities	(15,352)	(6)
Noncurrent liabilities	(23,450)	(23)
Non-controlling interests	(5,265)	–
Net assets	₱28,150	₱1,420

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

	2021			2020			2019		
	ATEC	*FPM Power / PacificLight Power*	*RP Energy*	*GBPC[1]*	*FPM Power*	*RP Energy*	*GBPC[1]*	*FPM Power*	*RP Energy*
				(Amounts in millions)					
Revenues	₱8,270	₱61	₱–	₱21,926	₱19,981	₱4	₱24,767	₱36,909	₱12
Costs and expenses	(6,826)	(59)	(21)	(19,447)	(20,181)	(18)	(21,206)	(42,591)	(653)
Net income (loss)	1,444	2	(21)	2,479	(200)	(14)	3,561	(5,682)	(641)
Non-controlling interests	(354)	–	–	(831)	–	–	(1,268)	950	–
Net income (loss) attributable to equity holders of the parent	1,090	2	(21)	1,648	(200)	(14)	2,293	(4,732)	(641)
Other comprehensive income	–	–	–	–	–	–	–	528	–
Total comprehensive income (loss)	₱1,090	₱2	(₱21)	₱1,648	(₱200)	(₱14)	₱2,293	(₱4,204)	(₱641)
Dividends received	₱1,455	₱–	₱–	₱308	₱–	₱–	₱350	₱–	₱–

[1] On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%. The transaction resulted in accounting for the investment in GBPC as a subsidiary. In 2020, investment in GBPC was accounted as investment in an associate.

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

	2021		
	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**

	2020	
	GBPC	*RP Energy*
	(Amounts in millions, except % of ownership)	
Net assets of associates	₱28,150	₱1,420
Proportionate ownership in associates (%)	14	47
	3,941	667
Goodwill	1,091	50
	₱5,032	₱717

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

	2021	2020	2019
		(Amounts in millions)	
Share in net income	**₱54**	₱20	₱23
Share in other comprehensive loss	**(12)**	(1)	(3)
Share in total comprehensive income	**₱42**	₱19	₱20
Dividends received	**₱13**	₱19	₱80

Joint Ventures

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

	2021	
	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**

	2020	
	RBC JV	*SBPL*
	(Amounts in millions)	
Current assets	₱1,020	₱8,127
Noncurrent assets	2,947	48,273
Current liabilities	(450)	(3,882)
Noncurrent liabilities	–	(37,004)
Net assets	₱3,517	₱15,514

The foregoing condensed statements of financial position include the following:

	2021	
	RBC JV	***SBPL***
	(Amounts in millions)	
Cash and cash equivalents	**₱667**	**₱2,957**
Current financial liabilities (excluding trade payables)	**(358)**	**(3,328)**

	2020	
	RBC JV	*SBPL*
	(Amounts in millions)	
Cash and cash equivalents	₱663	₱2,996
Current financial liabilities (excluding trade payables)	(3)	(3,201)

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

	2021		2020		2019	
	RBC JV	***SBPL***	*RBC JV*	*SBPL*	*RBC JV*	*SBPL*
			(Amounts in millions)			
Revenues	**₱821**	**₱15,700**	₱782	₱12,954	₱738	₱5,178
Costs and expenses	**(172)**	**(13,178)**	(167)	(10,971)	(196)	(4,457)
Other income - net	**3**	**54**	24	7	20	6
Provision for (benefit from) income tax - net	**(92)**	**23**	(84)	(23)	(134)	7
Net income	**₱560**	**₱2,599**	₱555	₱1,967	₱428	₱734
Dividends received	**₱172**	**₱1,123**	₱143	₱–	₱116	₱–

The foregoing condensed statements of comprehensive income include the following:

	2021		2020		2019	
	RBC JV	***SBPL***	*RBC JV*	*SBPL*	*RBC JV*	*SBPL*
			(Amounts in millions)			
Depreciation	**₱212**	**₱1,478**	₱209	₱1,467	₱206	₱392
Interest income	**(2)**	**(4)**	(24)	(7)	(20)	(6)
Provision for (benefit from) income tax - net	**92**	**(23)**	84	23	134	7

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

	2021	
	RBC JV	***SBPL***
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	**₱3,023**	**₱15,957**
Proportionate ownership in joint ventures (%)	**30**	**51**
	₱907	**₱8,138**

	2020	
	RBC JV	*SBPL*
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	₱3,517	₱15,514
Proportionate ownership in joint ventures (%)	30	51
	₱1,055	₱7,912

The following is the condensed financial information of joint ventures which are considered immaterial:

	2021	2020	2019
		(Amounts in millions)	
Share in net income (loss)	**₱33**	(₱113)	(₱45)
Share in other comprehensive loss	**–**	–	–
Share in total comprehensive income (loss)	**₱33**	(₱113)	(₱45)
Dividends received	**₱–**	₱5	₱–

9. Investment Properties

The movements in investment properties are as follows:

	2021		
	Land	**Buildings and Improvements**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of year	**₱1,427**	**₱206**	**₱1,633**
Additions	**1**	–	**1**
Balance at end of year	**1,428**	**206**	**1,634**
Less accumulated depreciation:			
Balance at beginning of year	**–**	**134**	**134**
Depreciation	**–**	**4**	**4**
Balance at end of year	–	**138**	**138**
	₱1,428	**₱68**	**₱1,496**

	2020		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of year	₱1,427	₱206	₱1,633
Disposal	–	(2)	(2)
Reclassification and others	–	2	2
Balance at end of year	1,427	206	1,633
Less accumulated depreciation:			
Balance at beginning of year	–	131	131
Depreciation	–	4	4
Reclassification and others	–	(1)	(1)
Balance at end of year	–	134	134
	₱1,427	₱72	₱1,499

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at December 31, 2021 and 2020 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:

		2021				
	Note	**Software**	**Franchise**	**Land and Leasehold Rights**	**Customer Contracts**	**Total**
			(Amounts in millions)			
Cost:						
Balance at beginning of year		**₱5,969**	**₱49**	**₱932**	**₱–**	**₱6,950**
Additions		**865**	**–**	**75**	**–**	**940**
Effect of consolidation of *GBPC*	*3*	**6**	**–**	**–**	**13,827**	**13,833**
Disposals/retirements		**(5)**	**–**	**(31)**	**–**	**(36)**
Reclassification	*7*	**38**	**14**	**(406)**	**375**	**21**
Balance at end of year		**6,873**	**63**	**570**	**14,202**	**21,708**
Less accumulated amortization:						
Balance at beginning of year		**4,343**	**–**	**374**	**–**	**4,717**
Amortization		**719**	**–**	**37**	**893**	**1,649**
Disposals/retirements		**(5)**	**–**	**(31)**	**–**	**(36)**
Reclassification		**(6)**	**–**	**(3)**	**–**	**(9)**
Balance at end of year		**5,051**	**–**	**377**	**893**	**6,321**
		₱1,822	**₱63**	**₱568**	**₱12,934**	**₱15,387**

		2020			
	Note	Software	Franchise	Land and Leasehold Rights	Total
			(Amounts in millions)		
Cost:					
Balance at beginning of year		₱5,391	₱49	₱537	₱5,977
Additions		449	–	447	896
Retirement		–	–	(52)	(52)
Reclassification	*7*	129	–	–	129
Balance at end of year		5,969	49	932	6,950
Less accumulated amortization:					
Balance at beginning of year		3,886	–	327	4,213
Amortization		443	–	43	486
Reclassification		14	–	4	18
Balance at end of year		4,343	–	374	4,717
		₱1,626	₱49	₱558	₱2,233

11. Financial and Other Noncurrent Assets

This account consists of:

	Note	**2021**	2020
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*15 and 27*	**₱24,340**	₱24,112
Financial assets at *FVOCI*	*27*	**8,467**	8,941
Restricted cash	*27*	**4,698**	4,734
Advance payments to a supplier	*27 and 30*	**523**	694
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	*2 and 24*	**10,597**	7,279
Deferred input *VAT*		**1,585**	1,475
Rental deposits		**643**	375
Finance lease		**565**	779
Receivable from the *BIR*		**181**	181
Goodwill		**35**	35
Others		**1,491**	1,908
		₱53,125	₱50,513

Debt Securities at Amortized Cost

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

	2021			2020		
	Current Portion (see *Note 15*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 15*)	Noncurrent Portion	**Total**
			(Amounts in millions)			
Government securities	**₱11,873**	**₱21,136**	**₱33,009**	₱4,456	₱16,466	₱20,922
Private debt securities	**5,248**	**3,204**	**8,452**	3,563	7,646	11,209
	₱17,121	**₱24,340**	**₱41,461**	₱8,019	₱24,112	₱32,131

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at *FVOCI*

The details of financial assets at *FVOCI* are as follows:

	2021	2020
	(Amounts in millions)	
Investments in debt securities:		
Corporate bonds and other investments	**₱6,569**	₱7,626
Government securities	**3**	–
Investments in shares of stock and club shares	**1,895**	1,315
	₱8,467	₱8,941

Interest income from debt and equity securities amounted to ₱1,316 million, ₱1,580 million and ₱1,867 million for the years ended December 31, 2021, 2020 and 2019, 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:

	2021	2020
	(Amounts in millions)	
Balance at beginning of year	₱324	₱227
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	139	100
Equity securities	39	(3)
Balance at end of year	₱502	₱324

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 (*"EVAT Law"*), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. 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.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DUs* determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*. The amount of net under-recoveries of pass-through charges that will be collected within 12 months amounted to ₱1,453 million and ₱2,753 million as at December 31, 2021 and 2020, respectively. This is shown as part of "Trade and other receivables" account in the consolidated statement of financial position.

See *Note 13 - Trade and Other Receivables*.

Allowance for *ECL* on net under-recoveries of pass-through charges amounted to ₱3,078 million and ₱1,652 million as at December 31, 2021 and 2020, respectively.

Finance lease

Spectrum entered into bilateral *PSAs* to lease out solar power generation systems to its customers under a finance lease arrangement for a period of 25 years.

Spectrum recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease arrangements is recognized under "Other income (expense)" account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

12. Cash and Cash Equivalents

This account consists of:

	2021	2020
	(Amounts in millions)	
Cash on hand and in banks	**₱20,888**	₱19,146
Cash equivalents	**34,119**	31,766
	₱55,007	₱50,912

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 ₱515 million, ₱595 million and ₱1,283 million for the years ended December 31, 2021, 2020 and 2019, respectively.

13. Trade and Other Receivables

This account consists of:

	Note	2021	2020
		(Amounts in millions)	
Trade:			
Electricity distributed	*23 and 27*	**₱35,264**	₱52,631
Energy generated	*27*	**5,087**	–
Service contracts		**3,814**	4,095
Unbilled receivables	*24*	**2,647**	1,499
Nontrade	*23 and 27*	**4,125**	4,200
		50,937	62,425
Less allowance for expected credit losses		**5,924**	4,305
		₱45,013	₱58,120

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

	2021				
	Balance at Beginning of Year	**Provisions**	**Write-offs**	**Effect of Consolidation of *GBPC***	**Balance at End of Year**
		(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**

	2020			
	Balance at Beginning of Year	Provisions	Write-offs	Balance at End of Year
	(Amounts in millions)			
Trade – electricity distributed	₱1,761	₱1,744	(₱13)	₱3,492
Other trade receivables	622	161	–	783
Nontrade receivables	2	28	–	30
	₱2,385	₱1,933	(₱13)	₱4,305

	2021					2020			
	Trade – Electricity distributed	Trade – Energy generated	Other Trade Receivables	Nontrade Receivables	Total	Trade – Electricity distributed	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)								
Individually impaired	₱1,086	₱–	₱785	₱268	₱2,139	₱1,275	₱783	₱30	₱2,088
Collectively impaired	2,665	1,120	–	–	3,785	2,217	–	–	2,217
	₱3,751	₱1,120	₱785	₱268	₱5,924	₱3,492	₱783	₱30	₱4,305

Trade Receivables – Electricity Distributed

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 58%, 9% and 4%, respectively, of the total billed amount in 2021 and 55%, 10% and 4%, respectively, of the total billed amount in 2020. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 27 – Financial Assets and Financial Liabilities.*

Trade Receivables – Energy 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

	2021	2020
	(Amounts in millions)	
Materials and supplies:		
At cost	**₱10,057**	₱5,696
At net realizable value ("*NRV*")	**9,817**	5,484
Materials and supplies at *NRV*	**₱9,817**	₱5,484

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱206 million as at December 31, 2021 and 2020. No item of inventory has been written off for the years ended December 31, 2021, 2020 and 2019.

See *Note 25 – Expenses and Income*.

15. Financial and Other Current Assets

	Note	2021	2020
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*11 and 27*	**₱17,121**	₱8,019
Short-term investments		**444**	–
Current portion of advance payments to a supplier	*27*	**182**	171
Nonfinancial assets:			
Prepayments		**4,101**	2,431
Input *VAT*		**2,570**	1,179
Prepaid tax		**1,511**	1,315
Others		**1,253**	751
		₱27,182	₱13,866

Short-term investments are temporary cash placements for varying periods beyond three (3) months but not exceeding 12 months and earn interest at the prevailing short-term placement investment rates.

16. Equity

Common Stock

	2021	2020
	(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 41,689 and 41,943 shareholders of *MERALCO*'s common shares as at December 31, 2021 and 2020, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant, generation plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱57,591 million and ₱57,537 million as at December 31, 2021 and 2020, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting.

The following are the cash dividends declared on common shares for the years ended December 31, 2021, 2020 and 2019:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 26, 2021	August 23, 2021	September 15, 2021	₱5.06	₱5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716
July 29, 2019	August 20, 2019	September 20, 2019	5.46	6,159
February 26, 2019	March 22, 2019	April 15, 2019	10.59	11,941

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	2021	2020
		(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities - long-term debt		**₱52,720**	₱14,809
Current portion of interest-bearing financial liabilities:			
Long-term debt		**7,644**	490
Redeemable preferred stock		**1,470**	1,472
		9,114	1,962
		₱61,834	₱16,771

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to ₱249 million as at December 31, 2021 and 2020. Interest is no longer accrued from the time such preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

	Note	2021	2020
		(Amounts in millions)	
MERALCO			
12-year Puttable Bonds		**₱7,000**	₱7,000
₱7.2 Billion Note		**4,680**	5,040
MGen Group			
₱18.0 Billion Term Loan		**17,910**	–
₱11.0 Billion Term Loan		**7,829**	–
₱16.0 Billion Term Loan		**5,510**	–
₱14.0 Billion Term Loan		**4,200**	–
₱4.5 Billion Term Loan		**4,150**	–
₱7.0 Billion Term Loan		**3,869**	–
₱2.8 Billion Term Loan		**2,841**	2,578
₱1.5 Billion Term Loan		**614**	–
MServe			
₱600 Million Term Loan		**480**	510
₱350 Million Note		**140**	210
MIESCOR			
₱375 Million Term Loan		**383**	–
₱130 Million Term Loan		**–**	12
eSakay			
₱27 Million Term Loan		**23**	27
Total long-term debt		**59,629**	15,377
Less unamortized debt issuance costs		**357**	78
		59,272	15,299
Redeemable Preferred Stock		**1,470**	1,472
Fair value adjustment in relation to the purchase of *GBPC*	*3*	**1,092**	–
		61,834	16,771
Less current portion		**9,114**	1,962
Long-term portion of interest-bearing financial liabilities		**₱52,720**	₱14,809

All of the interest-bearing long-term financial liabilities as at December 31, 2021 and 2020 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2021 are as follows:

	Amount
	(In millions)
2023	₱7,729
2024	3,844
2025	7,468
2026	12,239
2027	3,155
Beyond 2027	25,194
	₱59,629

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.

₱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.

₱2.8 Billion Term Loan

First Bulacan obtained a total of ₱2,881 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.

₱130 Million Term Loan Facility

The ₱130 million fixed rate term loan was fully paid in June 2021.

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 2.75% to 8.26% and 4.50% to 6.22% as at December 31, 2021 and 2020, respectively.

Debt Covenants

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

CEDC, *PEDC* and *TPC* are required to meet certain financial ratios. *CEDC*, *PEDC* and *TPC* shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. Also, *CEDC*, *PEDC* and *TPC* shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. 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 December 31, 2021 and 2020, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱2,265 million, ₱473 million and ₱606 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Unamortized Debt Issuance Costs

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

	Note	**2021**	2020
		(Amounts in millions)	
Balance at beginning of year		**₱78**	₱80
Additions		**205**	26
Effect of consolidation of *GBPC*	*3*	**125**	–
Amortization charged to interest and other financial charges	*24*	**(51)**	(28)
Balance at end of year		**₱357**	₱78

Redeemable Preferred Stock

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

	2021	2020
Balance at beginning of year	**147,158,808**	147,880,772
Redemptions	**(143,527)**	(721,964)
Balance at end of year	**147,015,281**	147,158,808

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. Customers' Deposits

This account consists of:

	2021			2020		
	Current Portion (see *Note 22*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 22*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,460**	**₱30,901**	**₱33,361**	₱2,261	₱29,844	₱32,105
Meter deposits	**315**	**–**	**315**	314	–	314
	₱2,775	**₱30,901**	**₱33,676**	₱2,575	₱29,844	₱32,419

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the DUare 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	2021	2020
		(Amounts in millions)	
Balance at beginning of year		**₱32,105**	₱30,804
Additions		**3,002**	3,347
Refunds		**(1,746)**	(2,046)
Balance at end of year		**33,361**	32,105
Less portion maturing within one year	*22*	**2,460**	2,261
Noncurrent portion of bill deposits and related interests		**₱30,901**	₱29,844

Interest expense on bill deposits amounted to ₱21 million, ₱35 million and ₱34 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Meter Deposits

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

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

MERALCO implemented refund of said deposits to its customers based on the *ERC* Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008. 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 *DUs* pursuant to *ERC* Resolution No. 13, Series of 2016, entitled, "Guidelines to Govern the Audit Process of Meter Deposit Refund to Residential and Non-Residential Customers," and *ERC* Resolution No. 03, Series of 2017 which provided the extended deadline for *DUs* submission of the Audit Report on *MDR*.

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at February 28, 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	2021	2020
		(Amounts in millions)	
Balance at beginning of year		**₱38,992**	₱34,191
Provisions for the year - net		**4,432**	5,853
Settlements		**(6,388)**	(1,052)
Balance at end of year		**37,036**	38,992
Less current portion	*22*	**23,482**	21,927
Noncurrent portion of provisions		**₱13,554**	₱17,065

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC's* approval to continue refunding to eligible accounts or customers under Phases I to IV, for three (3) years from January 1, 2016 or until December 31, 2018. In an Order dated December 19, 2018, the *ERC* authorized *MERALCO* to continue 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 February 28, 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 February 28, 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 4.80% and 5.40% as at December 31, 2021 and 2020, respectively.

Interest expense on notes payable amounted to ₱1,238 million, ₱994 million and ₱896 million for the years ended December 31, 2021, 2020 and 2019, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2021**	2020
		(Amounts in millions)	
Trade accounts payable	*23 and 24*	**₱54,489**	₱47,805
Provisions	*2, 19 and 29*	**23,482**	21,927
Taxes		**15,071**	13,303
Accrued expenses:			
Employee benefits		**2,095**	2,103
Interest	*17*	**264**	560
Others		**4,840**	2,436
Current portions of:			
Bill deposits and related interests	*18*	**2,460**	2,261
Deferred income		**961**	1,102
Meter deposits and related interests	*18*	**315**	314
Refundable service extension costs		**1,660**	5,555
Dividends payable on:			
Common stock	*16*	**2,021**	1,251
Redeemable preferred stock	*17*	**249**	249
Payable to customers		**6,731**	5,900
Universal charges payable	*32*	**2,373**	2,769
FiT-All payable	*32*	**957**	689
Regulatory fees payable		**263**	227
Other current liabilities		**825**	2,810
		₱119,056	₱111,261

Trade Accounts Payable

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

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

See *Note 23 – Related Party Transactions, Note 24 – Revenue and Purchased Power* and *Note 30 – Significant Contracts and Commitments.*

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities", requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2021 and 2020, the noncurrent portion of refundable service extension costs of ₱5,334 million and ₱6,632 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *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 in 2021, 2020 and 2019 and the outstanding balances as at December 31, 2021 and 2020:

Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2021	2020	2019	**2021**	2020		
	(Amounts in millions)						
Sale of electricity:							
JG Summit Group	**₱2,704**	₱2,542	₱3,473	**₱387**	₱455	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**1,233**	1,192	1,411	**85**	279	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**410**	415	552	**158**	72	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**922**	1,228	975	**(362)**	(208)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – *Aclara Meters*	**248**	157	–	**(23)**	(23)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - *Colinas Verdes Hospital Managers*	**238**	143	122	**–**	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**586**	541	329	**73**	83	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	**90**	105	95	**(11)**	(17)	30-day; noninterest-bearing	Unsecured
Purchases of insurance premium - *MPioneer*	**412**	449	356	**(3)**	–	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	**71**	76	137	**–**	–	None	None
Purchases of power:							
SBPL	**15,973**	12,902	4,950	**(746)**	(1,311)	30-day; noninterest-bearing	Unsecured
PEDC[1]	**372**	1,812	1,788	**–**	(277)	30-day; noninterest-bearing	Unsecured

[1] *On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%.*

Advances to FPM Power

FPM Power has a non-interest-bearing loan from *MPG Asia* amounting to US$110 million (₱5,776 million) as at December 31, 2021 and 2020 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 December 31, 2021 and 2020.

See *Note 15 – Financial and other Current Assets and Note 8 – Investments in Associates and Interests in Joint Ventures.*

Transaction with MERALCO Retirement Benefits Fund ("Retirement Fund")

MERALCO's Retirement *Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2021 and 2020, the fair value of the total assets being managed by the *Fund* amounted to ₱34.6 billion and ₱33.9 billion, respectively.

See *Note 25 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	2021	2020	2019
		(Amounts in millions)	
Short-term employee benefits	**₱549**	₱559	₱548
Long-term employee incentives and retirement benefits	**280**	137	183
Total compensation to key management personnel	**₱829**	₱696	₱731

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

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

As at December 31, 2021, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Revenues

The *MERALCO Group* disaggregates its revenue information in the same manner as it reports its segment information.

See *Note 6 – Segment Information.*

Contract Assets and Contract Liabilities

The *MERALCO Group*'s contract balances are as follows:

	2021	2020
	(Amounts in millions)	
Contract assets:		
Unbilled receivables	**₱2,647**	₱1,499
Under-recoveries of pass-through charges - net	**10,597**	7,279
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	**866**	841
Over-recoveries from transmission, lifeline subsidy and *SL* charges	**597**	333

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱114 million, ₱94 million and ₱94 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Purchased Power

The details of purchased power are as follows:

	2021	2020	2019
		(Amounts in millions)	
Generation costs	**₱190,416**	₱167,241	₱205,273
Transmission costs	**34,499**	37,179	35,759
	₱224,915	₱204,420	₱241,032

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:

	2021	2020	2019
		(Amounts in millions)	
"FGPC" and FGP Corp. (*"FGP"*)	**₱51,164**	₱43,659	₱54,781
NGCP	**34,539**	37,230	35,724
South Premiere Power Corporation (*"SPPC"*)	**25,643**	24,166	31,903
IEMOP	**21,721**	14,523	27,084
QPPL	**16,289**	13,990	17,032
SBPL	**15,973**	12,902	4,950
San Miguel Energy Corporation (*"SMEC"*)	**15,535**	16,639	19,971
AC Energy Philippines, Inc. (*"AC Energy"*)	**10,790**	9,023	–
First NatGas Power Corp. (*"FNPC"*)	**9,309**	8,456	12,855
Masinloc Power Partners Co. Ltd. (*"MPPCL"*)	**8,522**	8,056	12,998
Sem-Calaca Power Corporation (*"Sem-Calaca"*)	**4,933**	3,650	5,172
First Gen Hydro Power Corporation (*"FGHPC"*)	**2,507**	723	–
PEDC	**2,264**	1,812	1,788
Therma Luzon, Inc. (*"TLI"*)	**2,219**	7,033	12,178
Southwest Luzon Power Generation Corporation	**1,982**	34	903
Solar Philippines Tarlac Corporation (*"Solar Philippines Tarlac"*)	**425**	338	–
Therma Mobile, Inc. (*"TMO"*)	–	516	1,928
Millenium Energy, Inc. (*"MEI"*)	–	307	500
Others	**1,100**	1,363	1,365
	₱224,915	₱204,420	₱241,132

Generation and transmission costs are net of company use amounting to ₱351 million, ₱321 million and ₱363 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2021 and 2020, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱532 million and ₱241 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**2021**	2020	2019
			(Amounts in millions)	
Salaries, wages and related employee benefits		**₱13,651**	₱10,691	₱12,038
Retirement benefits	*26*	**2,140**	1,496	929
Other post-employment benefits	26	**101**	114	139
		₱15,892	₱12,301	₱13,106

Depreciation and Amortization

	Note	**2021**	2020	2019
			(Amounts in millions)	
Utility plant and others	*7*	**₱10,846**	₱8,065	₱8,003
Intangible assets	*10*	**1,649**	486	723
Investment properties	*9*	**4**	4	4
		₱12,499	₱8,555	₱8,730

Other Expenses

	Note	**2021**	2020	2019
			(Amounts in millions)	
Materials used	*14*	**₱2,792**	₱1,712	₱2,520
Rent and utilities		**971**	732	815
Insurance		**459**	391	386
Transportation and travel		**390**	255	366
Advertising		**200**	222	358
Communication	*22*	**157**	148	136
Others		**1,343**	807	1,318
		₱6,312	₱4,267	₱5,899

26. Long-term Employee Benefits

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

	2021	2020
	(Amounts in millions)	
Retirement benefits liability	**₱5,625**	₱12,013
Other post-employment benefits	**2,091**	2,007
Long-term incentives	**2,541**	1,307
	₱10,257	₱15,327

Defined Benefit Retirement Plans

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2021	2020	2019
		(Amounts in millions)	
Current service costs	**₱1,579**	₱1,194	₱895
Net interest costs (income)	**509**	255	(8)
Net retirement benefits expense	**₱2,088**	₱1,449	₱887

Retirement Benefits Liability

	2021	2020
	(Amounts in millions)	
Defined benefit obligation	**₱40,192**	₱45,918
Fair value of plan assets	**(34,567)**	(33,905)
Net retirement benefits liability	**₱5,625**	₱12,013

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

	2021	2020
	(Amounts in millions)	
Retirement benefits liability at beginning of year	**₱12,013**	₱5,627
Net retirement benefits expense	**2,088**	1,449
Amounts recognized in *OCI*	**(8,766)**	5,144
Effect of consolidation of *GBPC*	**1,055**	–
Contributions by employer	**(765)**	(207)
Net retirement benefits liability at end of year	**₱5,625**	₱12,013

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

	2021	2020
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱45,918**	₱40,674
Interest costs	**1,735**	1,795
Current service costs	**1,579**	1,194
Benefits paid	**(2,603)**	(2,477)
Effect of consolidation of *GBPC*	**1,595**	–
Actuarial losses (gains) due to:		
Changes in financial assumptions	**(8,451)**	6,596
Experience adjustments	**419**	(1,864)
Defined benefit obligation at end of year	**₱40,192**	₱45,918

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

	2021	2020
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱33,905**	₱35,047
Interest income	**1,226**	1,540
Contributions by employer	**765**	207
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**734**	(412)
Effect of consolidation of *GBPC*	**540**	–
Benefits paid	**(2,603)**	(2,477)
Fair value of plan assets at end of year	**₱34,567**	₱33,905

The Board of Trustees ("*BoT*") of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, 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:

	2021	2020
	(Amount in millions)	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	**₱2,912**	₱3,430
Banks	**954**	1,059
Property	**894**	877
Telecommunication	**601**	932
Food, beverages and tobacco	**572**	359
Electricity, energy, power and water	**446**	417
Transportation services	**284**	267
Retail	**199**	449
Construction, infrastructure and allied services	**9**	24
Mining	**–**	7
Others	**2,233**	1,761
Quoted debt investments:		
"AAA" rated securities	**9,886**	11,803
Government securities	**9,780**	8,211
Cash and cash equivalents	**2,183**	2,120
Receivables	**1,760**	1,174
Real property	**1,853**	1,014
Others	**1**	1
Fair value of plan assets	**₱34,567**	₱33,905

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2021	2020	2019
		(Amounts in millions)	
Interest costs	**₱74**	₱88	**₱118**
Current service costs	**27**	26	**21**
	₱101	₱114	**₱139**

Other Long-term Post-employment Benefits Liability

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

	2021	2020
	(Amounts in millions)	
Balance at beginning of year	**₱2,007**	₱1,949
Interest costs	**74**	88
Current service costs	**27**	26
Benefits paid	**(112)**	(99)
Actuarial losses due to change in assumptions	**95**	43
Balance at end of year	**₱2,091**	₱2,007

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

Annual discount rate	**4.96%**
Future range of annual salary increases	**4.00%-11.00%**

Sensitivity Analysis

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

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

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2021**	2020
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱4,450)**	(₱6,131)
	-1.0%	**5,672**	7,561
Future range of annual salary increases	+1.0%	**1,634**	2,473
	-1.0%	**(1,442)**	(2,177)

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 ₱52 million, ₱47 million and ₱42 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

	2021	2020	2019
		(Amounts in millions)	
Expense recognized for defined benefit plans	**₱2,088**	₱1,449	₱887
Expense recognized for defined contribution plan	**52**	47	42
Retirement benefits expense	**₱2,140**	₱1,496	₱929

Long-term Incentive Plan ("*LTIP*")

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

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at *amortized cost*. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 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 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 Liabilities	**₱–**	**₱–**	**₱201,434**	**₱201,434**

	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, 2020				
Noncurrent				
Financial and other noncurrent assets	₱29,540	₱8,941	₱–	₱38,481
Current				
Cash and cash equivalents	50,912	–	–	50,912
Trade and other receivables	56,632	–	–	56,632
Financial and other current assets	8,190	–	–	8,190
Total Assets	₱145,274	₱8,941	₱–	₱154,215
Liabilities as at December 31, 2020				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱	₱14,809	₱14,809
Customers' deposits - net of current portion	–	–	29,844	29,844
Refundable service extension costs - net of current portion	–	–	6,632	6,632
Current				
Notes payable	–	–	23,373	23,373
Trade payables and other current liabilities	–	–	68,765	68,765
Customers' refund	–	–	2,949	2,949
Current portion of interest-bearing long-term financial liabilities	–	–	1,962	1,962
Total Liabilities	₱–	₱	₱148,334	₱148,334

Fair Values

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group*'s financial instruments:

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Amounts in millions)			
Financial assets				
Debt securities at amortized cost	₱41,461	₱42,856	₱32,131	₱33,005
Financial assets at *FVOCI*	8,467	8,467	8,941	8,941
Financial assets at amortized cost -				
Restricted cash	4,698	4,698	4,734	4,734
Advance payments to a supplier	705	768	865	997
	₱55,331	₱56,789	₱46,671	₱47,677
Financial liabilities				
Financial liabilities carried at amortized cost - Interest-bearing-long-term financial liabilities	₱60,364	₱61,135	₱15,299	₱15,900

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 4.31% and 2.53% as at December 31, 2021 and 2020, respectively.

Financial Assets at FVOCI

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

Debt Securities at Amortized Cost

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

Meter Deposits and Customers' Refund

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

Bill Deposits

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

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.82% to 4.33% and 0.12% to 3.96% as at December 31, 2021 and 2020, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Advance payments to a supplier	₱–	₱768	₱–	₱768	₱–	₱997	₱–	₱997
Restricted cash	–	4,698	–	4,698	–	4,734	–	4,734
Financial assets at *FVOCI*	6,935	–	1,532	8,467	7,939	–	1,002	8,941
Debt securities at amortized cost	42,856	–	–	42,856	33,005	–	–	33,005
	₱49,791	₱5,466	₱1,532	₱56,789	₱40,944	₱5,731	₱1,002	₱47,677
Financial liabilities								
Interest-bearing long-term financial liabilities	₱–	₱61,135	₱–	₱61,135	₱–	₱15,900	₱–	₱15,900

For the years ended December 31, 2021, 2020 and 2019, 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.

MERALCOs policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2021 and 2020.

The exposure of *GBPC* and subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and subsidiaries' loans bear fixed interest rates subject to repricing after a minimum of five years for *CEDC* and *PEDC* and seven years for *TPC*.

Foreign Currency Risk

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

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2021 and 2020, translated to Philippine peso at ₱51.00 and ₱48.02 to US$1, respectively.

	2021		2020	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	$83	₱4,217	$180	₱8,633
Debt securities at amortized cost	24	1,224	24	1,153
Financial assets at *FVOCI*	21	1,070	22	1,041
Advance payments to a supplier	14	727	18	856
Short-term investments	9	444	–	–
	151	7,682	244	11,683
Financial liabilities -				
Trade payables and other liabilities	(5)	(240)	(3)	(166)
	$146	₱7,442	$241	₱11,517

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

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

	2021		2020	
	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**	**₱372**	+5	₱579
	–5	**(372)**	–5	(579)

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

Commodity Price Risk

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

Credit Risk

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

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Due to the economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *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 expected deferred payment arrangements and expected default upon resumption of service disconnection activities.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

GBPC and subsidiaries applied the simplified approach under *PFRS 9*, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and subsidiaries has identified the *GDP*, *CPI* and unemployment rate in the locations in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of the *GBPC* and subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

Set out below is the information about the credit risk exposure of the *MERALCO Group*'s trade and other receivables and contract assets using a provision matrix:

	2021							
	Trade – electectricity distributed							
	Contract Status							
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated	Energy Generated	Other trade receivables	Nontrade receivables	Total
	(Amounts in millions, except ECL rate)							
ECL Rate	2.41%	5.39%	4.97%	8.22%	22.02%	12.15%	6.50%	
Estimated total gross carrying amount at default	₱24,432	₱3,404	₱4,109	₱3,319	₱5,087	₱6,461	₱4,125	₱ 50,937
Expected credit loss	589	183	204	2,775	1,120	785	268	5,924

	2020								
	Billed electric receivables								
	Accumulated Number of Bills								
	0-1 bills	2-3 bills	4-5 bills	6-7 bills	Over 7 bills	Over 240 days	Unbilled receivables	Other receivables	Total
	(Amounts in millions, except ECL rate)								
ECL Rate	0.84%	1.03%	1.89%	8.22%	8.52%	77.58%	0.75%	9.67%	
Estimated total gross carrying amount at default	₱5,935	₱7,684	₱7,385	₱7,145	₱7,039	₱2,624	₱1,498	₱8,296	₱47,606
Expected credit loss	50	80	140	587	600	2,035	11	802	4,305

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	
	2021	2020
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱20,518**	₱19,006
Cash equivalents	**34,119**	31,766
Trade and other receivables:		
Electricity distributed	**31,513**	49,139
Energy generated	**3,967**	–
Service contracts	**3,049**	3,323
Nontrade receivables	**3,857**	4,170
Other financial assets - current:		
Debt securities at amortized cost	**17,121**	8,019
Current portion of advance payments to a supplier	**182**	171
Short-term investments	**444**	–
Other financial assets - noncurrent:		
Debt securities at amortized cost	**24,340**	24,112
Financial assets at *FVOCI*	**8,467**	8,941
Restricted cash	**4,698**	4,734
Advance payment to a supplier	**523**	694
	₱152,798	₱154,075

The credit quality of financial assets is managed by *MERALCO* using "High Grade", "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due using internal credit rating policies

The following tables show the credit quality by asset class:

	2021					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱54,637**	**₱–**	**₱–**	**₱–**	**₱–**	**₱54,637**
Trade and other receivables:						
Electricity 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**

	2020					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱50,772	₱–	₱–	₱–	₱–	₱50,772
Trade and other receivables:						
Electricity distributed	10,413	4,675	20,636	13,415	3,492	52,631
Service contracts	910	–	267	2,146	772	4,095
Nontrade receivables	3,487	38	–	645	30	4,200
Financial and other current assets:						
Debt securities at amortized cost	8,019	–	–	–	–	8,019
Current portion of advance payments to a supplier	171	–	–	–	–	171
Financial and other noncurrent assets:						
Debt securities at amortized cost	24,112	–	–	–	–	24,112
Financial assets at *FVOCI*	8,941	–	–	–	–	8,941
Restricted cash	4,734					4,734
Advance payment to a supplier	694	–	–	–	–	694
	₱112,253	₱4,713	₱20,903	₱16,206	₱4,294	₱158,369

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks, cash equivalents, short-term investments, 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:

	2021				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱1,402	₱28,529	₱–	₱–	₱29,931
Trade payables and other current liabilities	67,166	–	–	–	67,166
Customers' refund	2,929	–	–	–	2,929
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	5,359	3,321	20,514	33,957	63,151
Redeemable preferred stock	1,470	–	–	–	1,470
Customers' deposits	720	2,055	6,754	24,147	33,676
Refundable service extension costs	345	1,315	4,405	929	6,994
Nonrefundable liability related to asset funded by customers	127	127	127	485	866
Over-recoveries from transmission, lifeline subsidy and *SL* charges	–	–	597	–	597
Total undiscounted financial liabilities	₱79,518	₱35,347	₱32,397	₱59,518	₱206,780

	2020				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱897	₱23,389	₱–	₱–	₱24,286
Trade payables and other current liabilities	56,355	–	–	–	56,355
Customers' refund	2,949	–	–	–	2,949
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	594	1,108	7,314	11,509	20,525
Redeemable preferred stock	1,472	–	–	–	1,472
Customers' deposits	420	2,155	525	29,319	32,419
Refundable service extension costs	345	5,210	4,405	2,227	12,187
Nonrefundable liability related to asset funded by customers	127	127	127	460	841
Over-recoveries from transmission, lifeline subsidy and *SL* charges	–	–	333	–	333
Total undiscounted financial liabilities	₱63,159	₱31,989	₱12,704	₱43,515	₱151,367

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,460 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2021.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital

and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2021	2020
	(Amounts in millions, except debt to equity ratio)	
Long-term debt	**₱60,364**	₱15,299
Notes payable	**28,834**	23,373
Redeemable preferred stock	**1,470**	1,472
Debt (a)	**₱90,668**	₱40,144
Equity attributable to the holders of the parent (b)	**₱95,204**	₱79,237
Debt to equity ratio(a)/(b)	**0.95**	0.51

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	**2021**	2020
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*19 and 22*	**₱29,147**	₱31,326
Unfunded retirement benefits cost and unamortized past service cost	*26*	**2,259**	1,839
Accrued employee benefits	*26*	**1,067**	915
Allowance for expected credit losses	*13*	**1,184**	1,046
Decommissioning liability		**219**	–
Actuarial losses		**89**	1,598
Allowance for excess of cost over net realizable value of inventories	*14*	**48**	58
Others		**647**	237
		34,660	37,019
Deferred income tax liabilities:			
Revaluation increment in utility plant, generation plant and others	*16*	**5,519**	6,668
Fair value of net assets from acquisition of *GBPC*	*3*	**5,321**	–
Actuarial gains		**922**	–
Capitalized interest		**700**	762
Capitalized duties and taxes deducted in advance		**412**	512
Depreciation method differential		**–**	2
Others		**282**	448
		13,156	8,392
		₱21,504	₱28,627

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2021	2020
	(Amounts in millions)	
Deferred income tax assets - net	₱27,226	₱28,943
Deferred income tax liabilities - net	(5,722)	(316)
	₱21,504	₱28,627

Provision for (benefit from) income tax consists of:

	2021	2020	2019
		(Amounts in millions)	
Current	₱8,728	₱10,295	₱11,503
Deferred	184	(4,029)	(2,960)
	₱8,912	₱6,266	₱8,543

The deferred tax assets charged directly to *OCI* amounted to ₱2,172 million, ₱1,557 million and ₱1,597 million for the years ended December 31, 2021, 2020 and 2019, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, 30% and 30% for the years ended December 31, 2021, 2020 and 2019, respectively, and provision for income tax as shown in the consolidated statements of income is as follows:

	2021	2020	2019
		(Amounts in millions)	
Income tax computed at statutory tax rate	₱8,249	₱6,724	₱9,574
Impact of *CREATE* bill on provision for:			
Current income tax	(824)	–	–
Deferred income tax	4,525	–	–
Income tax effects of:			
Interest income subjected to lower final tax rate	(478)	(691)	(978)
Nondeductible interest expense	119	285	403
Nondeductible expense	–	1,038	–
Nontaxable income	(93)	(94)	(254)
Equity in net losses of associates and joint ventures	(782)	(370)	446
Difference in calculation of tax deductible costs and expenses	(1,526)	(3,621)	(1,697)
Unrecognized deferred tax assets	(677)	2,772	859
Others	399	223	190
	₱8,912	₱6,266	₱8,543

In 2021 and 2020, *MERALCO* elected to adopt the Optional Standard Deductions ("*OSD*") in lieu of itemized deductions beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for

income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

The deferred income tax assets and liabilities expected to be recovered or settled in taxable years 2023 onwards were measured at the tax rate of 25% since *MERALCO* is expecting to adopt itemized deductions in computing its income tax liabilities for the said taxable years.

Accordingly, *MERALCO*'s net deferred tax assets as at December 31, 2021 and 2020, which were not recognized are as follows:

	2021	2020
	(Amounts in millions)	
Deferred tax assets:		
Provisions for various claims	₱480	₱937
Others	–	624
	480	1,561
Deferred tax liabilities:		
Revaluation increment in utility plant and others	13	30
Capitalized interest	8	20
Capitalized duties and taxes deducted in advance	6	15
Depreciation method differential	–	1
Others	5	7
	32	73
	₱448	₱1,488

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 ₱3,793 million and ₱1,812 million as at December 31, 2021 and 2020, respectively. These are not recognized because the *MERALCO Group* does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱3,793 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	1,128
December 31, 2021	December 31, 2026	2,042
		₱3,793

NOLCO amounting to ₱862 million, ₱613 million and ₱465 million expired in 2021, 2020 and 2019, respectively.

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

On November 26, 2020, the Senate approved on 3rd and final reading Senate Bill No. 1357, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises Act" ("*CREATE*"),

which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performed-based.

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 *DUs*, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

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

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

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

See *Note 11 – Financial and other Noncurrent Assets.*

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 28, 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 ("*LGUs*") assessed *MERALCO* for deficiency *RPT* on certain assets. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, one (1) has secured a favorable decision from the *CA*. Such decision was

appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers. On October 22, 2015, *MERALCO* received a copy of the *SC* Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGC*. *MERALCO* did not appeal the *SC* Decision. The cases of the other *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 February 28, 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 February 28, 2022, *MERALCO* is awaiting further action of the *SC* on the matter.

Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 28, 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 ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On

November 4, 2013, *MERALCO* filed its reply. As at February 28, 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 February 28, 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 *SGCs*; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGCs*, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGCs*' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 28, 2022, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

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

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates,

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

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 28, 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 February 28, 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 February 28, 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 February 28, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

SPPC versus PSALM

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

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC*-Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated

November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC*-Mandaluyong issued an Order dated June 27, 2016 denying the *MR*s. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC*-Mandaluyong.

On July 26, 2019, *PSALM* filed a Petition for Certiorari to assail the September 24, 2018 Order and April 29, 2019 Order of the *RTC* which directed *PSALM* to respond to *SPPC*'s interrogaroties and submit certain documents. *PSALM* subsequently filed an Amended Petition on March 14, 2020. In a Resolution dated June 17, 2020, the *CA* directed the respondents to file their comment to the Amended Petition. *MERALCO* filed its Compliance with Motion to Drop Party-Respondent on July 13, 2020. In a Resolution dated February 1, 2021, the *CA* granted *MERALCO*'s motion.

In the meantime, on February 14, 2020, *MERALCO* filed its Motion to Withdraw as *MERALCO* no longer possessed any legal interest in the subject matter of the case as its *PSA* with *SPPC* subject of the dispute already expired. While *PSALM* has no objection to *MERALCO*'s withdrawal from the case, *SPPC* requested for time to file its comment. In an Order dated July 20, 2020, the *RTC* granted *MERALCO*'s Motion to Withdraw.

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 February 28, 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 February 28, 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 and ₱1,535 million as at December 31, 2021 and 2020, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

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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	₱27,741
2023	15,327	28,216
2024	15,360	28,732
2025	10,742	18,682
2026-2031	7,497	11,677

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 February 28, 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 February 28, 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	₱62,485
2023	2,647	63,352
2024	3,047	65,760
2025	3,026	62,695
2026-2031	18,750	382,636

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA*, as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP*. In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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.

Bacman Geothermal, Inc. ("*BGI*")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. On August 10, 2020, *MERALCO* and *BGI* filed a joint manifestation with the *ERC*, manifesting that the Joint Application for approval of the *PSA* is deemed moot considering the provisions of the *PSA* are rendered inapplicable and unenforceable given the expiration of the *PSA* without an approval from the *ERC*. As at February 28, 2022, the case is still pending decision by the *ERC*.

Montalban Methane Power Corporation ("MMPC")

On May 13, 2009, *MERALCO* filed an Application with the *ERC* for approval of its *CSE* with *MMPC* which the *ERC* approved with modification in its Decision dated December 3, 2012. In a Letter Agreement dated June 6, 2013, the *CSE* was extended until September 11, 2013 and parties agreed to automatically renew the *CSE* for a series of 3-month terms unless *MMPC* informs *MERALCO* in writing no longer than 30 days before the lapse of each 3-month term that it no longer intends to extend the *CSE*. Upon information from *MMPC*, in a Letter Agreement dated January 21, 2015, the parties agreed to terminate the *CSE* effective January 26, 2015. However, despite the termination of the *CSE*, *MMPC* was still able to inject energy to *MERALCO*'s distribution system. In its letter dated June 9, 2015, *MMPC* sought the *ERC*'s assistance to, among other things, recover reasonable charges for the energy that was generated and injected by *MMPC* to *MERALCO*'s distribution system. In a letter dated July 20, 2015, the *ERC* suggested that *MERALCO* and *MMPC* discuss and agree on the possible mechanism for the compensation of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. Pursuant to the directive of the *ERC*, *MERALCO* and *MMPC* entered into a Memorandum of Agreement ("*MOA*") covering the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. On July 1, 2020, *MERALCO* received the *ERC* Decision dated November 5, 2019 approving the collection from the customers of the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system in five (5) equal monthly installments and the remittance of the same to *MMPC*, beginning the billing period following *MERALCO*'s receipt of the Decision. As at February 28, 2022, the collection of the payment and remittance of the same to *MMPC* have been completed.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *ERC* has provisionally approved the *PSA* between *MERALCO* and *PEDC* in its Order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit the *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 *MW* from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya outage may bring to end-users. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 28, 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 *MERALCO* and *PEDC PSA*, following the *DOE* Circular entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market" ("*2018 DOE Circular*"), which was published on February 9, 2018.

Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for a *PSA* with *PEDC* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from

August 26, 2019 to August 25, 2020. In several Joint Manifestations filed by *MERALCO* and *PEDC*, the parties manifested that the *PSA* will continue until implementation of the new *PSA* resulting from the *CSP*. As at February 28, 2022, the *ERC* has not issued a directive to stop the continuation of the *PSA* pending the conduct of the *CSP*.

On September 30, 2021, *MERALCO*'s Third Party Bids and Awards Committee ("*TPBAC*") published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the *SC* Decision in G.R. No. 227670, and comply with *CSP* prescribed in the *2018 DOE Circular*. 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. The application for approval of the new *PSA* with *PEDC* was filed on January 20, 2022. As at February 28, 2022, the joint application for approval of *MERALCO*'s new *PSA* with *PEDC* is scheduled for hearings on March 8, 2022 and March 15, 2022.

First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Philippines Tanauan Corporation ("*Solar Philippines Tanauan*")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase 1

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition,* likewise with respect to *Solar Philippines Tarlac's* motion for the adjustment of the timelines under the *PSA*. In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 February 28, 2022, the hearings with the *ERC* of the application for approval of the *CSEE* with *PSALM* are on-going.

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. As at February 28, 2022, the joint application for approval of *MERALCO*'s emergency *PSA* with *SPPC* is undergoing virtual pre-filing procedures with the *ERC*.

Clark Electric

SMEC

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

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

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

On October 10, 2019, *Clark Electric* and *SMEC* jointly filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension in which the *ERC* resolved to grant an interim relief to extend the implementation of the *PSA* from December 26, 2019 to December 25, 2020. The said *PSA* ended on December 25, 2020.

SPDC

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

On December 10, 2019, *Clark Electric* and *SPDC* filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension praying for the confirmation of the extension of the *PSA* effective

December 26, 2019 to December 25, 2020. On December 19, 2019, the *ERC* issued an order which granted an interim relief to implement the said extension.

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

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
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Sakti Nusantara Bakti	Indonesia	2017 - 2026	New C Index	150,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	100,000 MT
Galaxy Resources and Trading Corp. ("*Galaxy*")	Indonesia	2020 - 2025	GNewC Index	200,000 MT

CEDC

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

TPC

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

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

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

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("*PV*") panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemetal Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at February 28, 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 the joint venture company. As at February 28, 2022, the remaining documents for the incorporation are being completed for filing with the *SEC*.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2021	2020	2019
		(Amounts in millions)	
Net income attributable to equity holders of the Parent (a)	**₱23,498**	₱16,316	₱23,285
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱20.85**	₱14.48	₱20.66

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2021 and 2020.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

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

On March 31, 2014, the *ERC* issued a Resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a Resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *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 *RESs*, including *DU*-affiliate *RESs*, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,

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

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

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

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

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

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

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

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

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at February 28, 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 February 28, 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 ("STAs")

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

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

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

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

TransCo and *MERALCO* executed the Deeds of Absolute Sale ("*DOAS*") on December 10, 2020, covering the Batch 2 and Batch 4 *STAs*. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 December 31, 2021, *MERALCO* has already installed 5,034 meters and energized 4,599 net metering customers.

Interruptible Load Program ("ILP")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program", *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program" and *ERC* Resolution No. 3, Series of 2019 "A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules".

As at December 31, 2021, there are 124 companies with a total committed de-loading capacity of 563.09 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 28, 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 February 28, 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 February 28, 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.

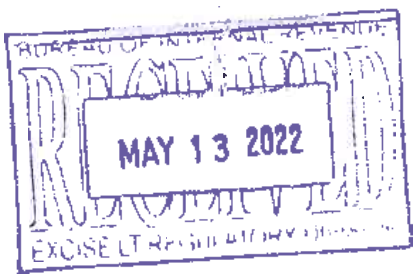
In an Advisory dated February 5, 2021, the *DOE* directed all distribution utilities to implement a non-disconnection policy due to non-payment of bills for all electricity consumer whose consumption levels are within the lifeline rate set by the *ERC*. The policy shall apply to all unpaid regular bills 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.

33. Notes to Consolidated Statements of Cash Flows

	2021			2020		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
			(Amounts in millions)			
Balance at beginning of year	**₱16,771**	**₱23,373**	**₱1,251**	₱17,860	₱23,393	₱1,037
Payments	**(7,388)**	**(17,419)**	**(13,748)**	(3,662)	(199)	(16,796)
Availments	**24,513**	**22,880**	**–**	2,578	179	–
Dividend declarations	–	**–**	**14,518**	–	–	17,010
Preferred stock redemption	**(2)**	–	–	(7)	–	–
Reclassifications	–	**–**	**–**	–	–	–
Interest accretion	**(153)**	**–**	**–**	2	–	–
Effect of consolidation of *GBPC*	**28,323**	–	–		–	–
Amortization of fair value on the acquisition of *GBPC*	**(230)**	–	–	–	–	–
Balance at end of year	**₱61,834**	**₱28,834**	**₱2,021**	₱16,771	₱23,373	₱1,251

34. Event After the Financial Reporting Date

On February 28, 2022, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.

BUREAU OF INTERNAL REVENUE
RECEIVED
MAY 13 2022
REVENUE REGIONAL DIRECTOR

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

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, included in this Form 17-A, and have issued our report thereon dated February 28, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
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Tax Identification No. 102-099-147
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BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023
PTR No. 8854376, January 3, 2022, Makati City

February 28, 2022

A member firm of Ernst & Young Global Limited

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule A: Financial Assets
As at December 31, 2021
(Amounts in Millions Pesos)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Statement of Financial Position	Value based on Market Quotation at End of Reporting Period	Income Received and Accrued
Cash and cash equivalents:				
Cash in banks	not applicable	20,518	20,518	157
Cash equivalents	not applicable	34,119	34,119	358
Trade and other receivables:				
Electricity distributed	not applicable	31,513	31,513	-
Energy generated	not applicable	3,967	3,967	-
Service contracts	not applicable	3,049	3,049	-
Nontrade receivables	not applicable	3,857	3,857	-
Debt securities at amortized cost:				
Government securities	various	33,009	34,017	549
Private debt securities	various	8,452	8,839	672
Financial assets at FVOCI:				
Government securities	various	3	3	-
Mutual funds	various	3,075	3,075	44
Unit investment trust funds	various	1,110	1,110	16
Corporate bonds	various	2,384	2,384	35
Ordinary and club shares	various	1,895	1,895	-
Other financial assets:				
Short-term investments	not applicable	444	444	2
Restricted cash	not applicable	4,698	4,698	14
Advance payments to a supplier	not applicable	705	768	51
		152,798	**154,256**	**1,898**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2021
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2021	Additions	Collections	Others	Amount written off	Current	Noncurrent	December 31, 2021
Comstech Integration Alliance, Inc.	31	-	-	100	-	36	95	131
Vantage Energy Solutions and Management, Inc.	51	62	(46)	-	-	67	-	67
MRAIL, Inc.	16	1	-	-	-	17	-	17
eSakay, Inc.	17	-	(13)	-	-	4	-	4
Miescor Logistics, Inc.	19	-	(6)	-	-	13	-	13
Meralco Energy Inc.	19	-	(3)	-	-	16	-	16
Meralco Industrial Engineering Services Corporation	30	4	-	(21)	-	13	-	13
Corporate Information Solutions, Inc.	14	-	(1)	(13)	-	-	-	-
Miescor Builders, Inc.	-	2	-	-	-	2	-	2
MSpectrum, Inc.	2	3	(5)	-	-	-	-	-
Radius Telecoms, Inc.	-	6	-	(6)	-	-	-	-
	199	**78**	**(74)**	**60**	**-**	**168**	**95**	**263**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule D: Interest Bearing Long-term Financial Liabilities

As at December 31, 2021

(Amounts In Million Pesos)

Title of issue and type of obligation	Interest Rate	Amount authorized by indenture	Amount shown under "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Fixed Rate Loans	4.3750%-10.81%	102,063	7,700	51,929
Fair value adjustment in relation to the purchase of GBPC			-	1,092
Redeemable Preferred Stock	*10.0000%*		1,470	-
Total			9,170	53,021
Less Unamortized debt issue cost			56	301
Balance at the end of the year			**9,114**	**52,720**

Note: The number of periodic payments of the fixed rate loans are disclosed in Note 16 - Interest-bearing Long-term Financial Liabilities in the Consolidated Financial Statements.

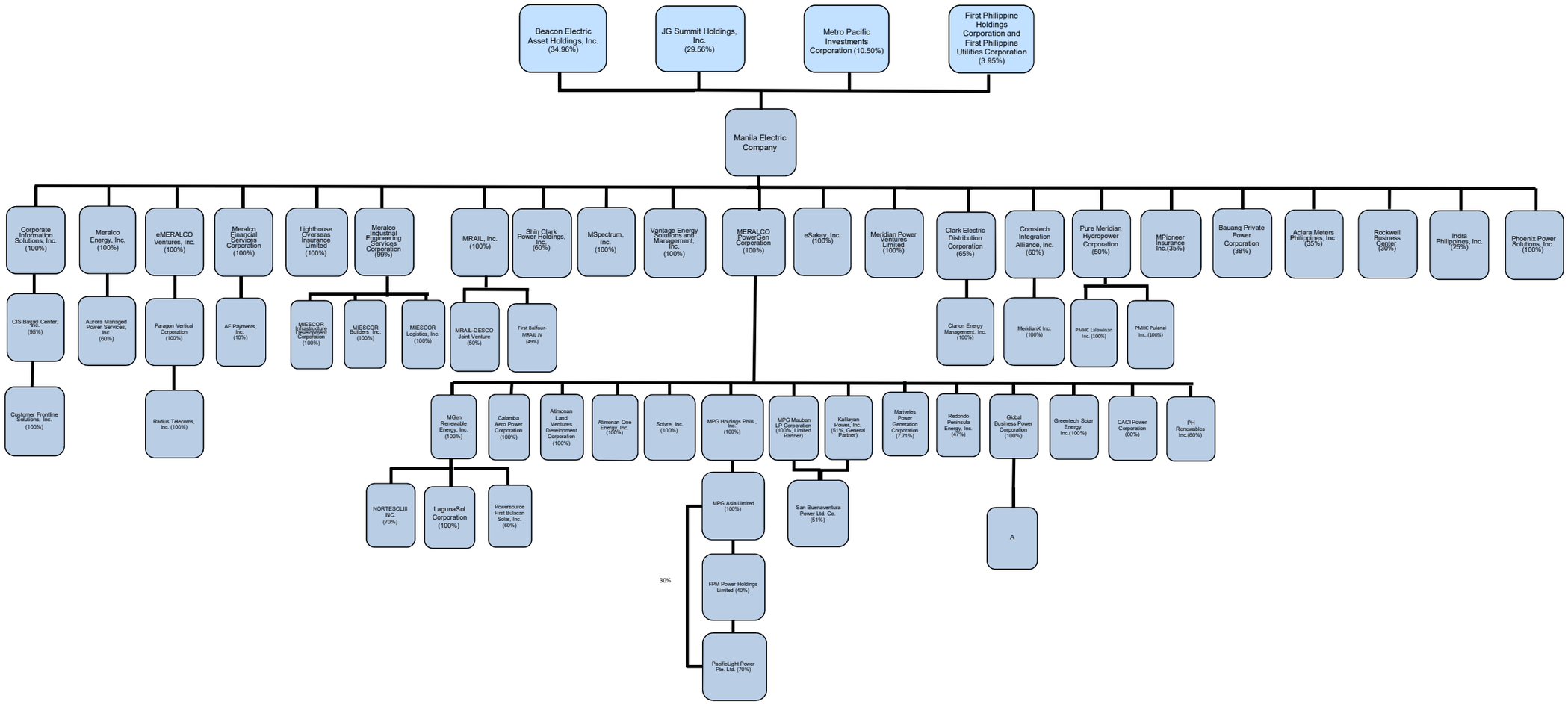
MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule G. Capital Stock
As at December 31, 2021
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	1,250	1,127	-	846	1	280

MANILA ELECTRIC COMPANY
Schedule H: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2021
(Amounts in millions)

Unappropriated retained earnings, as adjusted to available for dividends declaration as at January 1, 2021	₱	8,877
Add: Net income actually earned/realized during the year		21,300
Net income during the year closed to retained earnings		21,300
Add: Non-actual losses		
Movement of deferred tax assets		1,921
Impact of discounting on certain liabilities		1,414
Subtotal		3,335
Less: Non-actual/unrealized income net of tax:		
Unrealized foreign exchange gain		(251)
Depreciation of revaluation increment on utility plant and others - net of tax		(940)
Subtotal		(1,191)
Net income actually earned during the year		23,444
Add:		
Dividends declared during the year		(14,518)
Unapproriated retained earnings available for dividend declaration as at December 31, 2021	₱	17,803

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2021



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
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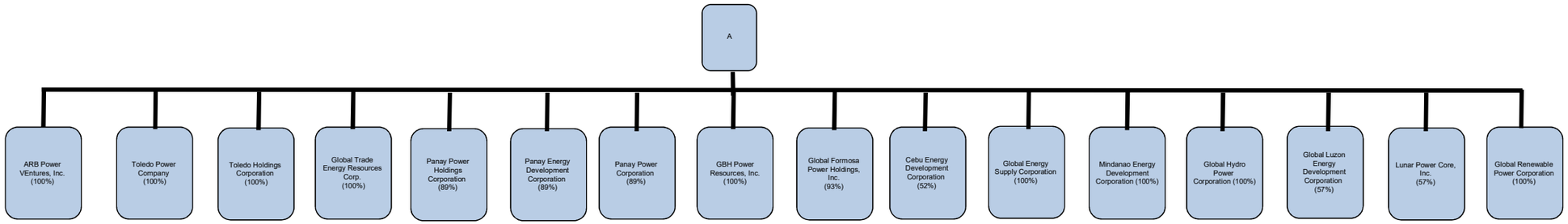
As at December 31, 2021



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INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated February 28, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
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PTR No. 8854376, January 3, 2022, Makati City

February 28, 2022

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule of Financial Soundness Indicators
As at December 31, 2021, 2020 and 2019

	2021	2020	2019
Current Ratio[1]	0.85 : 1.00	0.90 : 1.00	0.92 : 1.00
Acid ratio [2]	0.75 : 1.00	0.83 : 1.00	0.85 : 1.00
Solvency Ratio[3]	0.12 : 1.00	0.13 : 1.00	0.16 : 1.00
Debt to Equity Ratio[4]	0.95 : 1.00	0.51 : 1.00	0.49 : 1.00
Asset to Equity Ratio[5]	5.08x	4.93x	4.24x
Interest Coverage Ratio[6]	9.26x	13.60x	18.83x
Profit margin Ratio[7]	0.07x	0.06x	0.07x
Return on Equity [8]	0.25x	0.21x	0.28x
Return on Assets[9]	0.05x	0.04x	0.07x
EBITDA Margin[10]	13.63%	10.84%	12.87%

[1] Current ratio is measured as current assets divided by current liabilities.

[2] Acid ratio is measured as current assets minus inventory and prepayments divided by current liabilities.

[3] Solvency ratio is measured as net income plus non-cash expenses divided to total liabilities.

[4] Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

[5] Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

[6] Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

[7] Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

[8] Return on equity is measured as net income attributable to equity holders of the parent with total equity attributable to equity holders of the pa

[9] Return on assets is measured as net income attributable to equity holders of the parent with total assets.

[10] EBITDA margin is measured as EBITDA divided by total revenues.
EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if any.

FS FOR FILING WITH SEC

AFTER THE BIR HAS DULY STAMPED "RECEIVED"

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	1	0	2							

Company Name

MANILA ELECTRIC COMPANY

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

LOPEZ BUILDING, ORTIGAS AVENUE
BARANGAY UGONG, PASIG CITY,
METRO MANILA, PHILIPPINES

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
N/A	86312222/ 16220	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
41,943	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.

BUREAU OF INTERNAL REVENUE RECEIVED MAY 13 2022 ACCOUNTS REGISTRATORY DIVISION

SGV
Building a better working world

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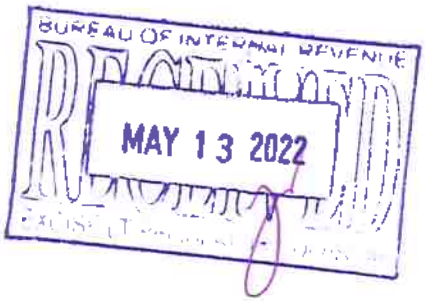
INDEPENDENT AUDITOR'S REPORT



The Stockholders and the Board of Directors
Manila Electric Company
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Manila Electric Company (the Company), which comprise the parent company statements of financial position as at December 31, 2021 and 2020, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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MAY 13 2022

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 32 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila Electric Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.

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February 28, 2022

BUREAU OF INTERNAL REVENUE
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MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2021	2020
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	*6*	**₱160,099**	₱150,282
Investments in subsidiaries and associates and interests in joint ventures	*7*	**43,695**	28,822
Investment properties	*8*	**1,458**	1,462
Deferred tax assets - net	*26*	**25,685**	28,723
Financial and other noncurrent assets	*2, 9, 11, 13, 24, 25 and 28*	**50,857**	48,618
Total Noncurrent Assets		**281,794**	257,907
Current Assets			
Cash and cash equivalents	*10 and 25*	**40,631**	44,639
Trade and other receivables	*9, 11, 21 and 25*	**32,688**	50,330
Inventories	*12*	**5,322**	4,621
Financial and other current assets	*9, 13, 21 and 25*	**21,816**	11,110
Total Current Assets		**100,457**	110,700
Total Assets		**₱382,251**	₱368,607
EQUITY AND LIABILITIES			
Equity			
Common stock	*14*	**₱11,273**	₱11,273
Additional paid-in capital		**4,111**	4,111
Employee stock purchase plan	*14*	**1,049**	1,049
Unrealized fair value gains on fair value through other comprehensive income (*"FVOCI"*) financial assets	*9*	**325**	288
Remeasurement adjustments on retirement and other post-employment liabilities	*24*	**2,500**	(3,729)
Treasury shares	*14*	**(11)**	(11)
Retained earnings	*14*	**68,916**	62,135
Total Equity		**88,163**	75,116
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*15and 25*	**11,294**	11,643
Customers' deposits - net of current portion	*16, 20, and 25*	**30,184**	29,319
Refundable service extension costs - net of current portion	*20 and 25*	**5,334**	6,632
Long-term employee benefits	*24*	**9,175**	14,821
Provisions	*17, 20 and 27*	**13,536**	17,065
Other noncurrent liabilities	*2, 5, 6, 22 and 27*	**94,764**	82,144
Total Noncurrent Liabilities		**164,287**	161,624
Current Liabilities			
Notes payable	*19 and 25*	**27,654**	22,656
Trade payables and other current liabilities	*14, 15, 16, 17, 20, 21, 22, 25 and 27*	**95,850**	101,583
Customers' refund	*2, 18 and 25*	**2,929**	2,949
Income tax payable		**1,549**	2,858
Current portion of interest-bearing long-term financial liabilities	*15, 23 and 25*	**1,819**	1,821
Total Current Liabilities		**129,801**	131,867
Total Liabilities		**294,088**	293,491
		₱382,251	₱368,607

See accompanying Notes to Parent Company Financial Statements.

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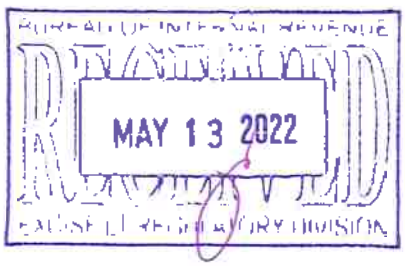
EXCISE TAX ASSESSMENT DIVISION

MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF INCOME

	Note	Years Ended December 31 2021	2020
		(Amounts in millions, except per share data)	
REVENUES			
Sale of electricity	*21, 22, 28 and 30*	**₱286,714**	₱261,497
Lease income	*8 and 21*	**1,548**	1,288
		288,262	262,785
COSTS AND EXPENSES			
Purchased power	*21, 22 and 28*	**220,751**	198,801
Salaries, wages and employee benefits	*23 and 24*	**11,410**	9,426
Provisions for probable losses and expenses from claims	*9, 17, 20, 22 and 27*	**9,570**	12,698
Depreciation and amortization	*6, 8 and 9*	**8,549**	7,901
Contracted services		**7,299**	6,454
Taxes, fees and permits		**736**	671
Provision for estimated credit losses (*"ECL"*)		**202**	1,702
Other expenses	*21 and 23*	**2,361**	2,210
		260,878	239,863
OTHER INCOME (EXPENSES)			
Interest and other financial income	*2 and 23*	**2,234**	2,560
Interest and other financial charges	*6, 15, 16, 19 and 23*	**(1,473)**	(1,467)
Foreign exchange gains (losses) - net		**414**	(798)
Impairment loss on investments in subsidiaries	*7*	**(12)**	(3,434)
Others	*2, 21 and 28*	**1,182**	710
		2,345	(2,429)
INCOME BEFORE INCOME TAX		**29,729**	20,493
PROVISION FOR (BENEFIT FROM) INCOME TAX	*26*		
Current		**7,827**	9,894
Deferred		**603**	(4,029)
		8,430	5,865
NET INCOME		**₱21,299**	₱14,628
Earnings Per Share - Basic and Diluted	*29*	**₱18.90**	₱12.98
Dividends Per Share	*14*	**₱12.88**	₱15.10

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2021	2020
		(Amounts in millions)	
NET INCOME		**₱21,299**	₱14,628
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to profit or loss in subsequent years:			
Unrealized fair value gains on financial assets at *FVOCI*	9	**(2)**	100
		(2)	100
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement adjustments on retirement and other post-employment liabilities	24	**8,660**	(5,074)
Income tax effect		**(2,431)**	1,523
		6,229	(3,551)
Unrealized fair value gains (losses) on equity securities at *FVOCI*		**43**	(3)
Income tax effect		**(4)**	–
		39	(3)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**6,266**	(3,454)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱27,565**	₱11,174

See accompanying Notes to Parent Company Financial Statements.

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MANILA ELECTRIC COMPANY

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock (Note 14)	Additional Paid-in Capital	Employee Stock Purchase Plan (Note 14)	Unrealized Fair Value Gains on Financial Assets at *FVOCI* (Note 9)	Remeasurement Adjustments on Retirement and Other Post-Employment Liabilities (Note 24)	Treasury Shares (Note 14)	Unappropriated Retained Earnings (Note 14)	Total Equity
				(Amounts in millions)				
At January 1, 2021	₱11,273	₱4,111	₱1,049	₱288	(₱3,729)	(₱11)	₱62,135	₱75,116
Net income	–	–	–	–	–	–	21,299	21,299
Other comprehensive income	–	–	–	37	6,229	–	–	6,266
Total comprehensive income	–	–	–	37	6,229	–	21,299	27,565
Dividends	–	–	–	–	–	–	(14,518)	(14,518)
At December 31, 2021	₱11,273	₱4,111	₱1,049	₱325	₱2,500	(₱11)	₱68,916	₱88,163
At January 1, 2020	₱11,273	₱4,111	₱1,049	₱191	(₱178)	(₱11)	₱64,517	₱80,952
Net income	–	–	–	–	–		14,628	14,628
Other comprehensive income (loss)		–	–	97	(3,551)		–	(3,454)
Total comprehensive income (loss)	–	–	–	97	(3,551)	–	14,628	11,174
Dividends	–	–	–	–	–	–	(17,010)	(17,010)
At December 31, 2020	₱11,273	₱4,111	₱1,049	₱288	(₱3,729)	(₱11)	₱62,135	₱75,116

See accompanying Notes to Parent Company Financial Statements.

MAY 13 2022

MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 2021	2020
		(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱29,729**	₱20,493
Adjustments for:			
Provisions for probable losses and expenses from claims - net	*17, 20, 22 and 27*	**1,489**	11,646
Depreciation and amortization	*6, 8 and 9*	**8,549**	7,901
Interest and other financial income	*23*	**(2,234)**	(2,560)
Interest and other financial charges	*6, 15, 16 and 23*	**1,473**	1,467
Gain on disposal of utility plant and others		**(463)**	(196)
Provision for *ECL*		**202**	1,702
Impairment loss on investment in subsidiaries	*7*	**12**	3,434
Others		**36**	39
Operating income before working capital changes		**38,793**	43,926
Decrease (increase) in:			
Trade and other receivables		**12,986**	(29,124)
Inventories		**(701)**	(638)
Financial and other current assets		**(979)**	255
Increase (decrease) in:			
Trade payables and other current liabilities		**816**	16,046
Customers' deposits		**1,685**	2,767
Long-term employee benefits		**3,018**	1,251
Customers' refund		**(20)**	(83)
Cash generated from operations		**55,598**	34,400
Income tax paid		**(6,880)**	(7,228)
Net cash provided by operating activities		**48,718**	27,172
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Financial assets at *FVOCI*	*9 and 25*	**(41,982)**	(92,057)
Short-term investments		**(740)**	(5,472)
Utility plant and others	*6*	**(17,793)**	(12,819)
Debt securities at amortized cost	*9 and 25*	**(22,815)**	(15,949)
Investments in subsidiaries and associates and interests in joint ventures	*7*	**(14,949)**	(3,382)
Intangible assets	*9*	**(748)**	(388)
Interest and other financial income received		**295**	3,052
Return of capital received	*7*	**64**	62
Proceeds from disposal of:			
Financial assets at *FVOCI*	*9 and 25*	**43,070**	85,268
Debt securities at amortized cost	*9 and 25*	**13,759**	23,999
Short-term investments		**306**	23,680
Utility plant and others		**473**	207
Decrease in financial and other noncurrent assets		**666**	902
Net cash generated from (used in) investing activities		**(40,394)**	7,103

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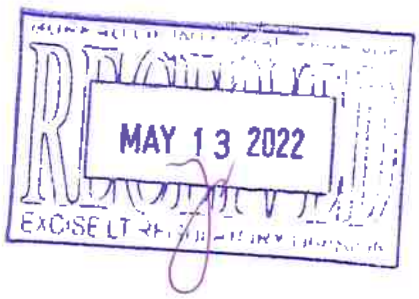
	Notes	Years Ended December 31 2021	2020
		(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Dividends	*14*	**(₱14,457)**	(₱16,937)
Interest-bearing long-term financial liabilities		**(361)**	(3,546)
Interest and other financial charges		**(1,554)**	(1,350)
Notes payable		**(2)**	–
Decrease in financial and other noncurrent liabilities		**(553)**	(547)
Proceeds from availment of notes payable	*19*	**5,000**	–
Net cash used in financing activities		**(11,927)**	(22,380)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,603)**	11,895
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**44,639**	32,488
NET UNREALIZED FOREIGN EXCHANGE (LOSS) GAINS		**(405)**	256
CASH AND CASH EQUIVALENTS AT END OF YEAR	*10*	**₱40,631**	₱44,639

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY
NOTES TO PARENT COMPANY 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*.

MERALCO is owned directly by two (2) major stockholder groups, Metro Pacific Investments Corporation ("*Metro Pacific*") and JG Summit Holdings, Inc. ("*JG Summit*"). *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*'s combined direct and indirect ownership interests in *MERALCO* totaled 45.46% while *JG Summit* has 29.56% direct ownership interest in *MERALCO*. First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation, also have 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 parent company financial statements were approved and authorized for issue by the *BOD* on February 28, 2022.

2. Rate Regulations

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

The following is a discussion of matters related to rate-setting:

Performance-Based Regulations ("PBR")

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *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 February 28, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

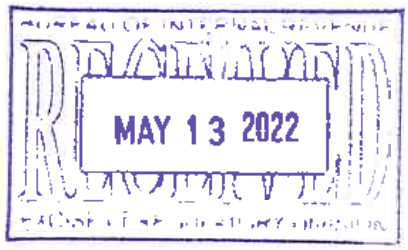
Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence ("*FOE*") after the *ERC* has resolved pending motions. As at February 28, 2022, the *ERC*'s ruling on these motions remains pending.

In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other distribution utilities, to refund any remaining amount pertaining to regulatory reset costs for the previous *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 February 28, 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 parent company statements of financial position and "parent company 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. The refund was reflected as a separate line item in the billings to customers starting March 2021. As at February 28, 2022, the refund and the hearings on the case are ongoing.

As at December 31, 2021, the outstanding balance of *DRTU* for refund amounted to ₱7,578 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 February 28, 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 February 28, 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 February 28, 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 February 28, 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*. The deadline for filing the regulatory reset application is set on February 9, 2022. However, *MERALCO* requested for an additional period, or until March 11, 2022, within which to file its reset application. On February 17, 2022, the *ERC* granted the request of *MERALCO* but with no further extension.

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 February 28, 2022, the case is pending before the *SC*.

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

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities". These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, 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 June 1, 2015, the *ERC* approved with modification *MERALCO*'s applications for the confirmation of its under- or over-recoveries of its pass-through costs for the periods June 2003 to December 2010 and January to December 2011, directing *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges until such time that the full amount has been collected. As at December 31, 2021, the net under-recoveries were fully recovered.

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 February 28, 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 February 28, 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 February 28, 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 February 28, 2022, the application is pending final approval by the *ERC*.

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

On January 31, 2017, *MERALCO* filed an Application seeking the *ERC*'s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the *ERC* provisionally approved the recovery of the incremental fuel cost through a

staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at February 28, 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 February 28, 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 February 28, 2022, the *MR* is still pending resolution by the *ERC*.

Applications for Recovery of 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 February 28, 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 February 28, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

See Note 17 – Customers' Refund.

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

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

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

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*.

As at February 28, 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 parent company financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost and fair value through other comprehensive income ("*FVOCI*") financial assets, which are measured at fair value.

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

Statement of Compliance

The parent company financial statements have been prepared in compliance with *PFRSs*. *MERALCO* also prepares and issues consolidated financial statements in compliance with *PFRSs*. These are available publicly and may be downloaded from www.meralco.com.ph.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2021.

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

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

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

Amendment to PFRS 16, COVID-19-related Rent Concessions beyond June 30, 2021.

The amendment provides relief to lessees from applying the *PFRS 16* requirement on lease modifications to rent concessions arising as a direct consequence of the *COVID-19* pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of *COVID-19*;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the *COVID-19* related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

MERALCO disclosed information, as applicable:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to *IBOR* reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments do not have material effect on the parent company financial statements of *MERALCO*.

Effective beginning on or after January 1, 2022

Amendments to PFRS 3, Reference to the Conceptual Framework

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have material effect on the parent company financial statements.

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

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

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

The amendments are not expected to have a material impact on the parent company financial statements.

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 are not expected to have a material impact on the parent company financial statements.

The amendments are not expected to have a material impact on the parent company financial statements.

Annual Improvements to PFRSs 2018-2020 Cycle

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

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

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

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. *MERALCO* will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment. The amendments are not expected to have a material impact on *MERALCO*.

Amendments to PAS 41, Agriculture, Taxation in Fair Value Measurements

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

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

Effective beginning on or after January 1, 2023

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

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

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

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have material effect on the parent company financial statements.

Amendments to PAS 8, Definition of Accounting Estimates

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

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have material effect on the parent company financial statements.

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 the parent company financial statements.

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. The amendments are not expected to have a material impact on the parent company financial statements.

Effective beginning on or after January 1, 2025

PFRS 17, Insurance Contracts

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

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The amendments are not expected to have a material impact on the parent company financial statements.

Deferred Effectivity

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

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

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the *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 amendments are not expected to have a material impact on *MERALCO*.

Significant Accounting Policies

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

Utility Plant and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the parent company statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

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

See *Note 13 – Equity* for the related discussion.

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

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

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Investments in Subsidiaries and Associates and Interest in Joint Ventures

Investments in subsidiaries (entities over which *MERALCO* has control) and associates (entities over which *MERALCO* has significant influence) and interests in joint ventures (entities over which *MERALCO* has joint control) are accounted for under the cost method of accounting in the parent company financial statements. Investments in subsidiaries and associates and interests in joint ventures are carried in the parent company statement of financial position at cost less any impairment in value. *MERALCO* recognizes income from the investments only to the extent that *MERALCO* receives distributions from accumulated profits of the subsidiaries, associates and joint venture arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

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

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

MERALCO re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one (1) or more of the three (3) elements of control.

Investment Properties

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

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

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

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

See *Note 13 – 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 parent company statement of income in the year these are disposed or retired.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the commencement of an operating lease to another party. If owner-occupied property becomes an investment property, *MERALCO* accounts for such property in accordance with the policy stated under utility plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by 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 parent company statement of income.

Intangible assets with indefinite useful lives are not amortized but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of 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 parent company statement of income.

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the year these are incurred.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly 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 *MERALCO*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

MERALCO uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

i. Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
ii. Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
iii. Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, *MERALCO* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, *MERALCO* has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Impairment of Nonfinancial Assets

MERALCO assesses at each reporting year whether there is an indication that a nonfinancial asset [utility plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue ("*BIR*")] other than intangible assets with indefinite useful life, may be impaired. If any such indication exists, *MERALCO* makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an individual asset's or a cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm's-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the parent company statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, *MERALCO* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior year. Such reversal is recognized in the parent company statement of income. After such reversal, the

depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intangible assets with indefinite useful lives are tested for impairment annually at every reporting date or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, either individually or at the cash generating unit level, as appropriate. The amount of impairment is calculated as the difference between the recoverable amount of the intangible asset and its carrying amount. The impairment loss is recognized in the parent company statement of income. Impairment losses relating to intangible assets may be reversed in future years.

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 *MERALCO*'s business model for managing them. With the exception of trade receivables that do not contain a significant financing component, *MERALCO* 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 sole 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.

MERALCO's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that *MERALCO* commits to purchase or sell the asset.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at *FVOCI* with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at *FVOCI* with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at *FVPL*

Financial assets at amortized cost (debt instruments)

This category is the most relevant to *MERALCO*. *MERALCO* measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate ("*EIR*") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. *MERALCO*'s financial assets at amortized cost includes cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost and advance payments to a supplier.

Financial assets at FVOCI (debt instruments)

MERALCO measures debt instruments at *FVOCI* if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the parent company statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognised in *OCI*. Upon derecognition, the cumulative fair value change recognised in *OCI* is recycled to profit or loss. *MERALCO*'s debt instruments at *FVOCI* include investments in government securities and investments in corporate bonds.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, *MERALCO* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32, Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the parent company statement of profit or loss when the right to receive payment has been established, except when *MERALCO* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

MERALCO elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from *MERALCO*'s parent company statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- *MERALCO* has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) *MERALCO* has transferred substantially all the risks and rewards of the asset, or (b) *MERALCO* has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When *MERALCO* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, *MERALCO* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, *MERALCO* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that *MERALCO* has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that *MERALCO* could be required to repay.

Modification of Financial Assets

MERALCO 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.

MERALCO 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, *MERALCO* 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"

MERALCO also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, *MERALCO* 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, *MERALCO* 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 parent company statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for *ECL* measurement purposes, unless the new financial asset is deemed to be purchased or originated credit-impaired financial assets ("*POCI*").

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("*Bayanihan 1*") was enacted. *Bayanihan 1* provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the *ECQ* period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("*Bayanihan 2*"), was enacted. Under *Bayanihan 2*, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

In 2020, *MERALCO*, in addition to the reliefs provided under *Bayanihan 1* and *Bayanihan 2*, has offered financial reliefs to its borrowers/counterparties as a response to the effect of the *COVID-19* pandemic. These relief measures included the following:

- Restructuring of existing receivables including extension of payment terms
- Relief for principal and interest repayments

Based on *MERALCO* assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets.

Impairment of Financial Assets

MERALCO recognizes an allowance for expected credit losses ("*ECLs*") for all debt instruments not held at *FVPL*. *ECLs* are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that *MERALCO* expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and

- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, *ECLs* are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month *ECL*). For those credit exposures for which there has been a significant increase in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime *ECL*).

Financial assets are credit-impaired when one (1) or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime *ECLs* are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

For trade receivables and contract assets, *MERALCO* applies a simplified approach in calculating *ECLs*. Therefore, *MERALCO* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. *MERALCO* has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In 2020, due to the *COVID*-19 pandemic, *MERALCO* has considered resegmentation of its customer bills starting from the *ECQ* period, the expected deferred payment arrangements and expected default upon resumption of service disconnection activities in the *ECL* assessment. 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 *ECLs* of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors as well as the economic environment were considered.

For debt instruments, *MERALCO* applies the low credit risk simplification. At every reporting date, *MERALCO* evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, *MERALCO* reassesses the internal credit rating of the debt instrument. In addition, *MERALCO* considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

MERALCO's debt instruments at *FVOCI* comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is *MERALCO*'s policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the 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, *MERALCO* assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. *MERALCO* considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within *MERALCO*'s investment grade criteria, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month *ECL*. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of *MERALCO* from the time of origination.

An exposure will migrate through the *ECL* stages as asset quality deteriorates. If, in a subsequent year, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime *ECL* to 12-months *ECL*.

MERALCO considers a financial asset in default when contractual payments are 300 days past due (average days to terminate customer contract). However, in certain cases, *MERALCO* may also consider a financial asset to be in default when internal or external information indicates that *MERALCO* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by *MERALCO*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at *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.

MERALCO's financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial Liabilities at 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 *MERALCO* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the parent company statement of profit or loss. Financial liabilities designated upon initial recognition at *FVPL* are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. *MERALCO* has not designated any financial liability as at *FVPL*.

Loans and Borrowings

This is the category most relevant to *MERALCO*. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the *EIR* method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the *EIR*. The *EIR* amortization is included as interest and other financial charges in the parent company statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the parent company statement of comprehensive income.

Exchange or Modification of Financial Liabilities

MERALCO 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, *MERALCO* 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.

MERALCO 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 parent company statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the parent company statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the parent company statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to sell or the current replacement cost of the asset.

Prepayments

Prepayments are expenditures 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 *MERALCO* has a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where *MERALCO* expects a provision, or a portion, to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.

Retirement Benefits

MERALCO has a 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 parent company statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the parent company statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the year in which they arise. Remeasurements are not reclassified to profit or loss in subsequent 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 *MERALCO*, nor can they be paid directly to *MERALCO*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected year until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

MERALCO's right to be reimbursed for some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

The retirement costs under the defined contribution plan are recorded based on *MERALCO*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefits, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when such accrues to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting year is recognized for services rendered by employees up to the end of the reporting year.

Unused sick leaves are accumulated, up to a certain limit, and commuted to cash upon separation or retirement. An actuarial valuation of the obligations on the accumulated unused sick leaves is conducted periodically in accordance with the relevant accounting standards.

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the obligation at the end of the reporting date.

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred

directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of *MERALCO*'s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained earnings include net income, reduced by dividends declared on common stock. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting year are disclosed as events after the financial reporting year.

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 *MERALCO* expects to be entitled in exchange for those goods or services. *MERALCO* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

Sale of Electricity

Revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements ("*UFR*") on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment ("*CERA*") I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, *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. *VAT* billed and collected on behalf of the national governments, *LFT* and *RPT* billed and collected on behalf of the local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation ("*PSALM*") and National Transmission Corporation ("*TransCo*"), respectively] do not form part of revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Interest Income

Interest income is recognized as interest accrues, using the *EIR* method. The *EIR* is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Lease Income

Income arising from lease of investment properties and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under "Revenues – Sale of other services" account in the parent company statement of income.

Receivables

Receivables represent *MERALCO*'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 *MERALCO* performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

MERALCO's contract assets include under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which *MERALCO* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before *MERALCO* transfers good or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when *MERALCO* performs services under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

In accordance with the Distribution Services and Open Access Rule ("*DSOAR*"), the costs of non-standard connection facilities to connect the customers to *MERALCO*'s distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. *MERALCO* assesses whether the constructed or acquired non-standard connection facilities meet the definition of an asset in accordance with *PAS 16*. If the definition of an asset is met, *MERALCO* recognizes such asset at its acquisition or construction cost with an equivalent credit to the liability account. Such liability to the customers is included under "Other noncurrent liabilities" account in the parent company statement of financial position, and is recognized as income over the average duration of relationship with the customer. 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 parent company statement of financial position.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

Short-term Leases and Leases of Low-value Assets

MERALCO 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

MERALCO 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, *MERALCO* recognizes a right-of-use ("*ROU*") asset and a corresponding lease liability on the parent company statement 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, *MERALCO* 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 *MERALCO*'s incremental borrowing rate. Incremental borrowing rate is the rate of interest that *MERALCO* 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 *ROU*-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consist 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 consists 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.

MERALCO depreciates *ROU* assets on a straight-line basis using the expected useful life or lease term whichever is shorter. *MERALCO* also assesses the *ROU* assets for impairment when such indicators exist.

Company as Lessor

Leases where *MERALCO* does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Foreign Currency-Denominated Transactions and Translations

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 parent company 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.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent these have become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period 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 by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year by the weighted average number of shares outstanding, adjusted for the effects of any dilutive potential common shares.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed in the notes to parent company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized unless the realization of the assets is virtually certain. These are disclosed in the notes to parent company financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post reporting date events that provide additional information about *MERALCO*'s financial position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post reporting date events that are non-adjusting events are disclosed in the notes to parent company financial statements, when material.

5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

In the process of applying *MERALCO*'s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the parent company financial statements.

Determination of Functional Currency

The functional currency of *MERALCO* is the currency of the primary economic environment in which *MERALCO* operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances, the functional and presentation currency of *MERALCO* is the Philippine peso.

Uncertain Tax Position

Upon adoption of *IFRIC 23*, *MERALCO* assessed whether it has any uncertain tax position. *MERALCO* applies significant judgement in identifying uncertainties over its income tax treatments. *MERALCO* 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. *MERALCO* quantified the effect of each uncertain tax treatment using the most likely amount which *MERALCO* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

MERALCO has several lease arrangements as lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by *MERALCO*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

As Lessee

MERALCO has entered into various operating lease agreements used for its operations.

For lease under *PFRS 16*, *MERALCO* recognizes *ROU* assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the *MERALCO*'s incremental borrowing rate.

MERALCO 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 no 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 asset.

Principal vs. Agent

MERALCO's revenue recognition requires *MERALCO* to make certain judgments on its revenue arrangements with power generation companies such as *PPA*s and *PSA*s. *MERALCO* has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* to bill customers based various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPA*s and *PSA*s. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC* Resolution No. 16, *A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.*

Moreover, *MERALCO* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the year when the services are expected to be provided.

Contingencies

MERALCO has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See *Note 27 – Contingencies and Legal Proceedings.*

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

Estimating Useful Lives of Utility Plant and Others, Intangible Assets with Finite Lives and Investment Properties

MERALCO estimates the useful lives of utility plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱8,130 million and ₱7,479 million for the years ended December 31, 2021 and 2020, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱160,099 million and ₱150,282 million as at December 31, 2021 and 2020, respectively.

Total depreciation of investment properties amounted to ₱4 million for the years ended December 31, 2021 and 2020. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,458 million and ₱1,462 million as at December 31, 2021 and 2020, respectively.

Total amortization of intangible assets with finite lives amounted to ₱415 million and ₱418 million for the years ended December 31, 2021 and 2020, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,041 million and ₱1,679 million as at December 31, 2021 and 2020, respectively.

See *Note 6 – Utility Plant and Others, Note 8 – Investment Properties* and *Note 9 – Other Noncurrent Assets*.

Impairment of Nonfinancial Assets

PFRSs requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. Such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant and others, intangible assets with finite life, investment properties, investments in subsidiaries and associates and interest in joint ventures, and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the parent company financial statements. Future events may cause management to conclude that utility plant and others, intangible assets with finite life, investment properties, investments in subsidiaries and interest in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on *MERALCO*'s financial position and results of operations.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRSs*.

The carrying values of nonfinancial assets as at December 31, 2021 and 2020 subject to impairment review are as follows:

Account	**2021**	2020
	(Amounts in millions)	
Utility plant and others	**₱160,099**	₱150,282
Investments in subsidiaries and associates and interests in joint ventures	**43,695**	28,822
Intangible assets	**2,041**	1,679
Investment properties	**1,458**	1,462
Receivable from the *BIR*	**181**	181

As at December 31, 2021, allowance for impairment loss on investments in subsidiaries, associates and joint ventures amounted to ₱10,707 million and ₱10,695 million as at December 31, 2021 and 2020, respectively (see Note 7).

See *Note 6 – Utility Plant and Others, Note 7 – Investments in Subsidiaries, Associates and Interest in Joint Ventures, Note 8 – Investment Properties and Note 9 – Other Noncurrent Assets.*

Realizability of Deferred Income Tax Assets

MERALCO reviews the carrying amounts of deferred income tax assets at the end of each reporting date and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting year. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income 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 information with respect to deferred income tax assets:

	2021	2020
	(Amounts in millions)	
Recognized deferred income tax assets	**₱33,375**	₱36,800
Unrecognized deferred income tax assets	**480**	1,562

See *Note 26 – Income Taxes and Local Franchise Taxes.*

Provision for ECL of Receivables and Contract Assets

MERALCO applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in 2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the expected deferred payment arrangements and expected default upon resumption of service disconnection activities.

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. *MERALCO* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

MERALCO incorporates forward-looking information in its assessments whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. The *MERALCO Group* has considered a range of relevant forward-looking macroeconomic assumptions such as

inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECLs*.

Provision for *ECLs* for trade and other receivables amounted to ₱202 million and ₱1,702 million for the years ended December 31, 2021 and 2020, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱32,688 million and ₱50,330 million as at December 31, 2021 and 2020, respectively.

See *Note 11 – Trade and Other Receivables.*

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the power distribution and services segments and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes. The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and unusable are written-off and charged as expense in the parent company statement of income.

The carrying values of inventories amounted to ₱5,322 million and ₱4,621 million as at December 31, 2021 and 2020, respectively.

See *Note 12 – Inventories.*

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other long-term post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement and other post-employment benefits expense amounted to ₱1,893 million and ₱1,501 million for the years ended December 31, 2021 and 2020, respectively. Retirement liability as at December 31, 2021 and 2020 amounted to ₱4,543 million and ₱11,507 million, respectively. Other long-term post-employment benefit liability as at December 31, 2021 and 2020 amounted to ₱2,091 million and ₱2,007 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 in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates in the Philippines.

See *Note 23 – Expenses and Income* and *Note 24 – Long-term Employee Benefits.*

Provisions

MERALCO has various claims, assessments and cases as discussed in *Note 27 – Contingencies and Legal Proceedings*. *MERALCO*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

MERALCO, in consultation with its external legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the parent company financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies and actions relating to these proceedings.

MERALCO recognized provisions on various claims and assessments amounting to ₱9,570 million and ₱12,698 million for the years ended December 31, 2021 and 2020, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at December 31, 2021 and 2020, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱860 million and ₱2,275 million, respectively

See *Note 17 – Provisions* and *Note 20 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

MERALCO's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of its revenues and receivables.

Revenues from sale of electricity are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost in the accounts is based on calendar month as provided in the terms of the *PPA*s and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by the generators is taken up in the subsequent year. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

Management believes that such use of estimates will not result in material adjustments in future years.

6. Utility Plant and Others

The movements in utility plant and others are as follows:

		2021								
		Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
		(Amounts in millions)								
Cost:										
Balance at beginning of year		₱194,703	₱15,217	₱6,845	₱1,443	₱3,919	₱3,201	₱3,795	₱16,867	₱245,990
Additions		910	–	–	10	190	150	184	16,647	18,091
Disposals/retirements		(1,959)	–	(1)	–	–	(60)	(6)	–	(2,026)
Transfers from construction in progress		19,219	–	343	113	31	–	384	(20,090)	–
Reclassifications	9	(105)	–	1	1	3	–	(1)	(32)	(133)
Balance at end of year		212,768	15,217	7,188	1,567	4,143	3,291	4,356	13,392	261,922
Less accumulated depreciation and amortization:										
Balance at beginning of year		85,335	–	2,934	738	2,610	2,133	1,958	–	95,708
Depreciation and amortization		7,179	–	172	88	348	175	168	–	8,130
Disposals/retirements		(1,958)	–	(1)	–	–	(53)	(3)	–	(2,015)
Balance at end of year		90,556	–	3,105	826	2,958	2,255	2,123	–	101,823
		₱122,212	₱15,217	₱4,083	₱741	₱1,185	₱1,036	₱2,233	₱13,392	₱160,099

		2020								
	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
		(Amounts in millions)								
Cost:										
Balance at beginning of year		₱188,066	₱15,217	₱6,518	₱1,177	₱3,531	₱3,045	₱3,492	₱13,636	₱234,682
Additions		194	–	–	9	162	203	103	12,424	13,095
Disposals/retirements		(2,197)		(10)	–	–	(47)	(3)	–	(2,257)
Transfers from construction in progress		8,236	–	416	238	296	–	122	(9,308)	–
Reclassifications	9	404	–	(79)	19	(70)	–	81	115	470
Balance at end of year		194,703	15,217	6,845	1,443	3,919	3,201	3,795	16,867	245,990
Less accumulated depreciation and amortization:										
Balance at beginning of year		80,327	–	2,812	603	2,364	1,988	1,780	–	89,874
Depreciation and amortization		6,587	–	161	77	321	188	145	–	7,479
Disposals/retirements		(2,197)	–	(5)	–	–	(43)	(1)	–	(2,246)
Reclassifications		618	–	(34)	58	(75)	–	34	–	601
Balance at end of year		85,335	–	2,934	738	2,610	2,133	1,958	–	95,708
		₱109,368	₱15,217	₱3,911	₱705	₱1,309	₱1,068	₱1,837	₱16,867	₱150,282

As at December 31, 2021 and 2020, the net book values of customer-funded assets included in "Utility plant and others" account amounted to ₱5,764 million and ₱5,437 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2021 and 2021 are included in "Other noncurrent liabilities" account in the parent company statements of financial position.

See *Note 22 – Revenues and Purchased Power.*

Construction in progress mainly pertains to on-going electric capital projects ("*ECP*s") and non-*ECP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱304 million and ₱276 million based on average capitalization rate of 5% for the years ended December 31, 2021 and 2020, respectively.

7. Investments in Subsidiaries and Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2021 and 2020:

	Place of Incorporation	Principal Business Activities	2021 Percentage of Ownership		2020 Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
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*")	Philippines	Bills payment collection	–	–	–	48
Meralco Energy, Inc. ("*MServ*")	Philippines	Energy systems management	**100**	–	100	–
Aurora Managed Power Services, Inc. ("*AMPSI*") [1]	Philippines	Energy systems management	–	**60**	–	60
eMeralco Ventures, Inc. ("*e-MVI*")	Philippines	e-Business development	**100**	–	100	–
Paragon Vertical Corporation ("*Paragon*")	Philippines	Information technology *("IT")* and multi-media services	–	**100**	–	100
Radius Telecoms, Inc. ("*Radius*")	Philippines	Telecommunication services	–	**100**	–	100
MGen	Philippines	Development of power generation plants	**100**	–	100	–
Calamba Aero Power Corporation[2]	Philippines	Power generation	–	**100**	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	**100**	–	100
Atimonan One Energy, Inc. ("*A1E*") [3]	Philippines	Power generation	–	**100**	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	–	**100**	–	100
MPG Asia Limited ("*MPG Asia*")	British Virgin Islands	Holding company	–	**100**	–	100
Solvre, Inc. [2]	Philippines	Retail electricity supplier	–	**100**	–	100
MGen Renewable Energy, Inc. ("*MGreen*")	Philippines	Renewable energy	–	**100**	–	100

(Forward)

	Place of Incorporation	Principal Business Activities	2021 Percentage of Ownership		2020 Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
LagunaSol Corporation ("*LagunaSol*") [2]	Philippines	Renewable energy	–	100	–	100
Nortesol III Inc. ("*NorteSol*") [2]	Philippines	Renewable energy	–	70	–	70
Powersource First Bulacan Solar, Inc. ("*First Bulacan*")	Philippines	Renewable energy	–	60	–	60
Greentech Solar Energy, Inc. ("GSEI")	Philippines	Renewable energy	–	100	–	–
CACI Power Corporation	Philippines	Power generation	–	60	–	–
PH Renewables Inc. ("*PHRI*")	Philippines	Power generation	–	60	–	–
GBPC [4]	Philippines	Holding company	–	100	–	–
ARB Power Ventures, Inc.	Philippines	Holding company	–	100	–	–
Toledo Power Company ("*TPC*")	Philippines	Power generation	–	100	–	–
Toledo Holdings Corporation	Philippines	Real estate		100		
Global Trade Energy Resources Corp.	Philippines	Trading of coal	–	100	–	–
Panay Power Holdings Corporation	Philippines	Holding company	–	89	–	–
Panay Energy Development Corporation ("*PEDC*")	Philippines	Power generation	–	89	–	–
Panay Power Corporation	Philippines	Power generation		89		
GBH Power Resources, Inc.	Philippines	Power generation	–	100	–	–
Global Formosa Power Holdings, Inc.	Philippines	Holding company	–	93	–	–
Cebu Energy Development Corporation ("*CEDC*")	Philippines	Power generation	–	52	–	–
GESC	Philippines	Retail electricity supplier	–	100	–	–
Mindanao Energy Development Corporation	Philippines	Power generation	–	100	–	–
Global Hydro Power Corporation	Philippines	Power generation	–	100	–	–
Global Luzon Energy Development Corporation ("*GLEDC*")	Philippines	Power generation	–	57	–	–
Lunar Power Core, Inc.	Philippines	Holding company	–	57	–	–
Global Renewable Power Corporation	Philippines	Renewable energy	–	100	–	–
Spectrum	Philippines	Renewable energy	100	–	100	–
Vantage	Philippines	Retail electricity supplier	100	–	100	–
Meralco Financial Services Corporation ("*Finserve*")	Philippines	Financial services provider	100	–	100	–
Lighthouse Overseas Insurance Limited ("*LOIL*")	Bermuda	Insurance	100	–	100	–
MRAIL, Inc. ("*MRail*")	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
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

(Forward)

	Place of Incorporation	Principal Business Activities	2021 Percentage of Ownership Direct	2021 Indirect	2020 Direct	2020 Indirect
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*") [2]	Philippines	Retail electricity supplier	–	65	–	65
Comstech	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	–	60	–	60
Shin Clark	Philippines	Holding company	60	–	60	–
Phoenix Power [2]	Philippines	Retail electricity supplier	100	–	100	–
Associates						
Bauang Private Power Corporation ("*BPPC*")[1]	Philippines	Power generation	38	–	38	–
Aclara Meters Philippines, Inc. ("*Aclara Meters*")	Philippines	Sale of metering products and services	35	–	35	–
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	25	–	25	–
Joint Ventures						
Pure Meridian Hydropower Corporation ("*Pure Meridian*")[3]	Philippines	Renewable energy	50	–	50	–
MPioneer Insurance, Inc, ("*MPioneer*")	Philippines	Insurance	35	–	35	–
Rockwell Business Center Joint Venture ("*RBC JV*")	Philippines	Real estate	30	–	30	–

[1] *The BOD of AMPSI approved the dissolution and shortening of its corporate life until March 31, 2021.*
[2] *Has not started commercial operations.*
[3] *In development stage as at December 31, 2021.*
[4] *Became a wholly owned subsidiary beginning March 31, 2021.*

The movements of investments in subsidiaries and associates and interests in joint ventures are as follows:

	2021	2020
	(Amounts in millions)	
Balance at beginning of year	₱28,822	₱28,936
Additions	14,949	3,382
Impairment	(12)	(3,434)
Return of capital	(64)	(62)
Balance at end of year	₱43,695	₱28,822

CIS

CIS was incorporated in 1974 to provide information technology services and integrated business solutions to enterprise clients. In 1997, *CIS* engaged in the business of bills payment collection, which was spun off as *Bayad. Bayad* offers a network of bills payment collection services in the Philippines operating nationwide with brand name "*Bayad*". *Bayad* also provides outsourced tellering services through *CFSI.*

Bayad has 51% interest in *Fieldtech*, which is engaged in the business of meter reading, courier, field order, and collection services and solutions. On October 20, 2021, *Bayad* disposed its 51% share in *Fieldtech.*

¶

MServ

MServ was established as a wholly owned subsidiary of *MERALCO* in June 2000 to provide demand-side energy services to *MERALCO*'s key accounts. It offers integrated energy efficiency solutions

including marketing, engineering design capability, turnkey installation management, monitoring and performance assurance of energy management projects.

e-MVI

e-MVI was established on June 22, 2000. Its wholly owned subsidiary, *Paragon,* wholly owns *Radius*, which, in turn, holds a congressional telecommunications franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunications services in the Philippines, and between the Philippines and other countries and territories.

MGen

MGen is engaged in the planning and development of projects, investing and funding management-related services to project companies for the development, building and operation of power plant and related facilities.

GBPC 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 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 March 31, 2021, *MGen* completed the acquisition of the combined 86% interests of Metro Pacific Investments Corporation ("*Metro Pacific*") through Beacon Powergen Holdings Inc. ("*BPHI*"), and JG Summit Holdings, Inc. ("*JG Summit*") in *GBPC* for a total consideration of ₱32,575 million, net of adjustments in accordance with the terms of the respective Share Purchase Agreements ("*SPA*"). The consideration is payable 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, *MGen* hold 14% ownership interest in *GBPC*. 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 December 31, 2021, *MGen* settled 80% of the total purchase price consideration in accordance with the terms of *SPA*.

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 September 2022.

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. In 2021, it delivered a total of 3,234 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

MGen also has a 28% indirect interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"). 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%.

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.

In 2020, *MERALCO* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the continued depressed market condition in Singapore. As a result of the re-assessment, *MERALCO* recognized full impairment on its investment as at December 31, 2020.

RP Energy has 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. While *RP Energy* is evaluating other possible configurations or alternative technology and viability of possible offtake, *RP Energy* suspended further development of the project while continuing basic care and management activities for the site. However, *RP Energy* remains committed to the execution of the project which is classified as a "Committed Project" by the *DOE*, registered with the Board of Investment as a preferred, non-pioneer enterprise and is needed to ensure adequate, reliable capacity for consumers.

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 *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.

Shin Clark

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 March 1, 2021, the documents for the incorporation of the joint venture company with *BCDA* has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

Finserve

Finserve has embarked on investing and managing commercial center operations with *The Strip* along Ortigas Avenue as its flagship project.

Finserve also has a 10% equity interest in AF Payments, Inc. ("*AF Payments*") since its incorporation in February 2014. *AF Payments* was incorporated primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It 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 in its investment in *Finserve* related to its investment in *AF Payments*. The recoverable amount of the investment 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 December 31, 2021 and 2020, the investment in *AF Payments* is fully impaired.

LOIL

LOIL, a captive reinsurer, is registered as a Class 1 insurer under The Bermuda Insurance Act 1978 and Related Regulations. *LOIL* was incorporated in Bermuda in 2007 and received its license to operate in the territory in 2008.

MRail

MRail, incorporated in 2009, is engaged in the business of engineering, construction and maintenance of mass transit system.

On June 2, 2014, *MRail* and *DESCO* entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways ("*PNR*"). The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

On October 31, 2018, First Balfour, Inc. and *MRail* entered into a joint venture for the rehabilitation of the Line 1 Rectifier Substations, a Light Rail Manila Corporation project. The parties agreed an

ownership of 51% and 49%, respectively. The project was completed on July 31, 2021 and is under additional two (2)-year warranty period.

Spectrum

Spectrum's primary purpose is to harness renewable energy ("*RE*") such as but not limited to, solar, wind, biomass, geothermal and/or hydropower.

Vantage

Vantage is a wholly owned subsidiary of *MERALCO* with the primary purpose of providing retail energy services which involve energy sourcing and trading, wholesale contracting, and aggregating of electricity.

eSakay

eSakay is a wholly owned subsidiary of *MERALCO* and was incorporated in 2018 to focus on propagating green and sustainable mobility - from the supply of electric vehicles ("*EV*") and charging infrastructure to the provision of *EV* operatorship services. *eSakay* aims to be an end-to-end *EV* transport solutions provider, modernizing and electrifying transport systems for private and public sector customers throughout the country.

MIESCOR

MIESCOR is a contractor - specialist engaged in engineering, construction and maintenance activities related to power generation, transmission and distribution, as well as industrial plants, water resources and telecommunications.

MIESCOR's services are complemented by its two wholly owned subsidiaries – *MBI* and *MLI*. *MBI* serves as the general construction business unit. It also offers testing, commissioning and distribution utility operation and maintenance services, while *MLI* handles architectural and fit-out construction works including building and facilities logistics management services like warehouse management, fleet management and manpower service management.

Clark Electric

Clark Electric is a registered private distribution utility granted by Clark Development Corporation ("*CDC*") a franchise to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and *MIESCOR*, dated February 19, 1997.

Clark Electric's wholly owned subsidiary, *Clarion*, was incorporated with the primary purpose of providing retail energy sourcing and trading, wholesale contracting and aggregating of electricity.

Comstech

MERALCO has a 60% equity interest in *Comstech*. *Comstech* is a company based in Clark Freeport Zone, Pampanga which is engaged in the development, operation and management of electricity generation and/or distribution, hydropower plants or related businesses.

MeridianX, a wholly owned subsidiary of *Comstech*, was incorporated on November 21, 2016 as a retail electricity supplier.

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology *LLC*. *Aclara Meters* serves the Philippine market for American National Standard Institute ("*ANSI*")-type Watt-hour meters.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("*IS*") and *IT* operations and management consulting.

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation ("*REDC*") entered into a joint venture through, *Pure Meridian*, for the development of mini-hydroelectric power projects.

MPioneer

MPioneer is 35% owned by *MERALCO*, with Pioneer Insurance and Surety Company holding 65%. It is engaged in the non-life insurance business.

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 manages three (3) Business Process Outsourcing-enabled buildings on a non-regulatory asset base property of *MERALCO*. Investment in *RBC JV* represents *MERALCO*'s 30% interest in the joint venture, while *Rockwell Land* has 70% interest in *RBC JV*.

8. Investment Properties

The movements in investment properties are as follows:

	2021		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:	₱1,427	₱155	₱1,582
Less accumulated depreciation:			
Balance at beginning of year	–	120	120
Depreciation	–	4	4
Balance at end of year	–	124	124
	₱1,427	₱31	₱1,458

	2020		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of year	₱1,427	₱155	₱1,582
Disposals	–	(1)	(1)
Reclassification and others	–	1	1
Balance at end of year	1,427	155	1,582
Less accumulated depreciation:			
Balance at beginning of year	–	117	117
Depreciation	..	4	4
Reclassification and others	–	(1)	(1)
Balance at end of year	..	120	120
	₱1,427	₱35	₱1,462

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at December 31, 2021 and 2020 are as follows (amounts in millions):

Land	₱4,653
Buildings and improvements	126

Land pertains primarily to properties where the *BPO* buildings and "Strip" mall are located and other non-regulatory asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱155,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

   Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the factors of location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

9. Financial and Other Noncurrent Assets

This account consists of:

	Note	**2021**	2020
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*13 and 25*	**₱24,340**	₱24,112
Financial assets at *FVOCI*	*25*	**6,936**	7,939
Restricted cash		**4,698**	4,734
Advance payments to supplier	*25*	**523**	694
Nonfinancial assets:			
Under recoveries of pass-through charges - net	*2 and 11*	**10,597**	7,279
Intangible assets		**2,041**	1,679
Deferred input *VAT*		**1,477**	1,419
Receivable from the *BIR*	*27*	**181**	181
Others		**64**	581
		₱50,857	₱48,618

Debt Securities at Amortized Cost

The details of debt securities at amortised cost are as follows:

	2021			2020		
	Current Portion (see *Note 13*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 13*)	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱11,873**	**₱21,136**	**₱33,009**	₱4,751	₱16,466	₱21,217
Private debt securities	**5,248**	**3,204**	**8,452**	3,268	7,646	10,914
	₱17,121	**₱24,340**	**₱41,461**	₱8,019	₱24,112	₱32,131

This account represents investments in government securities issued by the Republic of the Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at FVOCI

The details of financial assets at *FVOCI* are as follows:

	2021	2020
	(Amounts in millions)	
Investment in debt securities:		
Corporate bonds and other investments	**₱6,570**	₱7,626
Government Securities	**3**	–
Investment in shares of stock and club shares	**363**	313
	₱6,936	₱7,939

Interest income from debt and equity securities amounted to ₱1,316 million and ₱1,580 million for the years ended December 31, 2021 and 2020, respectively.

The rollforward of unrealized gains on quoted *FVOCI* financial assets, net of tax, included in the parent company statements of financial position follows:

	2021	2020
	(Amounts in millions)	
Balance at beginning of year	**₱288**	₱191
Unrealized gains on change in fair value	**37**	97
Balance at end of year	**₱325**	₱288

Intangible Assets

The movements of intangible assets are as follows:

		2021			
	Note	Software	Franchise	Land and Leasehold Rights	Total
			(Amounts in millions)		
Cost:					
Balance at beginning of year		**₱5,558**	**₱49**	**₱434**	**₱6,041**
Additions		**740**	**–**	**8**	**748**
Reclassification	*6*	**29**	**–**	**–**	**29**
Balance at end of year		**6,327**	**49**	**442**	**6,818**
Less accumulated amortization:					
Balance at beginning of year		**4,028**	**3**	**331**	**4,362**
Amortization		**396**	**3**	**16**	**415**
Balance at end of year		**4,424**	**6**	**347**	**4,777**
		₱1,903	**₱43**	**₱95**	**₱2,041**

		2020			
	Note	Software	Franchise	Land and Leasehold Rights	Total
			(Amounts in millions)		
Cost:					
Balance at beginning of year		₱5,042	₱49	₱434	₱5,525
Additions		388	–		388
Reclassification	*6*	128	–	–	128
Balance at end of year		5,558	49	434	6,041
Less accumulated amortization:					
Balance at beginning of year		3,630	–	314	3,944
Amortization		398	3	17	418
Balance at end of year		4,028	3	331	4,362
		₱1,530	₱46	₱103	₱1,679

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for in *RA* No. 9337 (*"EVAT Law"*), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. 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.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* as a *DU,* which are still to be billed, covered by an approved recovery mechanism of the *ERC.* The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC.* 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 a year amounted to ₱1,436 million and ₱2,657 million as at December 31, 2021 and 2020, respectively. This is shown as part of "Trade and other receivables" account in the parent company statement of financial position.

See Note 11 – Trade and Other Recievables.

Allowance for *ECL* on net under-recoveries of pass-through charges amounted to ₱3,078 million and ₱1,652 million as at December 31, 2021 and 2020, respectively.

10. Cash and Cash Equivalents

This account consists of:

	2021	2020
	(Amounts in millions)	
Cash on hand and in banks	**₱14,736**	₱15,249
Cash equivalents	**25,895**	29,390
	₱40,631	₱44,639

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods of up to three (3) months depending on *MERALCO*'s immediate cash requirements and earn interest at the prevailing short-term investment rates.

Interest income on cash in hand and cash equivalents amounted to ₱466 million and ₱539 million for the years ended December 31, 2021 and 2020, respectively.

11. Trade and Other Receivables

This account consists of:

	Note	2021	2020
		(Amounts in millions)	
Trade receivables	*21 and 25*	**₱34,436**	₱51,879
Nontrade receivables		**2,006**	1,952
		36,442	53,831
Less allowance for *ECL*		**3,754**	3,501
		₱32,688	₱50,330

Movements in allowance for *ECL* for trade and other receivables are as follows:

	2020	2019
	(Amounts in millions)	
Balance at beginning of year	**₱3,501**	₱1,757
Provision	**202**	1,702
Recoveries	**51**	42
Balance at end of year	**₱3,754**	₱3,501

Trade Receivables

Trade receivables include charges for pass-through costs. Pass-through costs consist of generation, transmission and *SL* charges, which represent 58%, 9% and 4%, respectively, of the total billed amount in 2021 and 55%, 10% and 4%, respectively, of the total billed amount in 2020. Billed receivables are due 10 days after bill date. Trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-offs, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 16 – Customers' Deposits* and *Note 25 – Financial Assets and Financial Liabilities.*

12. Inventories

	2021	2020
	(Amounts in millions)	
Materials and supplies		
At cost	**₱5,514**	₱4,813
At net realizable value (*"NRV"*)	**5,322**	4,621
Materials and supplies at *NRV*	**₱5,322**	₱4,621

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱192 million as at December 31, 2021 and 2020. There was no inventory written off as at December 31, 2021 and 2020.

13. Financial and Other Current Assets

This account consists of:

	Note	2021	2020
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*9 and 25*	**₱17,121**	₱8,019
Short-term investments	*25*	**444**	–
Current portion of advance payments to a supplier		**182**	171
Nonfinancial assets:			
Prepayments		**3,031**	2,032
Prepaid tax		**687**	703
Input *VAT*		**141**	90
Others		**210**	95
		₱21,816	₱11,110

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.

14. Equity

Common Stock

	2021	2020
	(In millions, except par value)	
Authorized number of shares - ₱10 par value a share	**1,250**	1,250
Issued and outstanding - number of shares	**1,127**	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 41,689 and 41,943 shareholders of *MERALCO*'s common shares as at December 31, 2021 and 2020, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include the balance of revaluation increment in utility plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱51,113 million and ₱53,258 million as at December 31, 2021 and 2020, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.

The following are cash dividends declared on common shares in 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 26, 2021	August 23, 2021	September 15, 2021	₱5.06	₱5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of consolidated core net income ("*CCNI*") for the year, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

15. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2021	2020
	(Amounts in millions)	
Long-term portion of interest-bearing long-term financial liabilities - Long-term debt	**₱11,294**	**₱11,643**
Current portion of interest-bearing long-term financial liabilities:		
Long-term debt	**349**	**349**
Redeemable preferred stock	**1,470**	**1,472**
	1,819	**1,821**
	₱13,113	**₱13,464**

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱249 million and ₱250 million as at December 31, 2021 and 2020, respectively. 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:

Description	2021	2020
	(Amounts in millions)	
Fixed Rate Loans		
12-year Puttable Bonds	**₱7,000**	₱7,000
₱7.2 Billion Note	**4,680**	5,040
Total long-term debt	**11,680**	12,040
Less unamortized debt issuance costs	**37**	48
	11,643	11,992
Redeemable Preferred Stock	**1,470**	1,472
	13,113	13,464
Less current portion	**1,819**	1,821
Long-term portion of interest-bearing financial liabilities	**₱11,294**	₱11,643

All of the interest-bearing long-term financial liabilities as at December 31, 2021 and 2020 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2021 are as follows:

	Amount
	(In millions)
2023	₱360
2024	360
2025	360
2026	3,600
Beyond 2027	7,000
	₱11,680

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 Agreement due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2021 and 2020, *MERALCO* is in compliance with all of the covenants of the loan agreements.

The annual interest rates for the interest-bearing financial liabilities range from 4.40% to 4.22% and 4.38% and 6.00% as at December 31, 2021 and 2020, respectively.

Interest expense on interest-bearing financial liabilities, net of capitalized interest, amounted to ₱262 million and ₱428 million for the years ended December 31, 2021 and 2020, respectively.

Unamortized Debt Issuance Costs

The following presents the changes to the unamortized debt issuance costs:

	Note	**2020**	2019
		(Amounts in millions)	
Balance at beginning of year		**₱48**	**₱75**
Amortization charged to interest and other financial charges	*23*	**(11)**	**(27)**
Balance at the end of year		**₱37**	**₱48**

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2021	2020
Balance at beginning of year	**147,158,808**	147,880,772
Redemptions	**(143,527)**	(721,964)
Balance at end of year	**147,015,281**	147,158,808

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

16. Customers' Deposits

This account consists of:

	2021			2020		
	Current Portion *(see Note 20)*	**Noncurrent Portion**	**Total**	Current Portion *(see Note 20)*	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,358**	**₱30,184**	**₱32,542**	₱2,210	₱29,319	₱31,529
Meter deposits	**313**	**–**	**313**	316	–	316
	₱2,671	**₱30,184**	**₱32,855**	₱2,526	₱29,319	₱31,845

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, was promulgated by the *ERC.* Under the amended *DSOAR,* interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation of the *ERC.*

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

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	**2021**	2020
		(Amounts in millions)	
Balance at beginning of year		**₱31,529**	₱30,260
Additions		**2,733**	3,300
Refunds		**(1,720)**	(2,031)
Balance at end of year		**32,542**	31,529
Less portion maturing within one year	*20*	**2,358**	2,210
Noncurrent portion of bill deposits and related interests		**₱30,184**	₱29,319

Interest expense on bill deposits amounted to ₱21 million and ₱35 million for the years ended December 31, 2021 and 2020, respectively.

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 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 *DUs* pursuant to *ERC* Resolution No. 13, Series of 2016, entitled, "Guidelines to Govern the Audit Process of Meter Deposit Refund to Residential and Non-Residential Customers," and *ERC* Resolution No. 03, Series of 2017 which provided the extended deadline for *DUs* submission of the Audit Report on *MDR*.

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at February 28, 2022, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposits.

17. Provisions

Provisions consist of amounts recognized related to certain proceedings and claims against *MERALCO*, among others. The movements follow:

	Note	**2021**	2020
		(Amounts in millions)	
Balance at beginning of year		**₱38,992**	₱34,191
Provisions for the year - net		**4,353**	5,853
Settlements		**(6,388)**	(1,052)
Balance at end of year		**36,957**	38,992
Less current portion	*20*	**23,421**	21,927
Noncurrent portion		**₱13,536**	₱17,065

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 27 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

18. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 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 February 28, 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 February 28, 2022, the audit has been completed and *MERALCO* is awaiting further action of the ERC on the matter.

See *Note 2 – Rate Regulations*.

19. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from a local banks. Annual interest rates were up to 4.8% and 4.75% for the years ended December 31, 2021 and 2020, resepectively.

Interest expense on notes payable amounted to ₱1,169 million and ₱953 million for the years ended December 31, 2021 and 2020, respectively.

20. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2021**	2020
		(Amounts in millions)	
Trade accounts payable	*21 and 22*	**₱38,922**	₱41,037
Provisions	*17 and 27*	**23,421**	21,927
Taxes payable		**11,715**	12,594
Accrued expenses:			
Employee benefits		**1,968**	2,044
Interest	*15*	**225**	526
Others		**1,617**	1,452
Current portions of:			
Refundable service extension costs		**1,660**	5,555
Bill deposits and related interests	*16*	**2,358**	2,210
Meter deposits and related interests	*16*	**313**	316
Deferred income		**943**	1,005
Dividends payable on:			
Common stock	*14*	**₱1,162**	₱1,101
Redeemable preferred stock	*15*	**249**	250
Payable to customers		**6,450**	5,796
Universal charges payable		**2,345**	2,667
Fit-All payable		**957**	689
Regulatory fees payable		**219**	220
Other current liabilities		**1,326**	2,194
		₱95,850	₱101,583

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines ("*NGCP*") and Independent Electricity Market Operator of the Philippines Inc. ("*IEMOP*") for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, materials and supplies, and contracted services, among others.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See *Note 21 –Related Party Transactions, Note 22 –Revenue and Purchased Power* and *Note 28 – Significant Contracts and Commitments.*

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities", requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2021 and 2020, the noncurrent portion of refundable service extension costs of ₱5,334 million and ₱6,632 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the parent company statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts 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.

21. Related Party Transactions

MERALCO 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 *MERALCO* to/with related parties for the relevant year. The outstanding balances are unsecured, non-interest bearing and are to be settled in cash.

Pole Attachment Contract with PLDT, Inc. ("PLDT")

MERALCO has a pole attachment contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups within the franchise area such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

MERALCO's telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its wireless services. Such services are covered by standard service contracts between the telecommunications carriers and *MERALCO*.

Technical Service Agreement ("TSA") with Comstech

MERALCO has a *TSA* with *Comstech*. Under the terms of the *TSA*, *MERALCO* shall provide technical services needed to enable *Comstech* to operate and maintain Pampanga Electric Cooperative II's electric distribution facilities in accordance with the terms and conditions of the Investment and Management Agreement.

MERALCO granted a loan to *Comstech* amounting to ₱280 million. The loan shall be for a period of 10 years, payable in nine (9) annual installments of ₱14 million beginning December 31, 2016 with a bullet payment on December 31, 2025. The outstanding balance as at December 31, 2021 and 2020 amounted to ₱126 million and ₱158 million, respectively.

Purchase of Goods and Services

In the ordinary course of business, *MERALCO* purchases goods and services from its affiliates and sells power, leases its spaces and equipment, and renders services to such affiliates.

PSAs with Related Parties

As discussed in Note 28, *MERALCO* signed long-term *PSAs* with the following related parties: *SBPL* and Panay Energy Development Corporation ("*PEDC*").

Following is a summary of related party transactions net of taxes, as applicable, for the years ended December 31, 2021 and 2020 and the outstanding balances as at December 31, 2021 and 2020:

Category	Amount of Transactions 2021	Amount of Transactions 2020	Outstanding Receivable (Liability) 2021	Outstanding Receivable (Liability) 2020	Terms	Conditions
	(Amounts in millions)					
Sale of electricity:						
JG Summit Group	₱2,704	₱2,542	₱387	₱606	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	1,233	1,192	85	279	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	410	377	158	61	10-day; noninterest-bearing	Unsecured, no impairment
Subsidiaries, affiliates and joint venture	28	29	4	54	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	922	968	(362)	(208)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – *Aclara Meters*	248	132	(23)	(23)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	586	541	73	83	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	90	97	(11)	(17)	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	71	76	–	–	None	None
Purchases of services:						
MIESCOR and subsidiaries	2,728	2,020	(364)	(340)	30-day; noninterest-bearing	Unsecured
CIS and subsidiaries	727	598	(38)	(105)	30-day; noninterest-bearing	Unsecured
MPioneer	412	449	(3)	–	30-day; noninterest-bearing	Unsecured
MServ	117	283	(17)	(26)	30-day; noninterest-bearing	Unsecured
Colinas Verdes Hospital Managers	238	143	–	–	30-day; noninterest-bearing	Unsecured
eSakay, Inc.	11	7	(26)	–	30-day; noninterest-bearing	Unsecured
Radius Telecoms	30	6	(127)	–	30-day; noninterest-bearing	Unsecured
Others	41	116	(7)	(6)	30-day; noninterest-bearing	Unsecured
Purchases of power:						
PEDC	2,257	1,812	(249)	(277)	30-day; noninterest-bearing	Unsecured
SBPL	15,902	12,902	(746)	(1,311)	30-day; noninterest-bearing	Unsecured
Income from *TSA*						
Comstech	24	24	5	5	30-day; noninterest-bearing	Unsecured

Transaction with MERALCO Retirement Benefits Fund ("Retirement Fund")

MERALCO's Retirement Fund holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market.

As at December 31, 2021 and 2020, the fair value of the total assets being managed by the *Retirement Fund* amounted to ₱33.1 billion and ₱33.7 billion, respectively.

See *Note 24 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of *MERALCO* by benefit type is as follows:

	2021	2020
	(Amounts in millions)	
Short-term employee benefits	₱549	₱559
Long-term employee incentives and retirement benefits	280	137
Total compensation to key management personnel	₱829	₱696

All directors are entitled to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted of the equivalent cash value.

As at December 31, 2021, there are no agreements between *MERALCO* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

22. Revenues and Purchased Power

Revenues

The revenues from sale of electricity are from the distribution and supply of electricity to customers within *MERALCO* franchise area.

Contract Assets and Contract Liabilities

MERALCO's contract balances are as follows:

	2021	2020
	(Amounts in millions)	
Contract assets: Under-recoveries of pass-through charges - net	₱10,597	₱7,279
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	866	841
Over-recoveries from transmission, lifeline subsidy and *SL* charges	597	333

Income recognized from the nonrefundable liability related to assets funded by customers amounted to ₱114 million and ₱94 million in 2021 and 2020, respectively.

Purchased Power

The details of purchased power are as follows:

	2021	2020
	(Amounts in millions)	
Generation costs	**₱186,668**	₱162,067
Transmission costs	**34,083**	36,734
	₱220,751	₱198,801

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* as a *DU*.

Generation costs include line rentals, market fees and must-run unit charges billed by *IEMOP*.

The details of purchased power are as follows:

	2021	2020
	(Amounts in millions)	
First Gas Power Corporation ("*FGPC*") and FGP Corp. ("*FGP*")	**₱51,164**	₱43,658
NGCP	**34,123**	36,785
South Premiere Power Corporation ("*SPPC*")	**25,643**	24,166
San Miguel Energy Corporation ("*SMEC*")	**15,337**	14,232
QPPL	**16,289**	13,990
IEMOP	**20,723**	13,934
SBPL	**15,973**	12,902
AC Energy Philippines, Inc. ("*AC Energy*")	**10,790**	9,023
First Nat Gas Power Corporation ("*FNPC*")	**9,309**	8,456
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**8,522**	8,056
Therma Luzon, Inc. ("*TLI*")	**2,219**	7,033
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**2,853**	2,634
PEDC	**2,257**	1,812
First Gen Hydro Power Corporation ("*FGHPC*")	**2,507**	723
Therma Mobile, Inc. ("*TMO*")		516
Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")	**425**	338
Millenium Energy, Inc. ("*MEI*")		307
Southwest Luzon Power Generation Corporation	**1,823**	34
Others	**794**	202
	₱220,751	₱198,801

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2021 and 2020, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the parent company statements of financial position amounted to ₱532 million and ₱241 million, respectively.

Generation and transmission costs include *kwh* consumption of *MERALCO* offices and facilities ("company use") amounting to ₱351 million and ₱318 million for the year ended December 31, 2021 and 2020, respectively.

23. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2021	2020
		(Amounts in millions)	
Salaries, wages and related employee benefits		**₱9,465**	₱7,878
Retirement benefits	*24*	**1,844**	1,434
Other long-term post-employment benefits expense	*24*	**101**	114
		₱11,410	₱9,426

Depreciation and Amortization

	Note	2021	2020
		(Amounts in millions)	
Utility plant and others	*6*	**₱8,130**	₱7,479
Intangible assets	*9*	**415**	418
Investment properties	*8*	**4**	4
		₱8,549	₱7,901

Other Expenses

	Note	2021	2020
		(Amounts in millions)	
Rent and utilities		**₱537**	₱476
Materials used	*12*	**498**	328
Insurance		**371**	359
Advertising		**169**	178
Transportation and travel		**155**	138
Communication	*21*	**98**	107
Others		**533**	624
		₱2,361	₱2,210

24. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2021	2020
	(Amounts in millions)	
Retirement benefits liability	**₱4,543**	₱11,507
Other long-term post-employment benefits	**2,091**	2,007
Long-term incentives	**2,541**	1,307
	₱9,175	₱14,821

Defined Benefit Retirement Plan

The features of *MERALCO*'s defined benefit plan are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

Actuarial valuation is prepared annually by an independent actuary engaged by *MERALCO*.

Expense recognized for defined benefit plan (included in "Salaries, wages and employee benefits" account in the parent company statements of income)

	2021	2020
	(Amounts in millions)	
Current service costs	**₱1,357**	₱1,151
Net interest costs	**435**	236
Retirement benefits expense	**₱1,792**	₱1,387

Retirement Benefits Liability

	2021	2020
	(Amounts in millions)	
Defined benefit obligation	**₱37,637**	₱45,245
Fair value of plan assets	**(33,094)**	(33,738)
Retirement benefits liability	**₱4,543**	₱11,507

Changes in the net retirement benefits liability are as follows:

	2021	2020
	(Amounts in millions)	
Retirement benefits liability at beginning of year	**₱11,507**	₱5,247
Net retirement benefits expense	**1,792**	1,387
Total amounts recognized in *OCI*	**(8,756)**	5,031
Contribution by employer	–	(158)
Retirement benefits liability at end of year	**₱4,543**	₱11,507

Changes in the present value of the defined benefit obligation are as follows:

	2021	2020
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱45,245**	₱40,176
Interest costs	**1,661**	1,776
Benefits paid	**(2,604)**	(2,477)
Current service costs	**1,357**	1,151
Actuarial losses (gains) due to:		
Changes in financial assumptions	**(8,427)**	6,483
Experience adjustments	**405**	(1,864)
Defined benefit obligation at end of year	**₱37,637**	₱45,245

Changes in the fair value of plan assets are as follows:

	2021	2020
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱33,738**	₱34,929
Interest income	**1,226**	1,540
Contribution by employer	**–**	158
Return on plan assets, excluding amount included in net interest on the net defined obligation	**734**	(412)
Benefits paid	**(2,604)**	(2,477)
Fair value of plan assets at end of year	**₱33,094**	₱33,738

The Board of Trustees ("*BoT*") which manages the *Retirement Fund*, is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, all of whom are not beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach by investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

	2021	2020
	(Amount in millions)	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	**₱2,912**	₱3,430
Banks	**954**	1,059
Property	**894**	877
Telecommunication	**601**	932
Electricity, energy, power and water	**446**	417
Food, beverages and tobacco	**572**	359
Retail	**199**	449
Transportation services	**284**	267
Construction, infrastructure and allied services	**9**	24
Mining	**–**	7
Others	**2,138**	1,761
Quoted debt instruments:		
"AAA" rated securities	**9,870**	11,803
Government securities	**9,362**	8,211
Cash and cash equivalents	**2,172**	2,120
Property	**1,853**	1,014
Receivables	**827**	1,007
Others	**1**	1
Fair value of plan assets	**₱33,094**	₱33,738

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits Expense (included in "Salaries, wages and employee benefits" account in the parent company statements of income)

	2021	2020
	(Amounts in millions)	
Interest costs	**₱74**	₱88
Current service costs	**27**	26
	₱101	₱114

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2021	2020
	(Amounts in millions)	
Balance at beginning of year	**₱2,007**	₱1,949
Interest costs	**74**	88
Current service costs	**27**	26
Benefits paid	**(112)**	(99)
Actuarial losses due to change in assumptions	**95**	43
Balance at end of year	**₱2,091**	₱2,007

Actuarial Assumptions

The principal assumptions used as at December 31, 2021 and 2020 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2021	2020
Annual discount rate	**4.96%**	3.78%
Future range of annual salary increases	**4.00%-11.00%**	5.00%-11.00%

Sensitivity Analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions, keeping all other assumptions constant. There have been no changes in the method and assumptions used in the sensitivity analysis from prior year.

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2021**	2020
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱4,450)**	(₱6,131)
	-1.0%	**5,672**	7,561
Future range of annual salary increases	+1.0%	**1,634**	2,473
	-1.0%	**(1,442)**	(2,177)

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 amount of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.

Share Price Risk

The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The share price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *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 when they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *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 ₱52 million and ₱47 million for the years ended December 31, 2021 and 2020, respectively.

Retirement Benefits Cost (included in "Salaries, Wages and Employee Benefits" account in the parent company statements of income)

	2021	2020
	(Amounts in millions)	
Expense recognized for defined benefit plan	**₱1,792**	₱1,387
Expense recognized for defined contribution plan	**52**	47
Retirement benefits expense	**₱1,844**	₱1,434

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO's* achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as executives' attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

25. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at amortized cost. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	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				
Other noncurrent assets	**₱29,562**	**₱6,936**	**₱–**	**₱36,498**
Current				
Cash and cash equivalents	**40,631**	**–**	**–**	**40,631**
Trade and other receivables	**32,688**	**–**	**–**	**32,688**
Financial and other current assets	**17,746**	**–**	**–**	**17,746**
Total assets	**₱120,627**	**₱6,936**	**₱–**	**₱127,563**
Liabilities as at December 31, 2021				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱11,294**	**₱11,294**
Customers' deposits - net of current portion	**–**	**–**	**30,184**	**30,184**
Refundable service extension costs - net of current portion	**–**	**–**	**5,334**	**5,334**
Current				
Notes payable	**–**	**–**	**27,654**	**27,654**
Trade payables and other current liabilities	**–**	**–**	**54,557**	**54,557**
Customers' refund	**–**	**–**	**2,929**	**2,929**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**1,819**	**1,819**
Total liabilities	**₱–**	**₱–**	**₱133,771**	**₱133,771**

	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, 2020				
Noncurrent				
Other noncurrent assets	₱29,540	₱7,939	₱–	₱37,479
Current				
Cash and cash equivalents	44,639	–	–	44,639
Trade and other receivables	50,329	–	–	50,329
Financial and other current assets	8,190	–	–	8,190
Total assets	₱132,698	₱7,939	₱–	₱140,637
Liabilities as at December 31, 2020				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱	₱–	₱11,643	₱11,643
Customers' deposits - net of current portion	–	–	29,318	29,318
Refundable service extension costs - net of current portion	–	–	6,632	6,632
Current				
Notes payable	–	–	22,655	22,655
Trade payables and other current liabilities	–	–	60,039	60,039
Customers' refund	–	–	2,949	2,949
Current portion of interest-bearing long-term financial liabilities	–	–	1,821	1,821
Total liabilities	₱–	₱–	₱135,057	₱135,057

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 *MERALCO*'s financial instruments as at December 31, 2021 and 2020.

	2021		2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(Amounts in millions)			
Financial assets				
Debt securities at amortized cost	**₱41,461**	**₱42,856**	₱32,131	₱33,005
Financial assets at amortized cost - Advance payments to a supplier	**523**	**768**	865	997
Financial assets at *FVOCI*	**6,936**	**6,936**	7,939	7,939
	₱48,920	**₱50,560**	₱40,935	₱41,941
Financial liabilities				
Financial liabilities carried at amortized cost - Interest-bearing long-term financial liabilities	**₱11,643**	**₱12,094**	₱11,962	₱14,034

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, Restricted Cash, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 4.31% and 2.53% as at December 31, 2021 and 2020, respectively.

Financial Assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt Securities at Amortized Cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.82% to 4.33% and 0.12% to 3.96% as at December 31, 2021 and 2020, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by such shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(Amounts in millions)							
Financial assets								
Debt securities at amortized cost	₱42,856	₱–	₱–	₱42,856	₱33,005	₱–	₱–	₱33,005
Advance payments to a supplier	–	768	–	768	–	997	–	997
Financial assets at *FVOCI*	6,573	–	363	6,936	7,626	–	313	7,939
	₱49,429	₱768	₱363	₱50,560	₱40,631	₱997	₱313	₱41,941
Financial liabilities								
Interest-bearing long-term financial liabilities	₱–	₱12,094	₱–	₱12,094	₱–	₱14,034	₱–	₱14,034

For the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

MERALCO's exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is

adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2021 and 2020.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of *MERALCO*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial amount of *MERALCO*'s expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of *MERALCO*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses.

The following table shows the parent company foreign currency-denominated financial assets and financial liabilities as at December 31, 2021 and 2020, translated to Philippine peso at ₱51.00 and ₱48.02 to US$1, respectively.

	2021		2020	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	$83	₱4,217	$180	₱8,633
Trade and other receivables	24	1,224	–	–
Debt securities at amortized cost	21	1,070	24	1,153
Financial assets at *FVOCI*	14	727	22	1,041
Advance payments to a supplier	9	444	18	856
	151	7,682	244	11,683
Financial liabilities -				
Trade payables and other liabilities	(5)	(240)	(3)	(166)
	$146	₱7,442	$241	₱11,517

All of *MERALCO*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables is denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on *MERALCO*'s obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of *MERALCO's* income before income tax for the years ended December 31, 2020 and 2019 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on *MERALCO*'s equity other than those already affecting the parent company statements of income.

	2021		2020	
	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	₱372	+5	₱579
	–5	(372)	–5	(579)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables 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. *MERALCO*'s exposure to price risk is minimal. The cost of fuel is part of *MERALCO*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. *MERALCO* is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Trade and Other Receivables 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*'s procedures and controls relating to customer credit risk management. *MERALCO* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on *MERALCO* business segment's historical observed default rates. Each business segment of *MERALCO* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Due to the economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DU*s to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in 2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the expected deferred payment arrangements and expected default upon resumption of service disconnection activities.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

Set out below is the information about the credit risk exposure of *MERALCO*'s trade and other receivables and contract assets using a provision matrix:

	2021					
	Billed trade electric receivables				Other receivables	Total
	Contract Status					
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated		
	(Amounts in millions, except ECL rate)					
ECL Rate	**2.47%**	**5.52%**	**5.09%**	**81.13%**	**7.38%**	
Estimated total gross carrying amount	**₱23,858**	**₱3,324**	**₱4,013**	**₱3,241**	**₱2,006**	**₱36,442**
Expected credit loss	**589**	**183**	**204**	**2,630**	**148**	**3,754**

	2020							
	Billed electric receivables							
	Days past due							
	0-1 bills	2-3 bills	4-5 bills	6-7 bills	Over 7 bills	Over 240 days	Other receivables	Total
	(Amounts in millions, except ECL rate)							
ECL Rate	0.84%	1.03%	1.89%	8.22%	8.52%	77.40%	0.72%	
Estimated total gross carrying amount	₱5,935	₱7,684	₱7,385	₱7,145	₱7,039	₱2,624	₱1,952	₱39,764
Expected credit loss	50	80	140	587	600	2,031	13	3,501

Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to *MERALCO*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. *MERALCO* transacts derivatives only with similarly accredited financial institutions. In addition, *MERALCO*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

MERALCO invests only in quoted debt securities with very low credit risk. *MERALCO*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. *MERALCO*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk in *MERALCO*.

The table below shows the maximum exposure to credit risk for the components of the parent company statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2021	2020
	(Amounts in millions)	
Cash in banks and cash equivalents	**₱40,261**	₱44,500
Trade and other receivables:		
Electricity	**30,696**	48,405
Nontrade receivables	**1,992**	1,925
Financial current assets:		
Short-term investments	**444**	–
Current portion of advance payments to a supplier	**182**	171
Debt securities at amortized cost	**17,121**	8,019
Financial noncurrent assets:		
Debt securities at amortized cost	**24,340**	24,112
Financial assets at *FVOCI*	**6,936**	7,939
Advance payments to a supplier	**523**	694
Restricted cash	**4,698**	4,734
	₱127,193	₱140,499

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:

	2021					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱40,261**	**₱–**	**₱–**	**₱–**	**₱–**	**₱40,261**
Trade and other receivables:						
Electricity	**5,756**	**2,712**	**12,115**	**10,113**	**3,740**	**34,436**
Nontrade receivables	**1,394**	**–**	**–**	**598**	**14**	**2,006**
Financial current assets:						
Short-term investments	**444**	**–**	**–**	**–**	**–**	**444**
Debt securities at amortized cost	**17,121**	**–**	**–**	**–**	**–**	**17,121**
Advance payments to a supplier	**182**	**–**	**–**	**–**	**–**	**182**
Financial noncurrent assets:						
Debt securities at amortized cost	**24,340**	**–**	**–**	**–**	**–**	**24,340**
Financial assets at *FVOCI*	**6,936**	**–**	**–**	**–**	**–**	**6,936**
Advance payments to a supplier	**523**	**–**	**–**	**–**	**–**	**523**
Restricted cash	**4,698**	**–**	**–**	**–**	**–**	**4,698**
	₱101,655	**₱2,712**	**₱12,115**	**₱10,711**	**₱3,754**	**130,947**

	2020					
	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	₱44,500	₱–	₱–	₱–	₱–	₱44,500
Trade and other receivables:						
Electricity	10,105	4,675	20,319	13,292	3,487	51,878
Nontrade receivables	1,447	38	–	453	14	1,952
Financial current assets:						
Short-term investments	–	–	–	–	–	–
Debt securities at amortized cost	8,019	–	–	–	–	8,019
Advance payments to a supplier	171	–	–	–	–	171
Financial noncurrent assets:						
Debt securities at amortized cost	24,112	–	–	–	–	24,112
Financial assets at *FVOCI*	7,939	–	–	–	–	7,939
Advance payments to a supplier	694	–	–	–	–	694
Restricted cash	4,734	–	–	–	–	4,734
	₱101,721	₱4,713	₱20,319	₱13,745	₱3,501	₱143,999

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, *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 *MERALCO* will be unable to meet its payment obligations when these fall due. *MERALCO* manages this risk through monitoring of cash flows in consideration of future payment of obligation and collection of its trade receivables. *MERALCO* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

MERALCO maintains an adequate amount of cash, cash equivalents and financial assets at *FVOCI*, which may be readily converted to cash in any unforeseen interruption of its cash collections. *MERALCO* also maintains accounts with several relationship banks to avoid significant concentration of cash with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2021				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Note payable	₱222	₱28,530	₱–	₱–	₱28,752
Trade payables and other current liabilities	50,225	–	–	–	50,225
Customers' refund	2,929	–	–	–	2,929
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	412	494	4,185	–	5,091
Bonds payable	85	256	341	7,656	8,338
Redeemable preferred stock	1,470	–	–	–	1,470
Customers' deposits	616	2,055	6,037	24,147	32,855
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
Over-recoveries from transmission, lifeline subsidy and *SL* charges	–	–	597	–	597
Total undiscounted financial liabilities	₱56,431	₱32,777	₱15,692	₱33,217	₱138,117

	2020				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Note payable	₱179	₱23,389	₱–	₱–	₱23,568
Trade payables and other current liabilities	51,957	–	–	–	51,957
Customers' refund	2,949	–	–	–	2,949
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	418	503	4,742	–	5,663
Bonds payable	85	256	341	7,990	8,672
Redeemable preferred stock	1,472	–	–	–	1,472
Customers' deposits	371	2,155	–	29,319	31,845
Refundable service extension costs	345	5,210	4,405	2,228	12,188
Nonrefundable liability related to asset funded by customers	127	127	127	460	841
Over-recoveries from transmission, lifeline subsidy and *SL* charges	–	–	333	–	333
Total undiscounted financial liabilities	₱57,903	₱31,640	₱9,948	₱39,997	₱139,488

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 ₱2,358 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the parent company statement of financial position as at December 31, 2021.

Capital Management

The primary objective of *MERALCO*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

MERALCO monitors capital using, among other measures, consolidated debt to equity ratio, which is gross consolidated debt divided by consolidated equity attributable to the holders of the parent. *MERALCO* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2021	2020
	(Amounts in millions, except debt to equity ratio)	
Consolidated long-term debt	**₱60,364**	₱15,299
Notes payable	**28,834**	23,373
Redeemable preferred stock	**1,470**	1,472
Consolidated debt (a)	**₱90,668**	₱40,144
Consolidated equity attributable to the holders of the parent (b)	**₱95,204**	₱79,237
Consolidated debt to equity ratio (a)/(b)	**0.95**	0.51

26. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	2021	2020
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*17 and 26*	**₱28,779**	₱31,326
Unfunded retirement benefits cost and unamortized past service cost	*24*	**2,058**	1,812
Accrued employee benefits	*24*	**1,068**	915
Allowance for expected credit losses	*11*	**935**	1,046
Actuarial losses	*24*	**–**	1,598
Allowance for excess of cost over net realizable value of inventories	*12*	**48**	58
Others		**487**	45
		33,375	36,800
Deferred income tax liabilities:			
Revaluation increment in utility plant and others	*14*	**5,519**	6,668
Actuarial gains	*24*	**922**	–
Capitalized interest		**686**	762
Capitalized duties and taxes deducted in advance		**412**	512
Depreciation method differential		**–**	2
Others		**151**	133
		7,690	8,077
		₱25,685	₱28,723

Provision for (benefit from) income tax consists of:

	2021	2020
	(Amounts in millions)	
Current	**₱7,827**	₱9,894
Deferred	**603**	(4,029)
	₱8,430	₱5,865

The deferred tax assets charged directly to *OCI* amounted to ₱2,435 million (expense) and ₱1,523 million (benefit) for the years ended December 31, 2021 and 2020, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rate of 25% and 30% for the years ended December 31, 2021 and 2020, respectively and provision for income tax as shown in the parent company statements of income is as follows:

	2021	2020
	(Amounts in millions)	
Income tax computed at statutory tax rate	**₱7,432**	₱6,148
Income tax effects of:		
Impact of *CREATE* bill on the provision for:		
Deferred income tax	**4,525**	–
Current income tax	**(824)**	–
Interest income subjected to lower final tax rate	**(445)**	(642)
Nondeductible interest expense	**111**	264
Nontaxable income	**(93)**	(94)
Difference in calculation of tax deductible costs and expenses	**(1,526)**	(3,621)
Unrecognized deferred tax assets	**(1,081)**	2,772
Others	**331**	1,038
	₱8,430	₱5,865

In 2021 and 2020, *MERALCO* elected to adopt the optimized standard deduction ("*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 *OSD* method.

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 December 31, 2021 and 2020, which were not recognized in the taxable years 2021 and 2020 are as follows:

	2021	2020
	(Amounts in millions)	
Deferred tax assets:		
Provisions for various claims	**₱480**	₱938
Others	–	624
	480	1,562
Deferred tax liabilities:		
Revaluation increment in utility plant and others	**13**	30
Capitalized interest	**8**	20
Capitalized duties and taxes deducted in advance	**6**	15
Depreciation method differential	–	1
Others	**5**	7
	32	73
	₱448	₱1,489

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 parent company 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.

27. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCC*s"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCC*s amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCC*s amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2021 and 2020, the amount of unissued *TCC*s of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the parent company statements of financial position.

See *Note 9 – 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 an *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed an *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said Motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said Motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 28,2022, 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 *LGUs* on years prior to the Resolution's issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGUs* on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at February 28, 2022, the Petition is pending with the *ERC*.

See Note 17 – Provisions.

Mediation with NPC

The *NPC* embarked on a Power Development Program ("*PDP*"), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the Department of Energy ("*DOE*") required that *MERALCO* enter into a long-term supply contract with the *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* which commenced on January 1, 1995. The *CSE*, the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of the *ERC*.

Subsequently, the *OSG* filed a "Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*". As a result, *MERALCO* sought judicial clarification with the Regional Trial Court ("*RTC-Pasig*"). Pre-trials were set, which *MERALCO* complied with and attended. However, the *OSG* refused to participate in the pre-trial and opted to seek a Temporary Restraining Order ("*TRO*") from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated

October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a *MR* which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO*'s Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at February 28, 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 February 28, 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 ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*,

SMEC and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGC*s.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGC*s against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the *SGC*s should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGC*s: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and (vi) deny the respective *MR*s filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 28, 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 February 28, 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 February 28, 2022, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised its concerns with the *PEMC* with request for the latter to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. On July 1, 2020, *MERALCO* received the *SC* Resolution dated March 11, 2020, affirming the *CA* decision that upheld *ERC*'s order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates. Entry of Judgment has been rendered and the resolution has become final and executory on October 14, 2020.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 28, 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 February 28, 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 February 28, 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 February 28, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

SPPC versus PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* had a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, *PSALM* terminated the said Agreement. *SPPC* filed a complaint at the *RTC*-Mandaluyong to nullify the termination notice for lack of factual and legal basis. On said date, the executive judge of *RTC*-Mandaluyong issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC*-Mandaluyong extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC*-Mandaluyong granted the prayer for preliminary injunction. *PSALM* has filed *MR*s to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC*-Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC*-Mandaluyong issued an Order dated June 27, 2016 denying the *MR*s. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC*-Mandaluyong.

On July 26, 2019, *PSALM* filed a Petition for Certiorari to assail the September 24, 2018 Order and April 29, 2019 Order of the *RTC* which directed *PSALM* to respond to *SPPC*'s interrogaroties and submit certain documents. *PSALM* subsequently filed an Amended Petition on March 14, 2020. In a Resolution dated June 17, 2020, the *CA* directed the respondents to file their comment to the Amended Petition. *MERALCO* filed its Compliance with Motion to Drop Party-Respondent on July 13, 2020. In a Resolution dated February 1, 2021, the *CA* granted *MERALCO*'s motion.

In the meantime, on February 14, 2020, *MERALCO* filed its Motion to Withdraw as *MERALCO* no longer possessed any legal interest in the subject matter of the case as its *PSA* with *SPPC* subject of the dispute already expired. While *PSALM* has no objection to *MERALCO*'s withdrawal from the case, *SPPC* requested for time to file its comment. In an Order dated July 20, 2020, the *RTC* granted *MERALCO*'s Motion to Withdraw.

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 February 28, 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 February 28, 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 and ₱1,535 million as at December 31, 2021 and 2020, respectively, are included in the "Other noncurrent liabilities" account in the parent company statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

28. Significant Contracts and Commitments

Independent Power Producers ("IPPs")

FGPC and *FGP*

In compliance with the *DOE*'s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPAs* with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electric output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPAs*. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90%

capacity quota. The amended terms under the respective *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 9 – 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	₱27,741
2023	15,327	28,216
2024	15,360	28,732
2025	10,742	18,682
2026-2031	7,497	11,677

PSAs with Privatized Plants and *IPPAs*

The *PSA*s signed with *SPPC*, *Sem-Calaca* and *SMEC* were approved by the *ERC* on December 17, 2012. However, each of the generator filed *MR*s with respect to the *ERC* decisions on the *PSA*s. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MR*s. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order. In an Order dated May 29, 2018, the *ERC* partially granted the Motion for Partial Reconsideration on the *PSA* with *Sem-Calaca*. On July 25, 2018, *MERALCO* filed a motion for clarification of the said Order which, as at March 1, 2021, 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 February 28, 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	₱62,485
2023	2,647	63,352
2024	3,047	65,760
2025	3,026	62,695
2026-2031	18,750	382,636

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA*, as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP*. In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at February 28, 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 February 28, 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 February 28, 2022, the contract term expired and the case is pending decision by the *ERC.*

Pangea Green Energy Philippines, Inc. ("*PGEP*")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP,* a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW.* The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE.* On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016.
On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the

termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at February 28, 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 February 28, 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.

Bacman Geothermal, Inc. ("BGI")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. On August 10, 2020, *MERALCO* and *BGI* filed a joint manifestation with the *ERC*, manifesting that the Joint Application for approval of the *PSA* is deemed moot considering the provisions of the *PSA* is rendered inapplicable and unenforceable given the expiration of the *PSA* without an approval from the *ERC*. As at February 28, 2022, the case is still pending decision by the *ERC*.

Montalban Methane Power Corporation ("MMPC")

On May 13, 2009, *MERALCO* filed an Application with the *ERC* for approval of its *CSE* with *MMPC* which the *ERC* approved with modification in its Decision dated December 3, 2012. In a Letter Agreement dated June 6, 2013, the *CSE* was extended until September 11, 2013 and parties agreed to automatically renew the *CSE* for a series of 3-month terms unless *MMPC* informs *MERALCO* in writing no longer than 30 days before the lapse of each 3-month term that it no longer intends to extend the *CSE*. Upon information from *MMPC*, in a Letter Agreement dated January 21, 2015, the parties agreed to terminate the *CSE* effective January 26, 2015. However, despite the termination of the *CSE*, *MMPC* was still able to inject energy to *MERALCO*'s distribution system. In its letter dated June 9, 2015, *MMPC* sought the *ERC*'s assistance to, among other things, recover reasonable charges for the energy that was generated and injected by *MMPC* to *MERALCO*'s distribution system. In a letter dated July 20, 2015, the *ERC* suggested that *MERALCO* and *MMPC* discuss and agree on the possible mechanism for the compensation of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. Pursuant to the directive of the *ERC*, *MERALCO* and *MMPC* entered into a Memorandum of Agreement ("*MOA*") covering the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. On July 1, 2020, *MERALCO* received the *ERC* Decision dated November 5, 2019 approving the collection from the customers of the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system in five (5) equal monthly installments and the remittance of the same to *MMPC*, beginning the billing period following *MERALCO*'s receipt of the Decision. As at February 28, 2022, the collection of the payment and remittance of the same to *MMPC* have been completed.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *ERC* has provisionally approved the *PSA* between *MERALCO* and *PEDC* in its Order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit the *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 *MW* from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya outage may bring to end-users. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received

PEDC's Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 28, 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 *MERALCO* and *PEDC PSA*, following the *DOE* Circular entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market" ("*2018 DOE Circular*"), which was published on February 9, 2018.

Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for a *PSA* with *PEDC* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from August 26, 2019 to August 25, 2020. In several Joint Manifestations filed by *MERALCO* and *PEDC*, the parties manifested that the *PSA* will continue until implementation of the new *PSA* resulting from the *CSP*. As at February 28, 2022, the *ERC* has not issued a directive to stop the continuation of the *PSA* pending the conduct of the *CSP*.

On September 30, 2021, *MERALCO*'s Third Party Bids and Awards Committee ("*TPBAC*") published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the *SC* Decision in G.R. No. 227670, and comply with *CSP* prescribed in the *2018 DOE Circular*. 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. The application for approval of the new *PSA* with *PEDC* was filed on January 20, 2022. As at February 28, 2022, the joint application for approval of *MERALCO*'s new *PSA* with *PEDC* is scheduled for hearings on March 8, 2022 and March 15, 2022.

First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Philippines Tanauan Corporation ("*Solar Philippines Tanauan*")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase 1

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar*

Philippines Tarlac was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition,* likewise with respect to *Solar Philippines Tarlac's* motion for the adjustment of the timelines under the *PSA*. In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at February 28, 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 February 28, 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 February 28, 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 February 28, 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) *PSAs* 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) *PSAs* 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 *PSAs* 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 *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 28, 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 *PSAs* with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at February 28, 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 February 28, 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 *IPSAs* with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI's* Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*'s 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSAs*, *MERALCO* also received the *DOE*'s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSAs* were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSAs*, with the filing of the joint applications and *DOE*'s exemption, the mutual obligations to sell and purchase power under said agreements were

implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the *Luzon* Grid by *NGCP, MERALCO* and *MEI,* in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*'s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at February 28, 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 February 28, 2022, the hearings with the *ERC* of the application for approval of the *CSEE* with *PSALM* are on-going.

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. As at February 28, 2022, the joint application for approval of *MERALCO*'s emergency *PSA* with *SPPC* is undergoing virtual pre-filing procedures with the *ERC*.

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project ("*Cagbalete Microgrid Project*")

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 *kW PV* system, 150 *kWh* battery energy storage system and two (2) units of 30 *kW* diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("*PV*") panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province

which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemetal Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at February 28, 2022, *MERALCO* is awaiting further action by the *ERC*.

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*.

29. Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	2021	2020
	(In millions, except per share data)	
Net income (a)	**₱21,300**	₱14,628
Weighted average common shares outstanding (b)	**1,127**	1,127
Per Share Amounts:		
Basic and diluted earnings per share (a/b)	**₱18.90**	₱12.98

Basic and diluted earnings per share amounts are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2021 and 2020.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these parent company financial statements.

30. Other Matters

RCOA

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On March 31, 2014, the *ERC* issued a Resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a Resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *DU*s to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least one (1) *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information 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 March 1, 2021, the *ERC* has yet to respond to *MERALCO*'s letter.

On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled "A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access ("*RCOA*")". In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 *KW* in the preceding 12 months, on a voluntary basis.

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein the *SC* granted the Petition and declared *DOE* Circular No. 2015-06-0010 and *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016 void for lack of legal basis. The *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

Pre-Emptive Mitigating Measure in the WESM

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold ("*CPT*") amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*'s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 28, 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 ("*STAs*")

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*'s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STA*s. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*'s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 *kV* line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC*-Pasig. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale ("*DOAS*") on December 10, 2020, covering the Batch 2 and Batch 4 *STA*s. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated Octobre 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges ("*CC/RSTC*") of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

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	–	Ongoing hearing
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 February 28, 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 February 28, 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 February 28, 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 February 28, 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 *DUs* to provide the mechanism for the "physical connection and commercial arrangements necessary to ensure the success of the *RE* programs", specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs*' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at December 31, 2021, *MERALCO* has already installed 5,034 meters and energized 4,599 net metering customers.

Interruptible Load Program ("ILP")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program", *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program" and *ERC* Resolution No. 3, Series of 2019 "A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules".

As at December 31, 2021, there are 124 companies with a total committed de-loading capacity of 563.09 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 28, 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 February 28, 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 *PSAs* in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

i. Generation project owned by the *DU* funded by grant or donations
ii. Negotiated procurement of emergency supply
iii. Generation project embedded in the *DU*, utilizing indigenous energy resources in the franchise area of the *DU* and subject to a maximum capacity of 10 *MW* per Luzon *DU* and 5 *MW* per Visayas and Mindanao *DU* (introduced by the *2021 Revised CSP Circular*, see discussion below)
iv. Provision of supply in off-grid areas prior to the entry of new power providers
v. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*.

PSAs that were granted exemption from *CSP* by reason of need for emergency supply shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). The *DU*'s *TPBAC* shall be composed of the following (a) one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU*; (b) One (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience

with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU*'s *TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO*'s *TPBAC* captive customer representatives.

Direct negotiations may be made by the *DU*s after at least two (2) failed *CSP*s and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

a. No proposal was received by the *DU*
b. Only one (1) generator submitted an offer
c. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

On October 14, 2021, the *DOE* published a *DOE* Circular entitled "Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market" ("*2021 Revised CSP Circular*"). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced a new alternative mode of *CSP* – a competitive challenge for unsolicited proposals ("*USP*"), if the *USP* offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility's peak demand for the year of the *USP*'s required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

New Technology is defined under the *2021 Revised CSP Circular* as referring to "a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the Circular. Such technology, whether in whole or in part, is compliant to international test standards in the power generation industry."

Under the *2021 Revised CSP Circular*, each *CSP* shall be completed within seven (7) months from the time of the publication of the Invitation to Bid until filing of the *PSA* to the *ERC*.

Meanwhile, following the *2018 DOE Circular*, *MERALCO* constituted its *TPBAC* to conduct *CSP* in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan.

SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the *SC* claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the "*Bayan Muna Petition*"). The *Bayan Muna Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation of the on-going *CSP*s of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the *SC* by representatives of various consumer groups led by the Power for People (P4P) Coalition (the "*P4P Petition*") against the *DOE* and *MERALCO's TPBAC*. The petition claims that the terms of reference for the 1,800 *MW* baseload *CSP* completed in March 2021 are unfavorable to the consumers and non-compliant with the *2018 DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 *MW* baseload *CSP* of *MERALCO*. In a Resolution dated March 18, 2021, the *SC* dismissed the *P4P Petition*. The *SC* held that the issues

raised by *P4P* are factual in nature, which require the *SC* to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that *DOE* has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the *CSP*.

True-up Adjustments of Fuel and Purchased Power Costs ("TAFPPC") and Foreign Exchange-Related Costs ("TAFxA")

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at February 28, 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.

31. Notes to Parent Company Statements of Cash Flows

	2021			2020		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
			(Amounts in millions)			
Beginning balance	**₱13,464**	**₱22,656**	**₱1,101**	₱16,983	₱22,656	₱1,028
Availments	–	**5,000**	–			
Payments	**(360)**	**(2)**	**(14,457)**	(3,539)	–	(16,937)
Dividend declarations	**–**	–	**14,518**	–	–	17,010
Preferred stock redemption	**(1)**	–	**–**	(7)	**–**	–
Interest accretion	**10**	–	**–**	27	–	–
Ending balance	**₱13,113**	**₱27,654**	**₱1,162**	₱13,464	₱22,656	₱1,101

32. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by *RR* No. 15-2010, hereunder are the information on taxes, duties and license fees paid and accrued during the taxable year.

Output VAT

MERALCO is a *VAT*-registered company with total output *VAT* tax declared of ₱10,083 million in 2021 based on the following revenue streams:

Revenue Item	Amount
	(In Millions)
Distribution revenues	₱82,301
Government	1,523
Leases and others	205
	₱84,029

Generation, transmission, and system loss charges, which are part of *MERALCO*'s revenues are pass-through items. *VAT* on such revenues are remitted mainly to *IPPs*, *PSALM* and its successor generator companies, *IEMOP* and *NGCP*, who are responsible for ultimate remittance to the *BIR*.

Input VAT

The amount of *VAT* input taxes claimed are broken down as follows:

	Amount *(In Millions)*
Balance at beginning of year	₱1,042
Add input *VAT* on 2021 purchases from:	
Services lodged under other accounts	3,990
Goods for resale/manufacture or further processing	917
Capital goods subject to amortization	455
Less input *VAT* claimed:	
From goods other than capital goods and services	4,907
Amortization of *VAT* input tax on capital goods	423
Balance at end of year	₱1,074

MERALCO also applied against output *VAT* the amount of *VAT* withheld on payments to non-residents for services rendered in the Philippines of ₱8 million which are duly supported by *BIR* Form 1600.

Importation and Custom Duties

The landed cost of imports amounted to ₱1,443 million and the the related *VAT* and custom duties on imporation paid and accrued amounted to ₱173 million in 2021.

Taxes

The amount of withholding taxes for 2021 amounted to the following:

	Amount *(In Millions)*
Tax on compensation and benefits	₱1,734
Expanded withholding taxes	3,851
Final withholding taxes	332
	₱5,917

Other Local and National Taxes

The following are other local and national taxes paid in 2021:

	Amount *(In Millions)*
Local franchise tax	1,542
Real property taxes	543
Energy tax	323
Fringe benefit tax and others	4
	₱2,412

These taxes are billed and collected on behalf of the national and local governments.

Tax Assessments

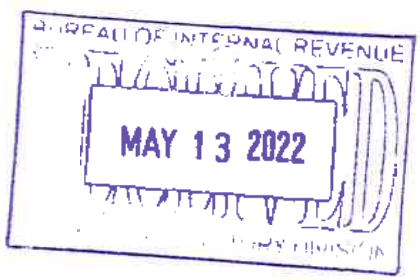
MERALCO does not have any pending assessments for deficiency taxes as at December 31, 2021.

Tax Cases

MERALCO's tax cases as at December 31, 2021 are discussed in *Note 27 - Contingencies and Legal Proceedings.*

33. Event After the Financial Reporting Date

On February 28, 2022, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.



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0 About the Theme

Kalinga reflects One Meralco's heightening commitment to Powering the Good Life for the Filipino. In 2021, as the country hit the reset button and took slow but steady steps towards post-pandemic recovery, the Group was more than ever relied upon to energize the economy and to keep the lights on for millions of households and businesses—giving them access to fairly priced and life-sustaining energy when they needed it most. Beyond ensuring that it meets the present needs of its customers and communities, One Meralco cares profoundly about creating a future where Power, Planet, People, and Prosperity—the four pillars of its sustainability agenda—come into balance. One Meralco demonstrates this by accelerating its transition to clean energy in the decades to come, with a vision to be coal-free by 2050, while promoting the well-being of its communities through electricity.

Kalinga cradles One Meralco's reason for being. Building upon last year's Sustainability Report, *Live Life, Kalinga* shows the Group's deepest motivation for the decisive action necessary to transform its business into a sustainable enterprise while uplifting the lives of its stakeholders. Care and compassion are the beacons that will light the way for One Meralco's journey ahead.

1 About the Report

The 2021 Meralco Sustainability Report (SR) showcases the heightened commitment of Meralco and its subsidiaries (hereafter referred to collectively as "One Meralco" or "the Group") towards sustainable development. This report contains data and discussions on various environmental, social, and governance (ESG) issues that are relevant to One Meralco's businesses and stakeholders.

In 2021, One Meralco adopted more rigorous materiality and data collection, analysis, and verification processes to better gauge and articulate how sustainability is embedded in the Group's strategies and operations.

This report is best read in conjunction with the 2021 Meralco Annual Report, *Bayanihan*, which highlights the Group's financial and operational performance, as well as the 2021 One Meralco Foundation (OMF) Annual Report, *Malasakit*, which provides details on OMF's initiatives and accomplishments.

1.1 Scope and Coverage

GRI 102-46 | GRI 102-50 | GRI 102-52

This SR covers One Meralco's consolidated ESG performance from January 1, 2021, to December 31, 2021. It also includes available ESG data of Meralco and its subsidiaries from 2019 and 2020 for comparability and has undergone internal verification by the Meralco Sustainability Office as part of the Group's dedication to bringing its data quality to the highest levels. All reported greenhouse gas (GHG) emissions data were accounted for and disclosed using the equity share consolidation approach[1] prescribed by the GHG Protocol.

[1] Under the equity share approach, a company accounts for GHG emissions from operations according to its share of equity in the operation. The equity share reflects economic interest, which is the extent of rights a company has to the risks and rewards flowing from an operation.

1.2 Reporting Frameworks and Standards

GRI 102-54

Global Reporting Initiative (GRI) Standards

This report has been prepared in accordance with the GRI Standards: Core option. The GRI Standards are the world's most widely used sustainability reporting framework, enabling organizations across the globe to disclose their ESG impacts on stakeholders in an empirical and comparable manner.

Sustainability Accounting Standards Board (SASB) Standards

This SR has also been developed in adherence to the SASB Standards for Electric Utilities and Power Generators. The SASB Standards require disclosure of sector-specific data that are financially material to all organizations within an industry.

Task Force on Climate-Related Financial Disclosures (TCFD) Guidance

This report marks the first time One Meralco fully adopts the disclosure recommendations of the TCFD. Section 4.4 discusses in detail the Group's governance structures and policies, strategies, risk management system and processes, as well as metrics and targets related to climate change.

1.3 Reporting Principles

In addition to adopting the GRI Standards, SASB Standards, and the TCFD Guidance, the 2021 Meralco SR has been prepared in line with the AccountAbility AA1000 Principles by:

- **Materiality** – Identifying ESG topics material to One Meralco and disclosing performance on these topics within the reporting period;
- **Inclusivity** – Understanding the key expectations and concerns of stakeholders through various stakeholder engagement channels;
- **Responsiveness** – Ensuring complete, accurate, and timely coverage of the information presented in the report; and
- **Impact** – Being accountable for the Group's impact throughout its operations and value chain and mapping its contribution to the United Nations' Sustainable Development Goals.

1.4 External Assurance

GRI 102-56

One Meralco engaged DNV for the third-party verification of this report. DNV validated the content of this SR through a rigorous process consisting of (1) discussions with Meralco's Chief Sustainability Officer, unit heads, and data providers and (2) an independent audit of ESG data disclosed in this report.

1.5 Contact Information

GRI 102-3 | GRI 102-53

Your comments and insights are valuable to One Meralco. Any feedback on this report and matters pertaining to the Group's ESG performance may be addressed to:

Meralco Sustainability Office
Lopez Building, Meralco Center
Ortigas Avenue, Barangay Ugong
Pasig City 1605, Philippines

Telephone: +632 1622 3552
Email: group.sustainability.office@meralco.com.ph

2 Message from the Chairman, the President & CEO, and the Chief Sustainability Officer

GRI 103-1 | GRI 103-2 | GRI 103-3 | GRI 102-14

CHARGING TOWARDS A BETTER AND BRIGHTER NORMAL

In 2021, the world saw the light at the end of the tunnel.

As COVID-19 loosened its grip, we started to step out of the comfort and relative safety of our homes. We witnessed new businesses open and old enterprises adapt to an evolving landscape. Shopping malls, sports facilities, and even churches nearly empty for over a year finally bustled again with activity.

We endeavored to make up for lost time. And in many respects, we began to once again live life.

As we emerged from the shadows of 2020, we faced 2021 with full brightness of hope and a burning desire for action. As a people, we heeded the call to get vaccinated as almost 50 million Filipinos were inoculated against COVID-19. Close to PhP 23 billion of *ayuda* was extended to millions across the country, and not a few set up community pantries that saw the best of our *bayanihan* spirit come alive. By the end of the year, more than a million workers were brought back to the active labor force, and our economy posted a promising 5.6% GDP growth.

Indeed, we witnessed our nation's recovery and upward trajectory—lights that had been dimmed for a year shone bright once more.

As One Meralco, we are proud to have played a vital role in this recovery by providing life-giving energy to all we serve, ushering the country into a better and brighter normal. As we entered a new chapter, we welcomed the challenges—and opportunities—with greater inspiration to go beyond and to serve with profound care.

In this 2021 Sustainability Report, aptly titled *Kalinga*, we highlight how, in a year of recovery and growth, we advanced our sustainability agenda not only by intensifying our efforts to serve our customers and communities with concern and compassion but also by heightening our initiatives to protect and preserve the planet.

We seized opportunities to expand and elevate our sustainability commitment to support and nurture our stakeholders while also taking great care of our one and only home.

Expanding Our Contributions to the Global Goals

The United Nations' Sustainable Development Goals (SDGs) continue to guide our thrust towards becoming a sustainable enterprise. As the Philippines' largest and leading electric distribution company, we in Meralco are uniquely positioned to advance **SDG 7: Affordable and Clean Energy**, as we increasingly strive to provide unhampered access to fairly priced, dependable, and earth-friendly energy. Beyond SDG 7, we also enable enduring progress by contributing to at least 10 other Global Goals through our various businesses and initiatives.

As part of our deepening commitment to the SDGs, 2021 also saw us embed sustainability as one of the Group's core values, fully embraced by all in One Meralco—from our Board of Directors down to our frontline crews and service personnel. Enshrining sustainability within our core—aligned with our continuous support to the United Nations Global Compact and its Ten Principles—further energizes us to power our communities, safeguard our planet, inspire our people, and create prosperity for all.

Scaling Our Impact Across the 4Ps

Powering the Good Life continues to serve as our blueprint in developing strategies and programs to fulfill our mission of providing our customers the best-value energy solutions—reliably, affordably, superbly, and sustainably. In particular, as you will see in this report, in 2021, we delivered energy vital and indispensable to a recovering economy; we helped safeguard and heal Mother Earth through innovation; we continued to care deeply for our co-workers—the women and men of One Meralco; and we powered better lives as we engaged and enabled our constituents and communities.

Elevating Our Commitment to Climate Action

Beyond ingraining sustainability in the here and now, we are also keenly focused on the future. As the world responds to the climate crisis with increasing urgency, we welcome the opportunity to step up our sustainability agenda and ambitions. While world leaders upped their pledges and targets on climate change mitigation and adaptation at the 26th United Nations Climate Change Conference (COP26) in Glasgow, United Kingdom, we in One Meralco also crafted our own **long-term sustainability strategy**. This strategy is underpinned by our **just, orderly, and affordable transition to clean energy**, beginning today and spanning three horizons. Ultimately, we aspire and will drive to be coal-free by 2050.

Running in parallel to our thrust to reduce emissions is our social commitment to promote the well-being of communities with electricity as an enabler across five social impact areas.

These crucial transformations are at the crux of our sustainability journey. While we are confronted with economic, regulatory, and technological challenges inherent in the power sector, we have established strong governance structures to guide and enable us in the execution of our strategy.

Institutionalizing Sustainability Leadership in Our Organization

2021 saw Meralco integrating sustainability in Board-level decision-making through the creation of our Sustainability Committee. The Committee oversees One Meralco's overall sustainability strategies, policies, programs, and investments, ensuring that these align with the SDGs and with our mission to power the good life for our stakeholders.

In addition, in August 2021, Meralco's senior management identified and appointed 24 Sustainability Champions tasked to cascade and enable sustainability initiatives across the Company's business units and subsidiaries.

Indeed, these governance bodies are some of the main levers that move our sustainability agenda from aspiration to concrete action.

Serving the Nation with Care and Compassion

As we forge ahead, we are committed to accelerating our sustainability transformation while meeting the needs of our recovering nation. We likewise set our vision towards co-creating a society with all the hallmarks of enduring and meaningful progress—where people, young and old, reach and live their best lives. This is the essence of One Meralco's *kalinga*—to provide and power more life to sustain the Filipino.

Sa sama-sama nating pagbangon muli, narito ang One Meralco na patuloy na kakalinga at tatanglaw sa ating mga tahanan, paaralan at tanggapan tungo sa higit na maliwanag na bukas.

MANUEL V. PANGILINAN
Chairman of the Board

RAY C. ESPINOSA
President & CEO

RAYMOND B. RAVELO
Chief Sustainability Officer

3 One Meralco: Powering Lasting Progress

3.1 Company Profile

GRI 102-1 | GRI 102-3 | GRI 102-4 | GRI 102-5 | GRI 102-6 | GRI 102-7

One Meralco continues to strengthen its commitment to delivering and enabling the good life for all by driving meaningful and inclusive growth through its business units and subsidiaries. The Group recognizes that sustainable progress can be achieved only through active collaboration across all its areas of expertise, including power generation and distribution, electric transport, telecommunications, digital payment services, engineering, construction, logistics, and manpower services. As such, in 2021, One Meralco introduced more sustainable and innovative solutions and offerings across its businesses to power—and empower—the millions of Filipinos that depend on the Group's vital services.

A. Energy Value Chain

Manila Electric Company (Meralco)

Meralco is the premier electric distribution utility in the Philippines. Headquartered in Pasig City, the Company provides energy to the entire areas of Metro Manila, Bulacan, Cavite, and Rizal as well as to parts of the provinces of Batangas, Laguna, Pampanga, and Quezon. Meralco's coverage spans about 9,685 square kilometers, reaching nearly 7.41 million residential, commercial, and industrial customers.

Meralco contributes to the Philippines' sustainable growth by electrifying government offices, central business districts, educational and health institutions, and industrial parks. It also powers the country's unserved or underserved communities. As part of Meralco's goal to serve the country's growing demand for greener power, the Company contracted 3% of its power supply from clean energy sources in 2021 and will continue to increase the share of renewable energy (RE) in its fuel mix in the years to come.

Meralco PowerGen Corporation (MGen)

MGen seeks to address the country's increasing energy demand by building a diverse power generation portfolio of up to 3,000 MW to provide sufficient, reliable, and cost-competitive energy supply. Its San Buenaventura Power Ltd. Co. (SBPL) power plant, MGen's first major investment to help ensure energy security, pioneered the use of high-efficiency, low-emissions (HELE) coal technology in the Philippines. In the second quarter of 2021, MGen fully acquired Global Business Power Corporation (GBP), expanding its operations and reach beyond Luzon.

MGen Renewable Energy, Inc. (MGreen)

MGreen is a wholly owned subsidiary of MGen, established to serve as Meralco's platform for investments in utility-scale RE. MGreen aims to develop and operate clean and green power plants across multiple technologies, including solar, wind, and hydropower. MGreen will lead One Meralco's drive to build an RE portfolio of up to 1,500 MW by 2027.

MPower

MPower is Meralco's local retail electricity supply (LRES) unit that serves contestable customers, including the country's top corporations, within the Company's franchise area. Lauded for its best-in-class service and reliable and stable power supply, MPower has established lasting partnerships with its customers and enjoys a market share of nearly 28% of the country's total Competitive Retail Electricity Market (CREM) in MW demand. MPower also manages a diversified supply portfolio and is actively increasing the share of solar and hydro energy sources in its supply portfolio to complement traditional sources of power.

As the pandemic compelled critical government offices, businesses, and schools to turn to the cloud to continue delivering services, the migration to digital platforms caused a surge in data demand. Data centers, which house servers powering the cloud, consume massive amounts of energy to support its 24x7 cooling and power needs. To ensure data centers do not compete with grid supply for residential customers and do not accelerate coal-fired power generation, MPower was tapped to supply RE to the country's largest data centers.

As it strengthens its footing in the data center industry—helping position the Philippines as the next hyperscaler[2] destination in the Asia-Pacific region—MPower enables the local telecommunication industry to fortify its digital infrastructure to the standards sought by global hyperscalers looking to expand their operations in the country while helping the sector achieve its goal to decarbonize.

Vantage Energy Solutions and Management, Inc. (Vantage Energy)

Vantage Energy is Meralco's first affiliate Retail Electricity Supplier (RES) which operates in Luzon and the Visayas. Established in 2017, it supplies energy to contestable markets where Retail Competition and Open Access (RCOA) is in effect. In recent years, the Company's retail portfolio has grown significantly, ably serving the energy needs of over 50 customers. Adhering to its mission to provide stable, reliable, and quality electricity service, Vantage Energy is recognized as an emerging RES of choice in the CREM nationwide.

MSpectrum, Inc. (Spectrum)

Established in 2016 as part of Meralco's thrust to promote RE solutions, Spectrum provides earth-friendly, affordable, and safe solar energy products and services. Spectrum is the market leader in the industry with a total installed capacity of 39 MW across 261 solar projects nationwide. The Company recently launched three new verticals: (1) Spectrum Home for residential customers, (2) operations and maintenance services for existing RE installations, and (3) microgrid solutions for off-grid customers. Going forward, Spectrum will also explore other small-scale RE sources and technologies such as battery energy storage systems.

[2] Hyperscalers provide cloud, network, and internet services at scale by offering organizations across the world access to widescale digital systems via an Infrastructure-as-a-Service model. Examples of today's hyperscalers include Google, Microsoft, Facebook, Alibaba, and Amazon.

Clark Electric Distribution Corporation (Clark Electric)
Clark Electric distributes power in the Clark Special Economic Zone (CSEZ), the site of the former U.S. Clark Air Base, which was transformed into a major economic district comprising the Clark Freeport Zone and contiguous subzones. Clark Electric aspires and strives to transform the CSEZ into a leading powerhouse for industry, aviation, export business, and higher learning as well as into Central Luzon's hub for leisure, entertainment, and gaming.

Comstech Integration Alliance, Inc. (Comstech)
Comstech operates the Pampanga II Electric Cooperative (PELCO II) under an investment management contract, serving the city of Mabalacat and municipalities in Pampanga. PELCO II seeks to be the trusted energy partner for local government units in Pampanga, enabling and advancing their growth spurred by new commercial and industrial locators. In addition, PELCO II sustains communities by providing electricity to resettlement areas in select areas in Pampanga.

Shin Clark Power Holdings, Inc. (Shin Clark)
Shin Clark is responsible for the financing, development, operation, and maintenance of a smart electric distribution system covering over 9,450 hectares of land through a Joint Venture Agreement with the Bases Conversion and Development Authority (BCDA). It collaborates with the BCDA to achieve its vision of showcasing the New Clark City as the first smart, sustainable, and disaster-resilient metropolis in the Philippines. Shin Clark aims to provide reliable and affordable energy to one (1) million customers by 2024.

Meralco Ecozone Power (MEP)
MEP is responsible for the operation, construction, and maintenance of the Philippine Economic Zone Authority (PEZA) Cavite Economic Zone's (CEZ) electric distribution system. In compliance with the Department of Energy (DOE), the Energy Regulatory Commission, and PEZA regulations, MEP provides electricity-related services for CEZ locators, including service application, meter reading, rate computation, billing, collection, delinquency management, and service irregularity management.

B. Energy-Related Services

Meralco Energy, Inc. (MServ)
As one of the country's largest electromechanical contractors, MServ serves as a one-stop shop for engineering, procurement, and construction (EPC) and urban services as well as for energy and operational efficiency solutions. Delivering reliable, value-engineered end-user facilities for critical structures (including substations, powerhouses, and low-voltage facilities), MServ is known for innovative solutions in energy management, building automation, and safety and security, as well as installation of wastewater treatment systems. It is a Category AAA Philippine Contractor Accreditation Board (PCAB)-licensed company and a DOE-accredited energy service company.

MServ is also the lead integrator of One Meralco's hyperscaler services. Harnessing the synergy between MPower, MIESCOR, Radius, and Spectrum, MServ enables the Group to offer a full end-to-end service to hyperscalers—from site assessment to construction—by providing EPC and energy efficiency solutions.

CIS Bayad Center, Inc. (Bayad)

In 2021, Bayad Center rebranded to Bayad to become the Philippines' premier multi-channel payment platform, providing more than 40,000 payment touchpoints and enabling the bills payment features of leading online and mobile applications. In response to Filipinos' shift in payment preferences from offline to online, Bayad developed and launched innovative solutions such as Bayad App, Bayad Online, Bayad Checkout and Express, and very soon, Bayad's Trade "Asenso" Mobile App—cementing its position as one of the country's most trusted payment service providers. Additionally, it expanded its bills payment platform to provide inclusive financial services such as remittance, prepaid loading, airline ticketing, loan payout, and ATM cash withdrawal as well as insurance and medical reimbursements.

Bayad also provides outsourced tellering and customer services to over 800 client sites nationwide through its subsidiary Customer Frontline Solutions.

eSakay, Inc. (eSakay)

Advancing the future of electric vehicles (EV) in the Philippines, eSakay offers and integrates a wide range of EV solutions—from electric cars, vans, buses, jeeps, and shuttles to micro-mobility units such as electric motorbikes and kick scooters. The Company's green mobility solutions likewise include the supply, operation, and maintenance of EV charging infrastructure. eSakay continues to support the Department of Transportation's Public Utility Vehicle Modernization Program, which aims to promote cleaner public transport options and provide stable livelihood to thousands of public utility drivers and operators across the country.

C. Infrastructure Services

Meralco Industrial Engineering Services Corporation (MIESCOR)

As a leading provider of electromechanical works, engineering, distribution utility, and technical services in the Philippines, MIESCOR undertakes complex projects in the telecommunications, energy, and water utility sectors. The PCAB places MIESCOR in the highest AAAA category for general engineering building, foundation work, structural steelwork, electrical work, mechanical work, and communication facilities. The Company operates two subsidiaries: MIESCOR Builders, which offers general engineering, electrical, civil, and mechanical services; and MIESCOR Logistics, which provides logistics services in construction, maintenance management, transport, and manpower sectors.

MIESCOR also recently ventured into the telecommunication infrastructure sector through MIESCOR Infrastructure Development Corporation (MIDC), a joint venture between MIESCOR (which has a 51% stake in the company) and US-based Stonepeak Infrastructure Partners (which owns the remaining 49%). Leveraging MIESCOR's expertise in EPC, MIDC aims to be a major player in the common tower space by servicing the country's leading mobile network operators. MIDC is duly recognized and licensed by the Philippine Department of Information and Communications and Technology to provide services on tower construction, site acquisition, site permitting and erection of towers, and tower management required by telecommunications companies.

Radius Telecoms, Inc. (Radius)

Radius operates one of the largest end-to-end fiber optic networks in the country, leading the Philippine telecommunications industry in unlocking equitable development through efficient connectivity. In 2021, Radius continued its business expansion by enhancing its focus on digital innovation and service offerings beyond its physical network footprint. The Company also launched its Optical Transport Network (OTN) that maximizes its current network capacity to support high-bandwidth requirements, especially with the emergence of hyperscalers. Radius likewise ventured beyond its core business of data, internet, and managed services to provide cloud-related services, Software-Defined Wide Area Network (SD-WAN) solutions, and Security as a Service (SECaaS), an offering that provides clients ease and flexibility in monitoring and addressing threats and vulnerabilities in their operations.

RED Fiber is Radius' latest internet service made available to the residential market. It runs on a 100% pure end-to-end fiber network that utilizes Gigabit Passive Optical Network (GPON) as a last-mile technology. RED Fiber's Dual Play service, in partnership with CignalTV, the country's leading direct-to-home satellite provider, provides a wide array of high-definition Internet Protocol TV channels. RED Fiber showcases the technological prowess of fiber optic by delivering high-speed internet and content using the same link without compromising performance.

3.2 Sustainability Recognition

Since 2020, One Meralco has been recognized by various sustainability and business organizations around the world through ESG awards, rankings, and ratings. Receiving acclaim from stakeholders and award-giving bodies is a testament to the Group's earnest commitment to and distinguished performance in sustainability.

Meralco's maiden 2019 Sustainability Report (SR), *Sustaining the Future*, received the following accolades:

AWARD	CATEGORY	AWARDS PROGRAM
Bronze Stevie Award	Best Annual Report	2020 International Business Awards (IBA)
Gold Rank	International Companies	2020 Asia Sustainability Reporting Rating (ASRRAT)
Gold Stevie Award	Innovation in Annual Reports	2021 Asia-Pacific Stevie Awards
Excellence Award	Publications	18th Philippine Quill Awards

Meanwhile, the Company earned the following recognition for its 2020 SR, *Live Life*:

AWARD	CATEGORY	AWARDS PROGRAM
Silver Stevie Award	Best Annual Report	2021 IBA
Gold Rank	International Companies	2021 ASRRAT
Silver Anvil	Public Relations Tool	57th Anvil Awards
Gold Stevie Award	Innovation in Annual Reports	2022 Asia-Pacific Stevie Awards
Excellence Award	Publications	19th Philippine Quill Awards

On top of the awards received by Meralco for its two SRs, the Company also gained recognition at the 18th Philippine Quill Awards for its sustainability communication initiatives in 2021:

AWARD	CATEGORY	ENTRY
Excellence Award	Internal Communication	"Meralco Goes Green"
Excellence Award	Community Relations	"CovidComms 2020: Green Transport for Frontliners"
Excellence Award	Corporate Social Responsibility	"KKK Towards a Green Future"
Merit Award	Leadership Communication	"Power Up Forum - Sustainability Edition"
Merit Award	Media Relations	"Meralco's revitalized renewable energy push for solar microgrids"
Merit Award	Community Relations	"The Good Store: A Commitment to Sustainability"

A number of Meralco subsidiaries have also been recognized for their valuable contributions to sustainable development. In 2020, Spectrum received a Bronze Award at the Zuellig Pharma Supplier Sustainability Awards for providing reliable solar energy solutions to its commercial and industrial customers. The following year, MPower was likewise recognized with a Gold Award in the same awards program for its various social responsibility initiatives (including its Kinder Classroom Project and CommuniTrees Program). These awards demonstrate One Meralco's dedication to inspiring and enabling its business partners in their own sustainability journeys through collaboration and synergy.

In addition to these accolades, Meralco saw improvements in its ESG ratings in 2021 after the release of its 2020 SR:

- **FTSE Russell** score increased from 2.6 in 2020 to 3.2, on a scale of 0 to 5 (with 5 being the highest), with strong performance in the following areas:
    - Risk management
    - Labor standards
    - Corporate governance
- **Sustainalytics** score improved from 40.7 in 2020 to 31.4, on a scale that rates the exposure of a company to ESG risks (with 0 indicating zero risk and 100 the highest risk), with strong performance in the following criteria:
    - Human capital
    - Biodiversity and land use
    - Customer service

Notably, Meralco is the second Philippine power company to be included in the FTSE4Good Index Series. Launched in 2001 by FTSE Russell, the FTSE4Good Index Series is a market-leading ESG index for investors who seek to invest in companies demonstrating outstanding sustainability practices. It supports investors in aligning portfolios with their ESG values and advocacies. Being a FTSE4Good Index constituent enhances investor and shareholder confidence, attracts a broader base of institutional investors, enhances corporate reputation, and validates the alignment of corporate practices with global ESG standards.

4 Sustainability at One Meralco: Powering Better Lives for All Through Excellence

One Meralco's commitment to sustainability is supported and driven by its decisive leadership and unwavering dedication to serving its stakeholders with excellence. In the past two years, the Group has made significant strides towards becoming a sustainable enterprise, building a solid foundation upon which to strategically accelerate its transformation in the decades ahead.

Delivering on its customers' immediate needs and achieving profitability—all while driving the business towards a low-carbon future—are no easy feat. The people behind One Meralco—its Board of Directors, senior managers, line crew, customer care representatives, partner communities, and all the players throughout its value chain—are coming together and powering through this journey, energizing the Group as it changes course and acts upon its sustainability agenda of *Powering the Good Life.*

This section outlines One Meralco's sustainability journey and the roadmap that will get the Group and its stakeholders towards a future where Power, Planet, People, and Prosperity exist in balance and harmony.

4.1 Sustainability Agenda and Framework

One Meralco recognizes that a robust and comprehensive approach is integral to driving a meaningful and impactful sustainability journey. As such, the Group established a sustainability agenda, captured by the phrase *Powering the Good Life*, which is supported by four pillars: Power, Planet, People, and Prosperity. This agenda, which is core to and drives One Meralco's vision, guides the Group's pursuit of genuine progress towards the achievement of the United Nations' Sustainable Development Goals (SDGs).

POWER

Providing energy for all, always. One Meralco delivers affordable, accessible, reliable, and clean energy to all, with a special focus on bringing power to unserved and underserved communities.

PLANET

Protecting and preserving Mother Earth. One Meralco safeguards the health of the planet by reducing its impact on the natural environment.

PEOPLE

Nurturing sustainability from within. One Meralco promotes a shared vision and understanding of sustainability within the organization while ensuring the holistic development of employees in a safe and inclusive workplace.

PROSPERITY

Creating better lives for all. One Meralco brings meaningful and enduring value to all its stakeholders, ensuring no one is left behind.

VISION: *To be a world-class energy solutions provider, powering our nation and empowering our people today and for generations to come*

POWERING THE GOOD LIFE

PHILOSOPHY

Guiding principles for Meralco's sustainability agenda

BUSINESS
Sustainability at the core of strategy and operations

BASIS
Scientific approach to measuring and managing sustainability performance

BALANCE
Meeting corporate goals while achieving sustainability objectives

PILLARS

Strategic impact areas

POWER
Providing energy for all, always

PLANET
Protecting and preserving Mother Earth

PEOPLE
Nurturing sustainability from within

PROSPERITY
Creating better lives for all

APPROACH

Continuous cycle of activities that contribute to sustainable development

4.2 Sustainability Reporting Process

One Meralco believes that measuring and disclosing its sustainability performance is key to accelerating the pace with which it achieves its goal of powering good lives for Filipinos. As such, it continues to enhance and enrich its environmental, social, and governance (ESG) reporting using globally recognized reporting standards to effectively track and manage its performance and progress.

In 2021, apart from strengthening its focus on the GRI Standards and fully adopting the SASB Standards for Electric Utilities and Power Generators, One Meralco embraced the TCFD Guidance to improve its oversight and management of climate-related risks and opportunities. Aligning the Group's disclosures with the TCFD's recommendations informs critical investment decisions in the long term as One Meralco addresses physical and transitional climate risks.

One Meralco employs a methodical and comprehensive process in crafting its annual sustainability report (SR) to ensure that all data and information presented are accurate and sufficiently capture the Group's ESG performance. This scientific approach includes a series of sustainability sessions, workshops, and assessments involving the Group's senior management, unit heads, and data providers.

A. Materiality

GRI 102-46 | GRI 102-47 | GRI 102-49

Each year, One Meralco evaluates ESG issues deemed most material to its businesses in light of stakeholder concerns and global best practices. In the assessment process, key stakeholders from the Group's business units review, discuss, and validate (1) global, national, and industry sustainability contexts affecting One Meralco, (2) ESG reporting standards and local reportorial requirements, and (3) key sustainability risks and opportunities. Through this exercise, One Meralco ensures that the ESG topics it deems material are relevant and aligned with the imperatives and expectations of the Group's stakeholders.

In 2021, One Meralco's material ESG topics (initially identified in 2019) were re-evaluated and integrated into the Group's sustainability agenda:

One Meralco avails of the GRI's Materiality Disclosures Service by the end of each reporting cycle to ensure that its disclosures are aligned with the GRI Standards and are accurately presented in the content index of the SR.

B. Stakeholder Engagement

GRI 102-21 | GRI 102-40 | GRI 102-42 | GRI 102-43 | GRI 102-44

Meralco's sustainability agenda is made stronger by its stakeholders' collective voice and action. As the country's premier power distribution company, Meralco impacts the critical operations of the government and private firms—the sectors most capable of driving the country towards sustainable development. In addition, a good majority of the population working from home relies upon Meralco to power their productivity. Households with children studying online also depend on the Company to light up their homes. Meralco also delivers on expectations set by its own employees and investors.

To ensure that it continues to optimally serve its stakeholders, Meralco keeps a close pulse on what truly matters to them. The Company arranges high-level dialogues and town hall meetings and taps various feedback channels to enrich Board- and management-level decision-making with stakeholder feedback. Information gleaned from top to bottom and bottom-up informs Meralco's corporate decisions and helps widen its positive ESG impacts.

CUSTOMERS

Customers inspire Meralco's passion for excellence.

Meralco's success is measured by the experience of its nearly 7.41 million-strong customer base.

With the economy reopening last year, Meralco witnessed a healthy surge in transactions and customer inquiries. The Company was not only ready to respond to the increase in activities, it also welcomed the people's electrifying excitement to reconnect and carry on with work, business, and life all over again. Meralco proactively improved its customer care processes and platforms and, as a result, delivered exemplary customer service amid a 38% increase in inquiries in its Business Centers and successfully processed payment-related transactions which were up by 45% versus the previous year.

To make this happen, Meralco launched initiatives that improved its customer service delivery, including:

- **Customer 360.** In 2021, the Company launched Customer 360, an integrated customer profiling system that informs Meralco's customer care representatives about every stage of the customer's journey, enabling better and more tailored service. Customer 360 eliminated the hassle of people having to reiterate details of their complaints regardless of who is answering on the other line. Through this platform, Meralco is a step ahead in complaint resolution by first knowing the customer and then the concern without having to be told repeatedly. Moreover, Customer 360 aggregates customers' data across the organization and makes it easily accessible at every interaction, leading to more effective customer service.

- **Digital communication platforms.** In 2021, Meralco continued to leverage digital means to interface with its customers. The Company's call center hotlines and other digital customer care channels remained available 24×7×365.

  Through its call center hotline, in 2021, Meralco received a voice traffic of 1,344,654 calls (comprised of inquiries, complaints, and requests), with an answer rate of 95%, up from 84% in 2020. A total of 1,079,868 official customer cases were created from these calls, more than 99.9% of which were resolved, compared with 99.8% in the previous year.

  Meanwhile, through its other digital channels—live chat, email, social media, SMS, and Meralco Online—the Company responded to a total of 772,241 concerns in 2021. All of these concerns were answered and created into official cases. A near-perfect resolution rate was recorded in 2021 versus 94% in 2020, signifying Meralco's enhanced customer service management.

- **Bill revamp.** As part of Meralco's customer-centricity efforts, the Company introduced a new design to the Meralco bill to help its customers better see their important customer information (including their Customer Account Number) and easily understand their historical electricity consumption. The Company also included information about the environmental impact of the customer's consumption in the revamped Meralco bill to further encourage energy conservation

and promote awareness regarding its equivalent emissions and the number of trees needed to offset these emissions.

As the needs and preferences of its customers shift and evolve, Meralco will continue to heighten customer experience through innovation fueled by a deep commitment to customer-centricity.

COMMUNITIES

Meralco seeks to uplift the communities it serves by providing them with opportunities for sustainable growth.

Led by the One Meralco Foundation (OMF), Meralco contributes to the communities it impacts through social responsibility programs. In 2015, when the United Nations' Sustainable Development Goals (SDGs) were unveiled as a global framework to address the world's most-pressing development challenges, OMF pivoted its programming from corporate giving towards fostering sustainable growth in its communities. Continuing its work and mission to make the future brighter for the Filipino people, OMF launched initiatives aimed at improving the quality of life of unserved and underserved communities.

In 2021, OMF continued to drive:

- The **Household Electrification Program** and the **School Electrification Program**, which delivered life-giving energy to 7,509 homes and 16 educational institutions within Meralco's franchise area;
- The **MVP Academic Achievement Awards**, which allowed 305 young Filipino students to enroll in schools through financial aid scholarships from OMF; and
- **Power restoration efforts**, where OMF supported Meralco's Networks organization in enabling six (6) electric cooperatives to re-establish electric service in calamity-struck communities during the 2021 typhoon season.

Additionally, in support of Meralco's thrust to bring prosperity to all its stakeholders, MGen continued implementing its own CSR programs in 2021, serving marginalized communities surrounding its power plants. For instance, the Company, in partnership with the GT Foundation, donated a two-classroom building to the NJ Ingore Elementary School in La Paz, Iloilo City, and another one to the North City Central School in Toledo City, Cebu. Each classroom could accommodate up to 40 students and came completely furnished with desks, chairs, teacher's tables, cabinets, electric fans, and even a smart TV.

Through community upliftment initiatives, One Meralco will continue to act and deliver on its commitment to enabling prosperous communities by helping alleviate poverty, empowering the vulnerable, and enabling younger generations to build brighter futures for themselves.

EMPLOYEES

Meralco walks the talk on sustainability by ensuring equitable and purposeful growth of its employees.

Among the Company's stakeholders are its own employees—more than 6,200 women and men—who are Meralco's true power source. Meralco's employees generate the energy and inspiration the Company constantly needs to enable the Filipino people's progress in harmony with the planet. As such, it is imperative for Meralco to create and nourish within itself an ecosystem of leaders and employees—from its Board of Directors down to its line crews—who take the Company's mandate to heart, charging them onward as they perform their duties day in, day out.

Institutionalizing a people-oriented culture

Fundamental to Meralco's thrust to nurture sustainability from within, the Company upholds labor rights by ensuring that a regular collective bargaining agreement (CBA) is exercised between employees and management. Communication channels are also established to enable senior leaders to listen to and empower its employees, ultimately resulting in a motivated workforce with a deep sense of satisfaction and belongingness in their work.

Meralco also fosters sustainability within its ranks by ensuring the safety of its employees. The Company champions employee welfare by institutionalizing occupational health and safety policies and programs such as the Target Zero: Zero Incident, Zero Harm Program, which covers all of Meralco's employees and other workers.

In addition, to ensure that employees reach their maximum potential, Meralco offers its employees learning opportunities to continuously support their professional development. These include internal courses and webinars provided by the Company's Human Resources team as well as external training programs and conferences. To promote holistic growth and the value of *malasakit*, employees are also encouraged to give back to communities through volunteerism initiatives spearheaded by OMF, including tree planting activities, fund-raising initiatives, and calamity relief efforts.

Aside from ensuring the welfare and growth of its employees, Meralco nurtures a culture of openness, believing that a diversity of perspectives leads to innovation and keeps the Company's direction relevant to the needs of its stakeholders. As well, Meralco empowers its people to constructively engage with each other—across the board and regardless of seniority—to resolve work-related issues through platforms such as union and town hall meetings, where employees can freely voice their concerns and questions on a range of policy, workplace, and administrative matters.

Reflecting the people's voice in Meralco's sustainability reporting

Meralco initiates a comprehensive internal engagement process as part of its annual sustainability reporting cycle. This outreach is guided by the vision that the Company's workforce should be actively involved in the development and advancement of Meralco's sustainability agenda and how it is communicated to the Company's stakeholders. In 2021, the Meralco Sustainability Office spearheaded the following activities:

Senior Management Session

Business unit and subsidiary heads across One Meralco participated in a two-part workshop aimed at informing them about important developments in the sustainability space as well as inspiring them to embed sustainability in their personal and professional lives. The Group's senior management learned and discussed global and local sustainability challenges and trends, shared organizational best practices, and explored the significance and relevance of the SDGs through the globally renowned 2030 SDGs Game, which involved a simulation of real-life sustainability negotiations. The Senior Management Session also involved securing the leaders' feedback on and approval of the Group's refreshed material ESG topics and sustainability reporting plans.

Management Approach Sessions

One Meralco's unit heads and data providers were likewise given the same opportunity to participate in a two-part workshop to discuss the importance and effect of sustainability reporting on the Group's business. Participants were also taught how to effectively communicate One Meralco's sustainability performance through data and storytelling.

TCFD Workshops

One Meralco's heightened commitment to understanding its most significant climate-related risks and opportunities compelled the Group to integrate the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) into its ESG reporting. Two workshops were held with relevant internal stakeholders to discuss and align on the various TCFD requirements.

By putting its employees first, Meralco exemplifies its commitment to nurturing sustainability from within, ensuring that workers' rights are respected, employee health and safety are prioritized, holistic professional growth is fostered, and an open and transparent communication across all levels of the organization is cultivated.

INVESTORS & SHAREHOLDERS

Investors and shareholders bring Meralco's sustainability performance to greater heights.

Investors and shareholders play a vital role in Meralco's continuing transformation towards sustainability. By providing them complete, accurate, and up-to-date information about the Company's financial and ESG performance and engaging them to provide strategic guidance, Meralco ensures that its investors and shareholders take an active role in the Company's growth as a sustainable enterprise.

In 2021, Meralco took meaningful steps to heighten investor and shareholder buy-in on the Company's sustainability agenda. For instance, Meralco launched a microsite to more openly communicate the Company's ESG commitments and initiatives. The microsite makes public Meralco's roadmap to transform its business towards sustainability, fully aware that rating companies, investors, regulators, and the wider local and global communities are casting an eye on how businesses today are aligning with ESG.

In the second half of 2022, Meralco will be more proactive in engaging its investors and shareholders on the Company's existing sustainability programs as well as on its progress on its long-term sustainability strategy through a series of investor briefings and other communication initiatives. Meralco recognizes that only through constant feedback and engagement will the Company be able to refine its sustainability agenda, ensuring its relevance here and now, and in the decades ahead.

Moving forward, Meralco will continue to be committed to addressing the ever-evolving needs of its investors and shareholders through open and productive communication and engagement initiatives.

GOVERNMENT & REGULATORS

Meralco works with the government in shaping a regulatory environment that supports a sustainable energy sector.

The power sector in the Philippines relies heavily on the strong synergy between businesses and government agencies, including the Department of Energy (DOE), the policy-making body; and the Energy Regulatory Commission (ERC), the agency that determines and approves electric utilities' distribution and retail rates and enforces customer rights relating to electricity service.

As the economy started recovering last year, Meralco prioritized keeping the lights on for its customers, fully understanding the financial hardships of Filipino families who lost their sources of livelihood during the pandemic. Meralco's thrust aligned with the government's priority to energize the economy, and as such, the Company worked closely with regulators to craft and implement new initiatives such as the No Disconnection Policy, which extended payment windows for households with long overdue bills. Such policies were instrumental in aiding the country's economic recovery, as it bought time for income creation among affected households. Until the end of the first quarter of 2021, Meralco ensured 2,544,465 households (with average consumption of 100 kWh and below) continued to be powered, and it is now working with these customers on payment mechanisms.

Meralco's focus on continually providing energy to its customers go beyond just responsive action. The Company also conducts proactive advocacy, such as initiating rulemaking and policy amendment with ERC and DOE, considering best practices currently implemented as well as significant issues and trends affecting the energy sector.

Additionally, Meralco's focus on protecting its customers' welfare was also realized in 2021 through its partnership with the Department of Interior and Local Government, the Philippine National Police, and the Bureau of Fire Protection. This collaboration aims to resolve common public concerns that affect the Company's services, including illegal connections, delay in issuance of permits that affect customers' access to uninterrupted electricity, and relocation of distribution poles. The multi-agency alliance is aligned with Meralco's sustainability agenda as it puts the public's welfare top of mind while ensuring the Company achieves its business objectives.

As the country recuperates from the ongoing global health crisis, Meralco will continue to forge mutually productive relationships with the government and its regulators to safeguard the interests and welfare of the Company's customers.

SUPPLIERS & CONTRACTORS

Meralco inspires and influences its partners across its value chain to embed and promote sustainability in their own operations.

Meralco maintains a network of nearly 3,000 high-caliber suppliers and contractors who are integral to the Company's ability to provide quality and reliable service to its customers. As it increasingly recalibrates its business to adopt sustainability frameworks and principles, Meralco engages with its suppliers to align with this transformation.

In 2021, the Company elevated the Meralco Supplier Sustainability Scorecard (MS^3) Program, which aims to promote sustainability throughout its value chain. Created as a tool to assess suppliers and contractors on key ESG criteria while using the SDGs as guiding principles and the GRI Standards as a reporting framework, MS^3 provides Meralco with a comprehensive view of its business partners' ESG performance. Through this program, the Company is better positioned to operationalize its sustainability agenda by ensuring a sustainable supply chain. Meralco has identified 131 GRI Standards-aligned criteria and 14 SDGs to be included in the scope of the scorecard, which has been incorporated into the Company's vendor accreditation process.

Moving forward, Meralco will continue to collaborate with its suppliers and contractors in using sustainability as a tool for focus and to help them seize the multitude of economic incentives for pivoting towards sustainability so they, too, may power the good life in and through their own operations.

C. Data Collection & Verification

This 2021 Sustainability Report includes disclosure of material ESG data that adequately captures One Meralco's impact on its stakeholders. In preparing this report, the Group, through Meralco's Sustainability Office, collected and assembled various ESG data points from each of its business units and subsidiaries. Whenever possible, the Group analyzed three (3) years of data to illustrate year-on-year variations. Key internal stakeholders within the Group reviewed and vetted all ESG data disclosed in this report for completeness and accuracy. Upon completion of data collection and analysis, the report was validated by Meralco's ESG external assurance partner, DNV.

4.3 Strategic Partnerships for Sustainability

Inasmuch as the 4Ps underpin One Meralco's sustainability agenda, a 5th P is essential in effectively powering good lives—Partnership. Lasting sustainable progress requires a shared vision among like-minded institutions, and more importantly, earnest and collective action.

As such, last year, Meralco joined the Global Compact Network Philippines (GCNP), the local chapter of the United Nations Global Compact (UNGC), a global coalition of organizations dedicated to adopting socially responsible principles in business. The Company's membership to the GCNP is a step forward in realizing its earnest commitment to delivering on the SDGs by pledging to embrace and practice UNGC's Ten Principles, covering human rights, labor, environment, and anti-corruption. This report serves as Meralco's official Communication of Progress for 2021, expressing the Company's continued support to the UNGC and its principles of good business.

Finally, in 2021, through its membership with the GCNP, Meralco joined the call to enable a resilient recovery from the pandemic especially for micro, small, and medium enterprises (MSMEs), the backbone of the Philippine economy. Powering MSMEs—which hold a dominant share in the national economy, currently making up 99% of operating businesses in the Philippines, employing up to 63% of the workforce, and contributing up to 40% to the country's GDP in the past few years—has always been at the core of Meralco's work, and the focus by GCNP on this sector cannot be more on point. One Meralco's increasing adoption of renewable energy in the next years will translate to helping transition MSMEs towards a decarbonized future.

4.4 Climate-Related Disclosures

GRI 102-11 | GRI 102-15 | GRI 102-49 | GRI 201-2 | GRI 302-5

In 2021, in response to the global call for urgent action to address the worsening climate crisis, the Philippine Climate Change Commission (CCC) established a national target to cut the country's emissions by 75% (72.29% of which is conditional on financial assistance from developed countries) by 2030. The CCC rolled out the Philippines' emission reduction strategy and began mobilizing all sectors of society, including the private sector, to contribute to meeting this target.

With complete recognition of the conditional nature of the country's climate target, One Meralco responded to this call by developing a **long-term sustainability strategy (LTSS).** Unveiled in 2021, the LTSS outlines the Group's **just, orderly, and affordable transition to clean energy**, with the end goal of making One Meralco coal-free by 2050.

In support of this earnest commitment to climate action, One Meralco pledged last year to fully incorporate the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) into its sustainability reporting, including the conduct of a climate scenario analysis (CSA), the centerpiece of an organization's climate disclosure. By fully adopting the TCFD Guidance, One Meralco provides its investors, shareholders, and other stakeholders a comprehensive scientific evaluation of the various climate-related risks and opportunities most relevant to the Group's business.

A. The TCFD Guidance

Financial markets need comprehensive and high-quality information on the various impacts of the climate crisis on companies. This includes risks and opportunities arising from the following: the effects of climate change on natural and built environments, climate-related policies, and emerging technologies aimed at mitigating global warming. As such, in 2017, the TCFD published a set of recommendations targeted to companies around the world for the voluntary disclosure of clear, comparable, and consistent information related to the risks and opportunities presented by climate change. These recommendations were structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

Source: Recommendations of the Task Force on Climate-Related Financial Disclosures

Furthermore, since greenhouse gas emissions reporting—the most-common type of climate disclosure—does not provide sufficient information about the financial and operational implications of climate-related impacts on a business, the TCFD also recommends companies to conduct a CSA to better understand the unprecedented challenges—as well as the new opportunities—arising from the shifting global climate. One Meralco sees the CSA as an effective corporate planning tool which can help inform its stakeholders about the Group's material risks and opportunities as it responds to the climate emergency.

B. One Meralco's TCFD Disclosures

This sustainability report represents One Meralco's first comprehensive climate disclosure aligned with the recommendations of the TCFD. The Group believes that high-quality climate disclosure supports its investors and shareholders in making sound investment decisions in the short and long terms. The following tables outline the significant developments in One Meralco's drive towards climate action.

GOVERNANCE *The organization's governance around climate-related risks and opportunities*	
TCFD Recommendations	**One Meralco's Disclosures**
• Describe the Board's oversight of climate-related risks and opportunities.	As part of institutionalizing its commitment to sustainability, in 2021, Meralco established a seven-member Sustainability Committee, which is responsible for overseeing and reviewing the Company's sustainability strategy, policies, and programs, including those related to climate change. The Committee monitors Meralco's environmental, social, and governance (ESG) performance in alignment with the Sustainable Development Goals (SDGs), with the aim of delivering long-term value to all its stakeholders. In bringing these objectives to light, the Sustainability Committee is positioned as a standalone body (as opposed to a committee carrying other responsibilities such as the Nomination & Governance Committee for instance) to ensure requisite focus and close attention to sustainability matters, especially climate change. Headed by the Chairman of the Board of Directors, the Sustainability Committee is composed of five Directors, one of whom is independent. The President & CEO and the Chief Sustainability Officer serve as the non-voting management representatives to the Committee.
• Describe management's role in assessing and managing climate-related risks and opportunities.	For One Meralco, embedding sustainability at its core is a vital pathway toward future-proofing the organization. The Sustainability Office (SO)—established immediately after the President and CEO assumed office in 2019 and placed sustainability at the top of the corporate agenda—leads One Meralco in introducing,

	integrating, and institutionalizing ESG factors (with special focus on climate action) into the Group's strategy and operations in ways that are also congruent with the SDGs. In support of the Group's goal to constantly uphold responsible business principles, the SO—headed by the Chief Sustainability Officer who directly reports to the President & CEO—drives and monitors the Group's sustainability efforts toward clear outcomes and measurable results. In 2021, the SO spearheaded the development of One Meralco's long-term sustainability strategy (LTSS), marked by the Group's just, orderly, and affordable transition to clean energy from 2021 to 2050. The SO works with Meralco's business units (including Finance, Risk Management, Networks, and Regulatory Management Office among others) and subsidiaries in assessing and managing short-, medium-, and long-term climate-related risks and opportunities that are material to One Meralco's businesses. Additionally, in 2021, One Meralco formed a 24-member council of Sustainability Champions comprised of senior managers from Meralco's business units and subsidiaries. The Champions provide additional support to the SO with regard to sustainability matters, including the assessment and management of climate-related risks and opportunities.

STRATEGY

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

TCFD Recommendations	One Meralco's Disclosure
• Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	As One Meralco accelerates its multi-horizon transition to clean energy, the Group may face structural challenges inherent in the Philippine power sector which may impede its progress towards climate action. From an economic standpoint: • Fossil fuels (i.e., coal, natural gas) remain the most affordable and reliable fuel source, particularly from a baseload standpoint. • While renewable energy (RE) sources such as solar have a potential for reduced levelized cost of electricity, their capacity factors are lower, requiring other technologies (including advanced battery energy storage systems) to enable the provision of reliable, 24/7 power supply to millions of customers. From a regulatory angle: Currently, Meralco operates within the government's least-cost, technology-neutral framework whereby distribution utilities must undergo a Competitive Selection Process (CSP) in the procurement of power supply. From a technical perspective: • Certain RE projects typically require significantly more land (up to four times) than fossil fuel plants. • Additional grid infrastructure must be put in place in order to effectively manage intermittent RE capacity. Despite these risks, One Meralco remains fully committed to its transition to clean energy as it: • Secures 1,500 MW of RE in the next five years in line with the Department of Energy's (DOE) Renewable Portfolio Standards • Builds up to 1,500 MW of RE generation capacity across multiple technologies by 2027 These thrusts will not only significantly increase the share of RE in Meralco's supply mix and MGen's power generation portfolio, they will also greatly reduce One Meralco's emissions in the foreseeable future versus a business-as-usual scenario.

• Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	One Meralco recognizes that the rapidly changing world caused by the climate crisis can significantly affect the Group's short-, medium-, and long-term operational and financial performance. For instance, physical hazards such as extreme typhoons and heavy rainfall can cause serious damage to the Group's existing physical assets, especially its electric distribution system. Meanwhile, regulatory risks such as the DOE's shifting stance on RE can disrupt Meralco's power supply procurement plans and MGen's power generation buildout plans, which will subsequently affect the Group's financial planning and business strategies. In response to this, One Meralco integrated responding to climate-related risks and opportunities into the core of its LTSS. From a financial standpoint, to effectively execute its LTSS, One Meralco has estimated over PhP 100 billion in sustainable capital investments through 2030.[3] Half of it will help build a sustainable network infrastructure, while the other half will be invested in its sustainability initiatives beyond the core Distribution Utility business. Over PhP 30 billion of this capex is allocated for RE buildout through MGen.
• Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	*Please refer to the Appendices for One Meralco's CSA.*

[3] This proposed capital outlay is pending the approval of Meralco's Board of Directors.

RISK MANAGEMENT

The processes used by the organization to identify, assess, and manage climate-related risks

TCFD Recommendations	One Meralco's Disclosure
• Describe the organization's processes for identifying and assessing climate-related risks.	One Meralco's Enterprise-Wide Risk Management Office (EWRMO) and the SO work closely to employ an integrated and decentralized risk management process, where all levels of the organization are empowered to identify and assess climate-related risks across all business units, functions, and activities. A more formal process of risk assessment headed by EWRMO is done semi-annually, starting from each business unit's and subsidiary's Risk Champion, to the risk owner, and ultimately to Meralco's senior management and the Board-level Risk Management Committee. Recognizing the business units, subsidiaries, and activities that are more exposed to significant climate-related risks—both existing and emerging—One Meralco pays particular attention to ensuring that there is a constant and consistent identification and assessment process of such risks throughout the lifecycle of projects and activities within those organizations and subsidiaries. Furthermore, the Sustainability Strategy & Communications Unit under the SO monitors trends and updates in the sustainability space to ensure that new and emerging risks are identified and assessed appropriately and in a timely manner and are taken into consideration in One Meralco's LTSS as necessary.
• Describe the organization's processes for managing climate-related risks.	The gargantuan task of managing climate-related risks starts with Meralco's highest governance bodies (i.e., the Board of Directors and the Management Committee), which provide strategic guidance towards the achievement of the Group's long-haul objective of sustainable business growth and stakeholder value protection and enhancement. In 2021, the Management Committee, led by the President & CEO, oversaw the development of One Meralco's LTSS, which chiefly focuses on the Group's just, orderly, and affordable transition to clean energy.[4] Additionally, the SO, headed by the Chief Sustainability Officer, has also initiated several efforts that highlight its commitment to curbing its climate impacts and are aligned with industry best practices, including the Green Mobility Program and the Resource Conservation and Efficiency Program. The SO also continues to conduct training and awareness

[4] The LTSS is pending the approval of Meralco's Board of Directors.

	initiatives across One Meralco on sustainability issues, with a special focus on climate change.
• Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	The EWRMO works closely with SO and various organizations within One Meralco in identifying, assessing, and managing climate-related factors that pose risks to the Group's businesses. For instance, during One Meralco's biannual risk assessment, Risk Champions across the organization raise climate-related risks in their individual evaluations. Risk owners, with the support of the Sustainability Champions, are then tasked to manage these climate-related risks identified and assessed by the Risk Champions. While identifying, assessing, and managing climate-related risks have always been embedded in One Meralco's risk management process, in 2021, it was further strengthened by the integration of ESG risks into the Group's Risk Universe, which defines the context and scope within which risk management is performed. In the 2021 year-end risk assessment, sustainability was identified as One Meralco's 7th-highest risk. Among the component ESG risks included in the Group's Risk Universe, climate change and pollution ranked as the top sustainability risks mainly due to MGen's power generation business.

METRICS AND TARGETS

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

TCFD Recommendations	One Meralco's Disclosure

1. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	One Meralco uses the following key climate-related metrics, which are all monitored monthly and annually by the Group:
	• For Scope 1:
	  ○ Emissions from fossil fuel combustion by power plants
	  ○ Emissions from gasoline and diesel combustion by company-owned vehicles
	  ○ Emissions from SF_6-insulated distribution network equipment
	• For Scope 2:
	  ○ Emissions from the generation of electricity purchased from the grid and used to power company-owned facilities
	  ○ Emissions from the generation of electricity lost during the delivery of electricity to customers (i.e., system loss)
	• For Scope 3:
	  ○ Emissions from the generation of electricity procured by Meralco and Clark Electric from power generators then sold to customers
	  ○ Emissions from gasoline and diesel combustion by rented/contractor-owned vehicles

2. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	*Please refer to Section 6.1 (Climate Change) for a comprehensive discussion of One Meralco's GHG emissions.*
3. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	One Meralco has drafted the following key climate targets[5] as part of its LTSS: • 27% reduction in Scope 1 and 2 emissions by 2030 (from 21.0 $MtCO_2e$ BAU scenario[6] to 15.4 $MtCO_2e$) • 5.6% reduction in total emissions by 2030 (from 51.7 $MtCO_2e$ BAU scenario to 48.8 $MtCO_2e$) • Reduction in overall emissions intensity by 2030 (from 723 tCO_2e/GWh BAU scenario to 680 tCO_2e/GWh)

[5] As of this writing, these targets are still being finalized and pending the approval of Meralco's Board of Directors.
[6] A business-as-usual scenario means is one where One Meralco continues to utilize fossil fuel sources for both its power generation and distribution businesses without committing to expand the share of RE in its generation portfolio and distribution utility supply mix, respectively.

4.5 Sustainability Strategy

GRI 102-14 | GRI 201

One Meralco continues to take decisive steps to transform its business towards becoming a sustainable enterprise, as outlined in its three-phase sustainability journey: establish (2019), embed and engage (2020), and elevate and evolve (2021 and beyond).

In 2019, Meralco President and CEO, Atty. Ray C. Espinosa, steered the Company towards sustainability, ensuring that all business units and subsidiaries of Meralco embed ESG principles in their strategies and operations. In that same year, the Company established its Sustainability Office, mandated to plan, develop, and execute One Meralco's sustainability agenda. As an initial step, Meralco launched a Group-wide ban on single-use plastics, raising awareness on environmental responsibility among its employees and external stakeholders. All of these initial sustainability efforts of One Meralco were articulated and described in its award-winning maiden sustainability report, *Sustaining the Future*.

In 2020, Meralco crafted its sustainability agenda, *Powering the Good Life*, and identified key ESG metrics to help the Company properly gauge and manage its sustainability performance. It also birthed its 2020 Sustainability Report, *Live Life*, which highlights how the Company brightened Filipino lives amid the dark episode of a global health crisis.

In 2021, One Meralco started to envision exciting decades of massive sustainability gains through its **long-term sustainability strategy (LTSS)**, which outlines three horizons up to 2050 through which the Group will play out its **just, orderly, and affordable transition to clean energy** while continuing to power the good lives for its communities.

Long-Term Sustainability Strategy: Charging Towards a Coal-Free Future

One Meralco's sustainability agenda is marked by a distinctive focus on four pillars (4Ps): Power, Planet, People, and Prosperity. The Group has designed and started implementing strategic programs across each of the 4Ps, such as:

PILLAR	SAMPLE PROGRAM
Power	**BulacanSol**, a 55-MWac solar farm in Bulacan
Planet	**Natural ester oil** in distribution transformers **Green Mobility Program** (electrification of company vehicles)
People	**#Mbrace Program** (for diversity and inclusion)
Prosperity	**Customer Centricity Transformation Program** (for customer empowerment) **School Electrification Program** (for community upliftment) **Meralco Supplier Sustainability Scorecard or MS^3** (for supply chain partners)

One Meralco has also defined clear ESG metrics with baselines and targets that are reviewed and monitored by its senior management:

PILLAR	SAMPLE CORPORATE KPI
Power	% of households energized in Meralco's franchise area
Planet	Scope 1 emissions and emissions intensity
People	% of women employees in Meralco's workforce
Prosperity	Number of off-grid schools electrified by OMF

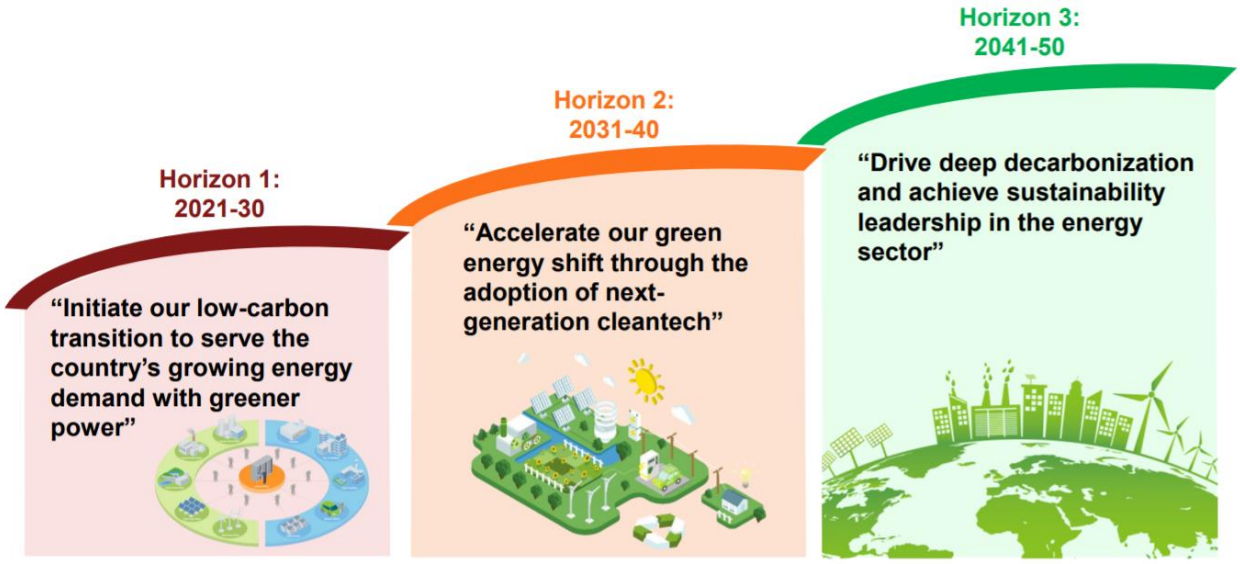
In its journey towards decarbonization, Meralco faces intrinsic structural challenges in the Philippine power sector which may impede its sustainability progress:

- **Economic**
  - Fossil fuels (coal, natural gas, etc.) remain the most affordable and reliable fuel source, particularly from a baseload standpoint.
  - While solar and other renewable energy (RE) sources have a potential for reduced levelized cost of electricity (LCOE), their capacity factors are lower, requiring other technologies (including battery energy storage systems) to enable the provision of reliable, 24/7 power supply.
- **Regulatory**
  - Meralco operates within the government's least-cost, technology-neutral mandate whereby distribution utilities must undergo a Competitive Selection Process (CSP) in the procurement of power supply.
- **Technical**
  - Solar farms require significantly more land (up to four times) than fossil fuel-fired plants.
  - The grid needs to put in place additional infrastructure to manage intermittent RE capacity to avoid system interruptions.

Notwithstanding these challenges, One Meralco remains fully committed to sustainability. While Philippine emissions represent only 0.7% of the global total, One Meralco is linked to about 11% of total emissions in the country, presenting a unique opportunity and obligation for the Group to lead the greenification of the local power industry.

Under a business-as-usual scenario[7] through 2030, the Group's total emissions are expected to grow at 3.1% versus electricity demand (a proxy for business growth) at 3.5%. Nevertheless, One Meralco aspires to be more sustainable as it focuses on reducing emissions over the three horizons of its LTSS as it drives to be coal-free before 2050:

[7] A business-as-usual scenario means is one where One Meralco continues to utilize fossil fuel sources for both its power generation and distribution businesses without committing to expand the share of RE in its generation portfolio and distribution utility supply mix.



HORIZON 1 (2021–30)

One Meralco will initiate a low-carbon transition to serve the country's growing energy demand with greener power.

While MGen continues to build the high-efficiency, low-emissions (HELE) Atimonan One Energy (A1E) coal plant (2x600 MW) by the middle of this decade (in support of SDG 7: Affordable and Clean Energy), it has dropped its involvement in the development of 2,500 MW of coal-fired power plants. Furthermore, the Company is looking to sell 49% of its share in A1E.

MGen will also accelerate its clean energy buildout with 1,500 MW of generation capacity across multiple RE technologies by 2027. It started with the 55-MWac BulacanSol solar plant, which began injecting power into the Luzon grid in 2021. In addition, the Company is currently developing a 75-MWac solar facility in Baras, Rizal, a 68-MWac solar plant in Ilocos Norte, and a 45-MWac solar farm in Cordon, Isabela. These projects are expected to commence operations in the latter part of 2022 up to mid-2023. MGen is also eyeing the construction of a large-scale wind farm in the Philippines.

Meanwhile, from a contracting standpoint, a key consideration in Meralco's energy transition is the DOE's Renewable Portfolio Standards (RPS). This policy requires distribution utilities to source more RE. Current RPS policy dictates that the share of RE in the supply mix must increase by 1.0% per annum, with discussions to increase this rate to 2.52% per annum. Through 2030, Meralco will contract RE in line with RPS requirements. In fact, Meralco has already started the process for a 850-MW RE CSP, which is the first of the two CSPs that will shift the Company's mid-merit supply—close to 30% of its total supply portfolio—to RE.

Beyond power generation and distribution, One Meralco will continue to drive emissions abatement and carbon sink initiatives, including:

- **Scope 1** – Through the Green Mobility Program, 25% of Meralco's vehicle fleet will be electrified by 2030, exceeding the 5% requirement of the new Electric Vehicles & Charging Stations Act.
- **Scope 2** – Under the Resource Conservation and Efficiency Program, Meralco's headquarters in Pasig City will be 100% powered by RE by 2030.
- **Scope 3** – With Meralco's Advanced Metering Infrastructure, estimated customer-side energy efficiency savings of 2.3 TWh will abate 1.6 $MtCO_2e$ in 10 years.
- **Offset** – Through One Meralco Foundation's (OMF) One for Trees carbon sink program, One Meralco will plant 5 million trees by 2025 in order to preserve and revive Philippine forests and watersheds.

In sum, One Meralco aims to reduce its Scope 1 emissions in 2030 by approximately 29% vis-à-vis its 2030 BAU baseline. Reductions in Scopes 2 and 3 are contingent on further energy conservation and efficiency efforts as well as a higher RPS requirement. To achieve all these, the Group plans to deploy close to PhP 110 billion in sustainable capital investments through 2030, with over PhP 30 billion allocated for RE buildout.[8]

HORIZON 2 (2031–40)

One Meralco will accelerate its green energy shift through the adoption of next-generation cleantech.

While the focus through 2030 is on shifting away from fossil fuels from a mid-merit standpoint, in the following decade, One Meralco will begin the transition in its baseload capacity. As such, One Meralco will evaluate emerging, cleaner technologies that are expected to mature technologically and economically beginning 2030:

- **Battery energy storage system** – Longer duration storage of energy enables RE to serve mid-merit or baseload demand to provide ancillary services and to enable price capture during peak periods.
- **Offshore wind** – This RE technology removes land constraints and offers greater resource potential (i.e., strength and consistency), allowing for 2–3 times larger installations than its onshore equivalent.
- **Nuclear** – Small modular reactors are more reliable (with a capacity factor of ~90%) and less land-intensive (less than 1% of required land compared with solar and wind farms). In addition, its modular design is beneficial to islands with limited interconnection.

[8] This proposed capital outlay is pending the approval of Meralco's Board of Directors.

HORIZON 3 (2041–50)

One Meralco will drive deep decarbonization and achieve sustainability leadership in the energy sector as it drives to be coal-free before 2050.

Deep decarbonization will be achieved through various levers including:

- Decarbonization of existing assets (e.g., carbon capture, utilization, and storage)
- Development of more dispatchable low-carbon power (e.g., combined-cycle gas turbine co-fired with green hydrogen, long-term BESS, advanced SMRs for baseload)
- Heightening of carbon sink solutions (e.g., reforestation, soil management)

SOCIAL IMPACT AREAS

On the social front, One Meralco, primarily through OMF, aims to promote the well-being of communities with electricity as an enabler to power the good life across five impact areas. Short-term 2030 targets have been set, but these efforts will be driven by the Group through 2050.

- **Water access** – Provide low-income households with potable water
- **Education reach** – Electrify off-grid public schools
- **Access to quality healthcare** – Energize healthcare facilities (e.g., rural health units, barangay health stations)
- **Livelihood productivity** – Energize agricultural facilities and equipment
- **Disaster resilience and recovery** – Train electric cooperative staff and community members

ESG Targets: Quantifying Sustainability Aspirations[9]

POWER

- **1,500 MW** of RE supply in the next five years (through Meralco)
- **1,500 MW** RE generation capacity by 2027 (through MGen)

PLANET

- **29%** reduction in One Meralco's Scope 1 emissions by 2030
  - **49%** equity sell-down of MGen's Atimonan One Energy coal plant by 2026
  - **25%** electrification of Meralco's vehicle fleet by 2030
  - **100%** of all Meralco DU network equipment to be SF_6-free starting 2026
- **12%** reduction in One Meralco's Scope 2 emissions by 2030
  (primarily contingent on Meralco's system loss improvements)
  - **100%** RE-powered Meralco Center in Pasig City
- **7%** reduction in One Meralco's emissions intensity by 2030
- **5 million** trees planted and nurtured by OMF by 2025
- **90%** overall waste diversion rate in Meralco by 2027
- **100%** of Meralco's new distribution transformers using natural ester oil starting 2021

PEOPLE

- **40%** women representation in Meralco's workforce by 2030
- **0.60** lost time injury frequency rate in Meralco by 2030

PROSPERITY

- **1,500** low-income households provided by OMF with potable water by 2030
- **545** off-grid public schools electrified by OMF by 2030
- **600** healthcare facilities electrified by OMF by 2030
- **200** agricultural facilities and equipment energized by OMF by 2030
- **4,600** electric cooperative staff and community members trained by OMF on disaster resilience and recovery by 2030

[9] As of this writing, these targets are still being finalized and pending the approval of Meralco's Board of Directors.

5 Power: Providing Energy for All, Always

In 2021, the Philippine economy rebounded strongly, putting growth on pace with pre-pandemic levels despite experiencing the worst contraction since World War II.[10] As the country's largest power distribution utility, Meralco played a critical role in powering this recovery, fulfilling its mandate to provide affordable, accessible, reliable, and clean energy to millions of Filipinos, in support of **SDG 7: Affordable and Clean Energy**.

Last year, Meralco continued delivering fairly priced electricity to 100% of households in priority sites identified by the Department of Energy, empowering over 7.4 million customers in their continuing work-from-home set-ups, distance learning, and online businesses. The Company also continued rolling out programs to make its distribution network more resilient against natural hazards such as typhoons and earthquakes. Furthermore, One Meralco began transforming its business by gradually transitioning away from traditional fossil fuels. In particular, the Distribution Utility has begun increasing the share of alternative, earth-friendly energy sources in its fuel source mix, while MGen, through MGreen, is expanding its clean energy generation capacity by building more renewable energy plants.

The following section details One Meralco's earnest work around providing energy for all, always.

[10] S. Alegado and C. Yap, "Philippines Economy on Pace to Pre-Pandemic Levels This Year," Bloomberg, 27 January 2022. [Online]. Available: https://www.bloomberg.com/news/articles/2022-01-27/philippines-gdp-growth-beats-forecast-as-recovery-takes-root.

5.1 Affordability: Providing Energy Attainable by All

SASB IF-EU-240

As the country enters a new phase of the COVID-19 pandemic, One Meralco's role in reinvigorating the economy by ensuring energy affordability is front and center.

At the crux of this is managing the price at which energy is generated and supplied. One Meralco strives to provide customers with affordable electricity to power businesses and households, ensuring competitive pricing for major industries and among residential customers regardless of income levels—a testament of its commitment to advancing **SDG 7: Affordable and Clean Energy**.

As a principle, One Meralco endeavors to keep its electricity price stable amid spikes in demand. Ensuring fair pricing serves the best interest of household consumers and is essential in improving their quality of life and supporting the country's economic advancement.

AVERAGE RETAIL ELECTRIC RATE (in PhP/kWh)						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Residential	10.2713	9.2357	9.4226	8.0618	6.6787	5.8730
Commercial	8.7013	7.6937	8.1561	8.0955	6.7279	5.9084
Industrial	7.5532	6.4765	6.8344	7.9213	6.6049	5.6834

From 2019 to 2021, Meralco's average retail rate decreased by 8%, 6%, and 10% for residential, commercial, and industrial customers, respectively, although the rates in 2021 were slightly higher than in 2020 due to higher generation and transmissions charges driven by greater demand for power as the economy reopened. The unprecedented spike in fuel prices in the market, higher prices from the Wholesale Electricity Spot Market (WESM), and the persisting Malampaya gas supply restrictions also contributed to the increase in Meralco's average retail rate in 2021.

On the other hand, Clark Electric's average retail rate decreased drastically from 2019 to 2021, achieving reductions of 27%, 27%, and 28% across its three customer segments, respectively, due to lower generation charges.

Furthermore, as part of One Meralco's objective to make electricity more affordable for its customers, the Group continued to take proactive steps in lowering its distribution system loss. Meralco and Clark Electric address both technical system loss (such as heat dissipation and noise during power delivery) and non-technical system loss due to theft or pilferage. Incurring system loss is inherent in the distribution of electricity, as some portions of electricity will always dissipate as heat and noise while being delivered to customers.

There are economic limits to the level to which system loss can be reduced. As such, Meralco and Clark Electric regularly conduct technical and socioeconomic studies to strike a balance between the benefits of lower system loss and the capital expenditures necessitated by reduction initiatives. In 2021, Meralco and Clark Electric's system loss was at 5.85% and 2.08%, respectively—both lower than 2020 levels—translating to a total of nearly PhP 3.6 billion in savings for their customers. These decreases in system loss percentages were achieved successfully despite the general increase in energy sales due to Meralco's and Clark Electric's system loss improvement initiatives.

SYSTEM LOSS METRICS						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Amount of energy lost through the distribution system (in MWh)	2,694,326	2,762,319	2,794,156	12,891	10,851	11,850
Energy lost in the distribution system vs. net system input (in %)	5.54	6.08	5.85	2.15	2.10	2.08
Customer savings due to lower system loss vs. ERC's system loss cap (in PhP million)	5,153.00	3,221.36	3,472.45	179.78	120.00	96.90

In addition, One Meralco further ensured energy affordability by building up its own power generation capacity through MGen. With Meralco generating its own electricity, it is able to supply to the grid and meet demand without having to tap external sources, effectively lowering generation charges. MGen's first major power plant development—the 455-MWac baseload San Buenaventura coal-fired power plant in Mauban, Quezon—has been steadily supplying energy to the Luzon grid since 2019.

In the years ahead, One Meralco will continue to innovate and find creative and technological solutions to support the government's energy affordability imperative and power the Filipino people's dream of a better quality of life.

Featured Story: Compassionate Customer Service Comes First

The pandemic pushed millions of Filipinos to deeper poverty, with jobs getting lost in sectors most affected by the global crisis. As a result of the economic effects of COVID-19, the International Energy Agency estimates that at least 110 million people, mostly from Africa and Asia, could lose their ability to pay for basic electricity services.[11]

[11] Asian Deveopment Bank, "Covid-19 and Energy Sector Development in Asia and the Pacific Guidance Note," Asian Development Bank, Mandaluyong City, 2021.

Meralco responded to the disruption with compassionate customer service. At the height of community lockdowns to contain the spread of new variants of the coronavirus, Meralco—in support of **SDG 1: No Poverty**—extended its No Disconnection Policy in 2021, easing affected Filipinos of worries over electric service disconnection.

Meralco customers, especially the 2,544,465 lifeline households (with average consumption of 100 kWh and below), benefitted from the disconnection moratorium, which was extended until the third quarter of 2021. Especially for Filipinos who pivoted to work online, staying connected served as a critical lifeline, enabling them to stay out of debt. Meralco also continued implementing installment payment agreements to allow customers with past due bills to pay in tranches months after the due date depending on their consumption.

Indeed, Meralco showed commitment towards compassionate customer service by continuing to serve the Filipino people despite operating under a challenging landscape. This resulted in Meralco scoring 8.10 in its 2021 Customer Satisfaction Index, higher by 7% than its 2020 score of 7.54. This reflects Meralco customers' appreciation of the Company's enhanced customer care in 2021.

Bright Smiles: Residential Customers Benefit from Meralco's Extended No Disconnection Policy and Installment Payment Arrangements

"Naiintindihan ng Meralco ang pangangailangan ko. Masakit sa akin na makita ng tatlong anak ko na puputulan kami ng kuryente hanggang sa punto na huhugutin na ang aming metro.

"Nagpunta ako sa Meralco upang humingi ng tulong upang mapigilan ang tuluyang pagkaputol ng aming serbisyo at mabayaran ang aming bill nang hulugan. Nagsanla kami ng aking asawa para may maibayad sa aming bill kahit man lang partial.

"Sa pag-unawa na ibinigay sa akin ng representative ng Meralco, pinayagan akong magbayad nang partial payment at muling maibalik ang kuryente sa aming tahanan. Ako ay taos pusong nagpapasalamat sa tulong na ibinigay sa akin ng Meralco."

—Marie Gladys Arellano

"Ako po ay nagpapasalamat sa Meralco dahil kahit po dumaan ang pandemya, hindi po ako pinutulan ng kuryente. Maraming salamat sa Meralco dahil nakapagbayad kami nang hulugan."

—Luisa Salazar

"Malaking tulong sa amin ang No Disconnection Policy ng Meralco. Dahil mula po nang magsimula ang pandemya at nawalan ako ng trabaho, nahirapan po akong tustusan ang mga pangangailangan ng aking pamilya."

—Czarina Perez

5.2 Accessibility: Extending Energy Reach

SASB IF-EU-000.B | SASB IF-EU-000.A

Energy access is a key benchmark for measuring progress on **SDG 7: Affordable and Clean Energy**. While the Philippines is at the peak of this indicator, with nearly 96% of the entire population with access to energy and more than 98% of the national capital already electrified, many remote areas—home to some 2.3 million Filipinos—still do not have access to electricity.

In 2021, Meralco continued energizing households in its franchise area and reaching unserved and underserved communities. While Meralco's franchise area covers only 3% of the country's land area, it is home to up to more than a quarter of the population—at least 30 million people.[12] The Company also powers the Clark Special Economic Zone through its subsidiary Clark Electric and the Cavite Economic Zone through its business unit Meralco Ecozone Power. Altogether, these areas contribute up to 50% of the country's Gross Domestic Product (GDP) and produce up to 60% of the nation's total manufacturing output.

This section details the Company's efforts on driving universal electrification in 2021.

A. Fueling Economic Recovery by Powering More Customers

While suffering a 9.6% contraction in 2020—the worst since World War II—the Philippine economy rebounded in 2021, with GDP growing by up to 5.6%, signaling that the door to economic recovery is now wide open.

One Meralco is at the epicenter of the country's robust economic recovery as it powers commercial and industrial sectors and ensures that lights continue to be on for millions of Filipino citizens working and studying from home. In 2021, the Group continued to respond to the growing needs of its customers and successfully served about 7.4 million connections—up by 4% from 7.1 million in 2020.

NUMBER OF CUSTOMER CONNECTIONS PER TYPE						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Residential	6,358,417	6,573,953	6,837,717	1,004	1,059	1,129
Commercial	527,701	539,912	554,183	1,268	1,311	1,323
Industrial	10,568	10,667	10,686	154	156	158
Flat Streetlights	4,808	4,842	4,909	92	87	93
TOTAL	**6,901,494**	**7,129,374**	**7,407,495**	**2,518**	**2,613**	**2,703**

[12] International Energy Agency, " Defining energy access: 2020 methodology," IEA, 13 October 2020. [Online]. Available: https://www.iea.org/articles/defining-energy-access-2020-methodology.

ENERGY SALES PER CUSTOMER TYPE (in GWh)						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Residential	14,581	16,479	16,906	8	9	7
Commercial	18,172	14,490	14,950	311	277	284
Industrial	13,394	11,958	13,517	265	218	265
Flat Streetlights	138	140	142	1	1	2
TOTAL	**46,286**	**43,067**	**45,515**	**585**	**505**	**558**

Pre-pandemic, the commercial segment comprised the majority of One Meralco's total energy sales at 39%. Residential sales were historically much lower at only 31%. However, starting 2020, a larger share of Meralco and Clark Electric's sales came from households, as more people worked and studied from home driven by the ongoing pandemic. Energy sales from residential customers grew by 13% from 2019 to 2020. On the other hand, commercial customers, confronted with lockdowns and mobility restrictions, decreased by 20% in the same period. Meanwhile, in 2021, energy sales from industrial customers bounced back from the significant decrease from 2019 to 2020.

Despite the sales from commercial and industrial sectors shrinking, One Meralco's overall energy sales saw a 6% increase in 2021, a rebound from 2020 levels which saw a significant 7% decrease from 2019.

B. Energizing Remote and Low-Income Communities

Beyond its fundamental mandate to provide customers unhampered access to electricity, Meralco recognizes the importance of enabling energy access for unserved and underserved groups. The Company strives to deliver affordable and accessible energy to low-income households, especially those in remote, off-grid communities.

Aligned with the Department of Energy's goal to achieve 100% electrification in the country, the Meralco Electrification Program (MEP) is the pillar that holds together the Company's work towards universal electrification. The MEP is supported by Meralco's innovative microgrid solutions and the One Meralco Foundation's (OMF) Household Electrification Program (HEP). The HEP is Meralco's way of bridging energy gaps by collaborating with local government units and homeowners' associations to overcome energy accessibility challenges, as Right of Way and occupancy issues are often barriers for urban and rural communities alike confronted with energy poverty.

In 2021, Meralco completed the electrification of 536 priority sites under the MEP, energizing a total of 23,742 households. Additionally, OMF's HEP paved the way for the electrification of 7,509 low-income households that had been in the dark for too many years. Both of these resulted in the Company achieving close to 100% electrification in priority sites identified by the DOE in 2021. Only 1,750 households remain unenergized in Meralco's franchise area and will be served through the Company's off-grid solutions—microgrid and solar home systems—which will be deployed in 2022.

Meralco's focus on microgrids—localized, small-scale electrical networks that operate independently from the grid—is the best and most viable solution for communities that are underserved due to their distance to tapping points. In the past, microgrids were powered solely by diesel generators used during peak hours. Now, solar energy powers microgrids during the day and battery energy storage systems allow for storage of energy for nighttime consumption, solving intermittency issues while making it possible for far-flung communities to enjoy reliable and clean energy 24x7.

Meralco's solar microgrid solution enables the lighting up of far-flung communities in Isla Verde in Batangas and Cagbalete Island in Quezon. The Company started deploying this solution in 2020, which will benefit about 600 households and 11 resorts. Meralco is looking forward to the commissioning of this project by December 2022.

Bright Smiles: Uplifting Filipino Communities Through the Meralco Electrification Program

"Noong wala pa kaming sariling koneksyon ng kuryente, limitado lang ang appliances na aming nagagamit. Napakalaki rin ng aming losses dahil nasa kabilang barangay pa ang aming metro. Kapag 'di nakapagbayad ang ilan naming kabarangay, napuputulan kaming lahat. Madalas ding walang kuryente tuwing may bagyo.

"Ngayon, mas mababa na ang binabayaran namin dahil may sari-sarili na kaming koneksyon. Mas panatag na rin ang aming kalooban dahil alam naming ligtas na ang koneksyon ng kuryente at hindi kabit-kabit na pwedeng mauwi sa sunog."

"After two-and-a-half years ng pagsisikap at paghihintay, umunlad na ang aming barangay. Tumaas ang value ng lupa dahil may primary and secondary lines na—mas marami na ang gustong bumili ng mga property. Nakapaglagay na rin kami ng ilang streetlights sa aming barangay. Talagang napakaliwanag na ng aming komunidad."

—Mylyn Comendador
Barangay Captain of Isabang, Majayjay, Laguna

C. Enabling Efficient Access to Power

Enabling more households to connect to the grid and receive the gift of electricity is only the beginning of Meralco's work. To ensure unhampered energy access, the Company must ensure that the customer journey will not end in disconnection. As such, Meralco works hand-in-hand with its customers through multi-channel platforms to ensure continuing service amid the country's recovery.

In 2021, Meralco's Business Centers continued to be open to cater to the needs of customers who preferred in-person transactions, while SMS and other digital customer channels (social media, live chat, and email) remained available 24x7x366 for customers who preferred to stay within the comforts of their homes. Furthermore, Meralco Online and the Meralco Mobile App allowed customers to access and manage their accounts anytime, anywhere, with real-time views on account status, operational reports, and bills.

In addition to ensuring that its customer communication channels are always open, Meralco also simplified its procedures for new account applications and quickened the provision of power to new commercial customers through the electronic Certificate of Final Electrical Inspection (eCFEI), in support of the country's Ease of Doing Business Act.

5.3 Reliability: Distributing Uninterrupted Power

SASB IF-EU-550

Access to reliable energy is essential to economic recovery, as enshrined in **SDG 7: Affordable and Clean Energy**. As such, in 2021, One Meralco continued to be committed to delivering stable and high-quality power to those it serves by building and maintaining a resilient grid, introducing digital innovation, and ensuring its robustness, all while responding efficiently to address outages when they occur.

This section narrates how One Meralco is able to provide unhampered electricity service to its customers.

A. Maintaining Quality Systems for Reliability

DISTRIBUTION RELIABILITY METRICS						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
SAIFI (in number of times)	1.77	1.50	1.41	2.63	3.29	1.74
SAIDI (in minutes)	188.36	163.00	138.77	143.81	111.44	51.41
CAIDI (in minutes)	106.48	108.62	98.43	35.39	28.92	30.90

One Meralco uses various internationally accepted standard indicators to monitor and manage the reliability and quality of its service. For instance, the average number of service interruptions experienced by Meralco customers decreased by 6% from 1.50 times in 2020 to 1.41 times in 2021, based on the System Average Interruption Frequency Index (SAIFI). Meanwhile, Clark Electric saw a significant 47% decrease in its SAIFI.

Meralco and Clark Electric customers also experienced shorter service interruptions in 2021 (than in 2020) at 138.77 minutes and 51.41 minutes, respectively, based on the System Average Interruption Duration Index (SAIDI).

The Group's performance in both metrics were well within the reward levels prescribed by the ERC based on Third regulatory Period's Performance Band, and this has been the case since the implementation of the Performance Incentive Scheme in 2012, owing to continuous improvements in system reliability through various measures such as preventive maintenance activities.

To ensure the stability of its electrical infrastructure and to reduce the incidence of unplanned power interruptions, Meralco and Clark Electric regularly perform onsite inspections of its distribution facilities and continuously replaces or upgrades equipment in compliance with industry and national standards. The two Companies also conducts tree-pruning activities and line-clearing operations. In addition, to prevent outages due to malfunctioning sub-transmission assets, Meralco and Clark Electric conducts ultrasonic scanning of its lines and equipment immediately after typhoons or other natural disturbances. These proactive measures also help ensure the safety of the Companies' customers and workforce.

B. Future-Proofing the Distribution Network Through Digitalization

Meralco is a pioneer in utilizing smart grid technology to respond to dynamic challenges in the power sector. For instance, the Company's Supervisory Control and Data Acquisition (SCADA) system has enabled Meralco to perform real-time surveillance of its grid system in the field, to apply data analytics in diagnostics, and to control devices to address operational issues with impressively zero downtime in the last eight years.

In 2021, Meralco raised the bar on delivering a more reliable power service by piloting two programs. First is the Closed-Loop Fault Location and Supply Restoration (FLISR) Project, which automatically isolates faults and restores power to healthy parts of the network during an outage. FLISR was deployed to 24 circuits in the system. Another initiative of Meralco was the Mobile Distribution Transformer (MDT) Project, a truck-mounted distribution transfer deployed to areas with outages and reduces the usual 2-to-3-hour service interruption to only a few seconds. In 2021, three MDTs were deployed and five more will be added in 2022.

To scale the impact of these seminal programs, Meralco will continue to invest in distribution automation through the installation of remote-controlled line devices and fault indicators that aid in faster location and mitigation of distribution line troubles.

Meanwhile, the Integrated Mobile Computing System (IMCS) is an automated solution that coordinates the dispatch of repair crews to quickly address problems in the grid such as accidental or unplanned power outages. The IMCS data can be used to enhance worker productivity and promote faster customer service.

Another integral component of Meralco's Smart Grid Program is the propagation of the Advanced Metering Infrastructure (AMI), which includes the rollout of smart meters along with the deployment of a modern, secure, and robust telecommunications and IT infrastructure that enables two-way communication between the Company and its customers. This tool provides clients with detailed consumption information and offers energy efficiency tips tailored to their usage, paving way for a more informed and empowered customer.

By the end of 2021, 108,055 smart meters were installed across Meralco's franchise area. In collaboration with DOE and ERC, Meralco plans to invest about PhP 39.2 billion in the next four years (5th regulatory

period) in the next nine years to ramp up its Smart Grid Program, bringing to life the Grid of the Future to serve millions of customers more efficiently and reliably than ever before.

C. Keeping the Lights on Amid the Climate Crisis

The Philippines is buffeted by an average of 20 typhoons annually, around five of which are typically destructive. Damaging floods have also ravaged the country in recent years. For Meralco, these physical risks must be addressed through a resilient distribution system. As such, the Company takes extensive preventative action to ensure the resiliency of its entire distribution system, including preparing its infrastructure and disaster response team for extreme weather events.

To prepare for typhoons, Meralco takes preemptive actions such as targeted tree trimming and cursory line inspection in partnership and coordination with local government units and other government agencies, such as the DOE and the Metropolitan Manila Development Authority.

In addition, Meralco implements storm-hardening measures such as the replacement of poles, upgrading of conductors and lead wires, and installation of line and equipment covers. In 2021, 8,470 line and equipment covers were installed near building work sites. Meralco owns, operates, and maintains 6,124 spans of overhead lines and underground cables, while 4,192 wooden cross arms were converted to lighter, easier-to install, and more durable fiberglass crossarms. Moreover, 8,223 aging wooden poles were replaced with concrete poles. Meralco not only boosts the resiliency of its facilities by phasing out wood, but the decreased dependency on this resource also helps lessen its environmental footprint.

STORM HARDENING METRICS						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Poles replaced	10,914	2,604	8,223	5	1	-
Upgraded conductors (in spans)	14,988	6,026	6,124	65	34	10
Upgraded DT primary lead wire	9,347	4,680	3,283	-	-	2
Installation of line and equipment covers	5,763	2,713	8,470	-	-	-
Wooden crossarms converted to fiberglass	13,434	6,263	4,192	-	-	-

One Meralco also continued to enhance its Lightning Protection Improvement Program (LPIP), which protects the network against lightning and ensuing power surges or unexpected electric shocks. Specifically, Meralco installed surge arresters and overhead static wires, reinforced its poles, and conducted system-neutral grounding. A lightning detection system advises Meralco personnel on the magnitude and approximate location of lightning strikes within the franchise area, a technology that has helped reduce the occurrence of outages due to lightning by nearly 62% (based on SAIFI and Momentary Average Interruption Frequency Index, or MAIFI) since 2017.

LIGHTNING PROTECTION IMPROVEMENT METRICS						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Number of surge arresters used for installation or replacement	16,439	7,397	6,554	-	1	9
Number of poles used for pole-grounding correction	17,079	8,470	7,374	48	18	12
Length of system neutrals installed (in spans)	2,345	1,213	1,573	-	-	-
Length of overhead shield wires installed (in spans)	3,835	2,051	1,643	-	-	-
Number of remote-controlled line reclosers installed	559	91	257	18	-	-

Preemptive and proactive measures such as these make One Meralco better prepared to weather the storms of operating in a calamity-prone country, thereby providing reliable energy to all those it serves.

D. Powering Communities Towards Resilience

One can say that disasters differentiate communities in two ways: one that needs rescuing, and another that provides rescue.

Meralco aims to be the most reliable organization in the Philippine power industry. To do this, the Company has taken extensive steps to ensure that its operations are resilient. Meralco has established a robust Business Continuity Management (BCM) system to keep its employees safe and able to work especially in times of disasters. The Company also ensures that Meralco's workplaces are resilient to natural calamities. In fact, all buildings in the Meralco Center have been reinforced for earthquake resilience. In the unlikely event that its primary system control center is compromised, Meralco has also installed and operationalized emergency backup sites to enable continuous operations.

Carrying upon itself a mantle of service to the community during and after disasters, Meralco is also the government's reliable partner in disaster response within and beyond its franchise area.

A week before Christmas, Super Typhoon Odette, the strongest to hit the Philippines in 2021, wreaked devastation all over the country. More than 1.2 million families in the Visayas were reportedly displaced by the strong typhoon.

Meralco responded to this disaster with compassion. At a time when Filipino families gathered for Christmas celebrations, a 140-strong contingent composed of Meralco's line crews and engineers left families in Manila behind for Cebu and Bohol on a mission to help restore light for hundreds of communities that were then enveloped in darkness. They augmented the workwomen and men of the

Visayan Electric Company and the Mactan Electric Company in Cebu as well as the Bohol Light Company, Inc. and the Bohol II Electric Cooperative in the critical task of post-disaster power restoration.

Complementing this effort, OMF distributed up to 5,000 care packs to families in great need as well as 140 solar torches and generator sets in the Dinagat and Siargao Islands. Meralco employees also pooled up to PhP 1 million in charitable donation, which were channeled to non-profits on the ground.

Carrying the work forward with *kalinga* and *malasakit,* Meralco responds to the rescue call in times of severe calamities even outside of its franchise areas, enabling sustainable development to continue amidst the threat of climate change.

5.4 Clean Energy: Powering Through a Low-Carbon Future

SASB IF-EU-000.C | SASB IF-EU-000.D | SASB IF-EU-000.E

The energy sector is responsible for 60% of the world's total greenhouse gas emissions, yet it is also heavily relied upon to power continuous economic growth. As such, in support of **SDG 7: Affordable and Clean Energy**, One Meralco is working to realize a future where powering society's progress runs parallel with environmental stewardship. The Group's journey towards becoming coal-free by 2050 is critical in enabling the Philippines' economic growth without compromising the country's future.

One Meralco responds to the government's RE drive and the global clamor for genuine climate action through Meralco, the distribution utility; MGen, its power generation arm; and Spectrum, its own-use solar solutions provider.

This section details One Meralco's work on accelerating the Philippines' low-carbon transition.

A. Advancing the Clean Energy Shift

The COVID-19 pandemic presented many societal challenges, but it also provided an opportunity for an economic reset towards sustainability. While meeting short-term demands to propel immediate recovery, One Meralco bets in the long term on clean energy through Meralco, Clark Electric, MGen, and Spectrum.

POWER DISTRIBUTION UTILITY FUEL MIX (in %)						
	Meralco			Clark Electric		
	2019	2020	2021	2019	2020	2021
Coal	29.57%	32.15%	32.75%	63.52%	70.84%	53.18%
Natural gas	56.29%	54.47%	48.50%	0.00%	0.00%	0.00%
Oil	1.45%	0.33%	5.56%	0.00%	0.00%	0.00%
Hydro	0.03%	0.52%	2.21%	12.01%	23.91%	20.72%
Geothermal	0.00%	0.00%	0.17%	0.00%	0.00%	0.00%
Wind	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Solar	0.15%	0.34%	0.64%	0.02%	0.03%	0.02%
Biomass	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
WESM	12.51%	12.19%	10.17%	24.45%	5.22%	26.08%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Meralco and Clark Electric source significant amounts of energy from generation entities and distribute it via their own distribution networks. While fossil fuels still dominate the fuel mix of both Companies, Meralco and Clark Electric will take bold and significant steps towards the Group-wide aim to progressively increase its supply from RE sources in compliance with the Renewable Portfolio Standards (RPS) requirements under the Renewable Energy Act of 2008. In fact, in 2021, Meralco announced its plan to source up to 1,500 MW of its power supply requirements from RE sources in the next five years.

A major component in Meralco's plan to increase RE in its supply mix is its goal to move 100% of its mid-merit supply to RE by 2030, which will effectively shift up to 29% of its current portfolio to clean sources. Additionally, the Company supports the government's new RE policies, such as the Green Energy Option Program (GEOP), which provides consumers with average peak demands of at least 100 kW the option to source their electricity needs from purely renewable sources. In 2021, many of Meralco's commercial and industrial customers expressed their interest to join the program in the next few years.

POWER GENERATION FUEL MIX OF MGEN (in %)			
	2019	2020	2021
Coal	51.35%	60.84%	59.05%
Natural gas	47.53%	38.52%	39.96%
Diesel	1.12%	0.64%	0.50%
Solar	0.00%	0.00%	0.50%
TOTAL	**100.00%**	**100.00%**	**100.00%**

Meanwhile, from a power generation standpoint, MGen continued to diversify its portfolio away from coal. In 2021, natural gas accounted for the second-largest share in its energy mix, amounting to roughly 40% of total energy generated. This was due to the Company increasing its effective interest in Singapore-based PacificLight Power from 28% to 58% in July 2021.

Leading One Meralco's transition to clean energy is the development of MGen's 55-MWac solar farm in San Miguel, Bulacan, through a Meralco-led consortium with PowerSource Energy Holdings Corporation. The utility-scale solar plant was commissioned in the second quarter of 2021 and will supply energy to Meralco for at least 20 years. MGen has also begun expanding its RE capacity through the development and construction of solar farms in the provinces of Rizal, Ilocos Norte, and Isabela, all of which are expected to be operational by end of 2022 up to early 2023. These projects are all part of MGen's aim to build RE facilities with a total capacity of 1,500 MW by 2027 through its subsidiary, MGreen.

Another major milestone in One Meralco's transition to clean energy is MGen's termination of its involvement in the development of coal-fired power plants amounting to a total capacity of 2,500 MW. This bold move effectively avoided 178.7 million tCO_2 from entering the atmosphere over 25 years, the usual lifespan of coal plants in the Philippines.

In addition to Meralco's and MGen's efforts, Spectrum is also helping in widening One Meralco's RE footprint as it provides small-scale, distributed solar solutions to residential, commercial, and industrial customers. So far, Spectrum has energized thousands of private, educational, and government institutions, totaling 14 MWp in capacity.

CAPACITY OF SOLAR PANELS SOLD BY SPECTRUM (in kWp)			
	2019	**2020**	**2021**
Residential	48.00	702.00	239.14
Commercial & Industrial	7,398.00	11,183.00	13,784.53
TOTAL	**7,446.00**	**11,885.00**	**14,023.67**

Moving forward, One Meralco, through its energy businesses, will remain steadfast in accelerating its just, orderly, and affordable transition to clean energy to power the country's economic recovery and growth.

Featured Story: Powering a Sustainable Cloud

As government services, delivery businesses, and formal learning turned to the digital cloud during the pandemic, the spotlight was cast on the amount of energy consumed and emissions generated by data centers, which consume a colossal amount of electricity to support 24x7 operations across the world. In fact, data centers consume about 3% of the global electricity supply and account for up to 2% of total GHG emissions—50% more than the size of the entire airline industry.[13]

To enable data centers to decarbonize, Meralco's retail electricity unit, MPower, supplied ePLDT, a leading IT service management company in the Philippines, with diversified power to its VITRO data centers. These

[13] Climate Neutral Group, "Carbon emissions of data usage increasing, but what is yours?," Climate Neutral Group, [Online]. Available: https://www.climateneutralgroup.com/en/news/carbon-emissions-of-data-centers.

data centers help the Philippines in positioning itself as an emerging data center hotspot in the Asia-Pacific region, competing with more advanced markets like Singapore, Hong Kong, Japan, and Taiwan.

MPower will provide RE for a significant portion of the total consumption of each of ePLDT's VITRO data centers. This is the largest RE supply MPower will provide to a commercial data center operator in the country. This initiative is expected to reduce emissions in ePLDT's data centers by up to 20%, which translates to about 924,000 tree seedlings grown for 10 years. MPower's RE supply will initially be rolled out across six (6) VITRO data centers, while the other four (4) will later on advance as part of ePLDT's sustainability roadmap.

Featured Story: Accelerating the Philippines' Clean Energy Revolution Through Solar Energy

In 2021, Meralco's power generation arm, MGen, successfully completed the construction of its very first solar plant, BulacanSol, through its RE subsidiary, MGreen.

The 55-MWac solar farm in San Miguel, Bulacan, began supplying clean energy to Meralco under a 20-year PSA, which may be extended to up to 25 years by the Energy Regulatory Commission. The PhP 4.25-billion project, is a joint undertaking between MGreen, which owns 60% of the company, and PowerSource Energy Holdings Corporation, which holds the remaining 40%.

Furthermore, in 2021, MGen, through its wholly owned subsidiary Global Business Power Corporation, broke ground for its first solar plant in Baras, Rizal. The 75-MWac plant is expected to begin commercial operations in the second half of 2022 and will supply green energy to the Luzon grid.

The establishment of BulacanSol and the groundbreaking of the Baras solar farm are MGen's first steps in its journey to build an RE generation portfolio with a total capacity of 1,500 MW by 2027. MGen's venture into the RE space helps ensure energy security in the country through green and cost-competitive power.

B. Making Traditional Power Sources Cleaner Through Advanced Technology

While steering its business towards more sustainable pathways, One Meralco optimizes the efficiency of its existing fossil fuel plants—a low-hanging, pragmatic step in decarbonizing the Philippine economy.

MGen's 455-MWac San Buenaventura Power Ltd., Co. (SBPL) coal-fired power plant in Mauban, Quezon, employs a state-of-the-art supercritical high-efficiency, low-emissions (HELE) technology, which allows for improved operational efficiency (i.e., more energy is produced versus non-HELE plants using the same amount of feedstock fuel) and less GHG emissions.

The United Nations lists supercritical technologies like HELE under its Clean Development Mechanism. To illustrate, a 500-MW (gross) HELE coal plant can reduce emissions by approximately 110,000 tCO_2e vis-à-vis a non-HELE plant of the same size. This is because a HELE plant can achieve up to 44% operational efficiency, compared to older plants which usually operate at 33% efficiency.

6 Planet: Protecting and Preserving Mother Earth

Life on Earth is at a critical cross point.

Evidence of human-induced climate change is unequivocal. Only four years ago, global greenhouse emissions (GHG) reached an all-time high of 33.5 billion tonnes, a watershed moment in Earth's history, driven primarily by unabated burning of fossil fuels and clearing of forests around the world. Every year, more than 5.5 million premature deaths are recorded globally due to air pollution from anthropogenic sources, most notably coal, oil, and natural gas. Meanwhile, 771 million people worldwide lack access to clean water, and this situation will be exacerbated year on year by more extreme and frequent droughts. On top of this, as finite resources are being consumed beyond the planet's capacity to regenerate, waste continues to pile up in landfills and oceans, adding more GHG emissions to the atmosphere as they decompose.

Amid all these realities, One Meralco finds itself uniquely positioned to take action. At the heart of the Group's values is *malasakit*, the Philippine concept of caring and going the extra mile, an expression of genuine concern for Earth and all those living on it.

In 2021, One Meralco deepened its efforts to show *malasakit* for the planet with initiatives aimed at mitigating the Group's GHG emissions, managing its pollutants, and regulating its wastes.

Now more than ever, when the global health crisis showed the close and important relationship between the health of the planet and the safety and prosperity of the human race, One Meralco reaffirmed its commitment to protecting and preserving mankind's one and only home.

6.1 Climate Change: Mitigating a Global Environmental Crisis

GRI 302-2 | GRI 302-3 | GRI 302-5 | SASB IF-EU-110

At the 2021 United Nations Climate Change Conference (COP26) in Glasgow, United Kingdom, world leaders concluded that mankind is now facing a climate emergency. No contribution is too small, and no time can be wasted—society must respond with bold and swift action. To slow down the destructive impacts of climate change, reducing GHG emissions in the atmosphere is of paramount importance.

In support of **SDG 13: Climate Action**, in 2021, One Meralco continued to elevate and highlight GHG emissions reduction as a top sustainability performance indicator at the corporate level. Along with other key ESG metrics monitored and managed by the Group's senior management, sustainability accounted for 10% of Meralco's CEO and corporate performance assessment.

One Meralco uses the GHG Protocol, a global standard for measuring and monitoring GHG emissions, from the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), to define the scope of its emissions as well as to manage their levels. Emissions tracked by One Meralco follow the global convention as follows:

- **Scope 1** – direct emissions that occur from sources that are owned or controlled by a company
- **Scope 2** – indirect emissions from the generation of electricity purchased then used/consumed by a company but physically occur at the facility where the power was generated
- **Scope 3** – an optional reporting category that refers to the accounting of all other indirect emissions not under the control or management of a company (i.e., emissions from value chain)

Aside from absolute emissions, One Meralco is also focused on measuring, managing, and reducing its emissions intensity by leveraging on cleaner technologies for its power-related activities.

The sections below detail One Meralco's work on mitigating climate change through GHG emissions management.

A. Scope 1: Reducing Direct Greenhouse Gas Emissions

GRI 302-1 | GRI 302-4 | GRI 305-1

In 2021, One Meralco's Scope 1 emissions amounted to 6.5 million tCO_2e, an increase of 114% from 2020. This was mainly driven by MGen's full acquisition of Global Business Power Corporation (GBP) in the second quarter of the year. GBP operates various fossil fuel-fired power plants in the Visayas region, which amounts to a total gross capacity of 1,091 MW. Aligned with **SDG 7: Affordable and Clean Energy**, GBP was acquired by MGen in order to expand its thrust to provide fairly priced and reliable energy to other parts of the country.

With full recognition that fossil fuels are the principal drivers of climate change, Meralco will build up to 1,500 MW of renewable energy (RE) generation capacity across multiple technologies by 2027 through its subsidiary MGen. Aside from this, MGen will also sell down 49% of its equity share in the Atimonan One Energy (A1E) coal-fired plant by 2026.

EQUITY-APPLIED SCOPE 1 EMISSIONS PER SOURCE (in tCO_2e)			
	2019	**2020**	**2021**
SF6 leakage	-	5,773.25	5,079.06
Gasoline consumption	876.55	775.33	1,520.04
Diesel consumption	11,239.23	11,410.84	11,819.93
Coal combustion	1,376,560.35	2,078,572.29	5,393,517.32
Natural gas combustion	1,003,802.38	954,280.85	1,088,674.60
Diesel combustion	12,036.91	8,271.31	40,984.52
TOTAL	**2,404,515.41**	**3,059,083.86**	**6,541,595.47**

Meralco also regularly monitors its sulfur hexafluoride (SF_6) outflows and ensures the recovery and recycling of this gas. At present, SF_6 outflows are measured by monitoring gas pressure levels before and after refilling activities and by converting these quantities into their mass equivalent using weighing scales.

In 2021, Meralco recorded 216.1 kg of SF_6 discharges, down by 8% from 235.2 kg in 2020, due to an improved monitoring and management system. This 19-kg reduction in SF_6 leakage effectively avoided the release of nearly 447,000 $kgCO_2e$ to the atmosphere. To further abate emissions, starting 2026, Meralco will actively move towards achieving zero SF_6 emissions in its distribution system by replacing old SF_6-insulated equipment with new, SF_6-free equipment. All new distribution equipment to be purchased by Meralco will also be SF_6-free. In support of this goal, the Company has started to conduct research and series of consultations with various potential suppliers for SF_6-free switchgears and breakers that Meralco can use going forward.

LEADING THE CHARGE ON VEHICLE ELECTRIFICATION

In 2021, Meralco continued rolling out its Green Mobility Program to accelerate efforts in vehicle electrification, one of the Company's main efforts to reduce its Scope 1 emissions. Through its electric vehicle (EV) subsidiary, eSakay, Meralco began rolling out 69 EVs—comprising of cars, motorcycles, pick-up trucks, and vans—to its various Business Centers (BCs) and Sectors Offices in Metro Manila, all of which are supported by five charging stations. With these new additions to Meralco's eco-friendly vehicle fleet, the Company is now equipped with a total of 128 EVs that primarily cater to the service delivery needs of its personnel and boasts a fully electric Metro Manila service vehicle fleet. In 2022, Meralco will roll out a total of 49 EVs and establish seven charging stations. These significant milestones are part of Meralco's objective to electrify at least 25% of its entire fleet by 2030.

In support of the newly enacted Republic Act No. 11697, or the Electric Vehicle Industry Development Act, One Meralco will continue to move with speed in the space of green mobility by accelerating the electrification of its own vehicle fleets to reduce its environmental impacts and operational costs.

Bright Smiles: Cleaner Service Delivery Through Green Mobility

"The e-Motorcycle has been very helpful in my activities. It has enabled me to work efficiently and in an environment-friendly way.

I have no worries about the EV's reliability in the field because it has a backup battery. I used to have to constantly check if I still had gas on my motorcycle to last me throughout the long trips especially when I conduct fieldwork in areas far from petrol stations.

As a field representative, I'm happy to take an active role in Meralco's efforts to reduce the environmental impacts of its fleet by switching to EVs. It's also a great opportunity to raise awareness about the Company's sustainability initiatives among customers I meet and serve."

—Rodhel Panganiban
Field Representative, Caloocan BC

"Panalo ang EVs on every level—no fuel needed to run the vehicle, maintenance is minimal, at higit sa lahat ay eco-friendly pa. In terms of daily use, reliable itong gamitin sa maghapon—magaan, sobrang lambot ng manibela at hindi ka makakaabala sa customers dahil less noise at less pollution.

"Marami rin ang naa-attract at naku-curious dahil sa porma ng sasakyan nito. Malaking tulong din ang 12-inch monitor nito to aid us in our field work dahil pwedeng ma-sync sa mobile phone using Bluetooth technology. Perfect choice for Meralco!"

—John Dave Elish Estrella
Field Representative, Mandaluyong BC

B. Scope 2: Regulating Indirect Greenhouse Gas Emissions

GRI 302-2 | GRI 305-2

One Meralco's Scope 2 emissions in 2021 totaled almost 2.1 $MtCO_2e$, a 1% increase versus 2020, due to an increase in system loss volumes, which accounted for 97% of the Group's emissions for this scope. This increase was due to the 8% higher energy sales driven by the reopening of the economy.

EQUITY-APPLIED SCOPE 2 EMISSIONS PER SOURCE (in tCO_2e)			
	2019	**2020**	**2021**
System loss	1,928,079.89	1,975,051.72	1,998,436.99
Electricity consumption	53,295.10	55,017.78	53,980.20
TOTAL	**1,981,374.99**	**2,030,069.50**	**2,052,417.20**

Meanwhile, One Meralco's own electricity consumption, another driver of Scope 2 emissions, declined by 3% in 2021 to 75,794 MWh from 78,027 MWh in 2020 due to the various energy conservation and efficiency measures implemented by the Group. For instance, Meralco converted all of its lighting fixtures to LED alternatives, replaced its air conditioning units with inverter types, and constructed anti-heat island projects such as green parking spaces, green walls, and rooftop gardens to help reduce the heat load in the Company's facilities.

TOTAL ELECTRICITY CONSUMPTION (in MWh)			
	2019	**2020**	**2021**
Meralco	60,397	57,960	59,326
Subsidiaries	15,254	20,067	16,468
TOTAL	**75,651**	**78,027**	**75,794**

EMBRACING INNOVATION FOR AN ENERGY-EFFICIENT WORKPLACE

Energy conservation and efficiency are a low-hanging fruit in global decarbonization and for companies, it also makes perfect economic sense. In 2021, One Meralco continued driving its Resource Conservation and Efficiency (RCE) Program, which aims to lower the Group's Scope 2 emissions and its operating expenses by managing its own electricity consumption. Established in 2020 to support **SDG 12: Responsible Consumption and Production**, the RCE Program initially covered the Meralco Center only.

In 2021, Meralco increased the footprint of its solar panels across its facilities in Metro Manila by installing 190.1 kWp on several buildings in the Meralco Center and in its Business Centers. This, coupled with improved energy usage monitoring and management, reduced energy consumption in Meralco from 19.9 GWh in 2020 to 16.9 GWh in 2021.

Featured Story: Accelerating the Solarization of Meralco Facilities

Meralco's RCE Program is a major part of the Company's response to urgent calls for climate action as well as to the Philippine government's Energy Efficiency and Conservation Act (Republic Act No. 11285), which was passed into law in 2019.

At the heart of the RCE Program is the solarization of key facilities such as the Lopez and Technical Services Buildings in the Meralco Center and select Business Centers (BCs). In 2021, Meralco installed solar panels with a total capacity of 16.2 kWp in its Antipolo BC. Plans to solarize the Marikina and Roosevelt BCs have been completed in early 2022, while plans to energize the Company's BCs in Alabang, Balintawak, and San Pedro are expected to be completed within this year.

The Meralco Center is envisioned to be powered with 100% renewable energy (RE) by 2030 through onsite sources (via rooftop and ground-mount solar panels) and offsite supply (via RE retail supply contracts). This will allow Meralco to avoid releasing 15,425 tCO_2e to the atmosphere via electricity consumption.

C. Scope 3: Managing Value Chain Emissions

GRI 305-3

One Meralco's Scope 3 emissions totaled 30.2 $MtCO_2e$ in 2021, up from 29.4 $MtCO_2e$ in 2020. This roughly 3% increase was mainly drive by the increase in Meralco and Clark Electric's energy sales, primarily fossil fuel-based, as discussed in Section 5.2 (Accessibility).

EQUITY-ADJUSTED APPLIED SCOPE 3 EMISSIONS PER SOURCE (in tCO_2e)			
	2019	**2020**	**2021**
Energy sales	32,309,500.30	29,422,091.27	30,216,779.70
Gasoline consumption of rented/contractor-owned vehicles	32.83	41.43	37.92
Diesel consumption of rented/contractor-owned vehicles	20.87	16.81	10.28
TOTAL	**32,309,554.00**	**29,422,149.51**	**30,216,827.91**

Meralco has the social responsibility and legal obligation to provide consumers within its franchise area with energy at the most affordable price. Section 4 of Republic Act 9209 mandates Meralco to "supply electricity to its captive market in the least-cost manner." While the Company acknowledges that the burning of fossil fuels is highly polluting and contributes to global warming, coal- and gas-fired power continues to be the cheapest option in the Philippines, and this continues to be Meralco's leading sources of electricity for its customers. Nonetheless, as part of its long-term sustainability strategy, Meralco is taking bold and strategic steps to wean off coal. Aligned with the government's Renewable Portfolio Standards (RPS), the Group will gradually increase the share of clean energy in its fuel mix by procuring more RE supply. The Company will secure 1,500 MW of RE from power generators in the next five years.

D. Emissions Intensity: Ensuring Cleaner Energy

GRI 305-4

In addition to managing its absolute emissions, One Meralco also carefully tracks its emissions intensity—the amount of GHG emissions (measured in tonnes of carbon dioxide equivalent, or tCO_2e) per unit of output or activity (measured in GWh energy sales).

In 2021, the Group's combined Scope 1, 2, and 3 emissions intensity was 842.4 tCO_2e/GWh, more than 6% higher than 792.1 tCO_2e/GWh the previous year. This growth was mainly due to the full acquisition of GBP, whose power plants are all fossil fuel-based.

EQUITY-ADJUSTED EMISSIONS INTENSITY (in tCO_2e/GWh)			
	2019	**2020**	**2021**
Total emissions	36,695,444	34,511,303	38,810,775
Energy sales	46,871	43,572	46,073
EMISSIONS INTENSITY	**782.91**	**792.05**	**842.38**

As part of its long-term sustainability strategy, One Meralco is implementing significant measures that will steadily reduce its absolute emissions and emissions intensity through 2030 and beyond while continuing to grow its customer base and energy sales. The most prominent of these initiatives include contracting more RE supply and building more RE power plants, as discussed in previous sections.

E. Carbon Offsetting: Restoring Biodiversity to Counter Emissions

Aside from addressing its direct emissions and those emanating from its value chain, One Meralco also invests in carbon offsets. In support of **SDG 15: Life on Land**, the Group's One for Trees (OFT) Program, founded and spearheaded by One Meralco Foundation (OMF), is a nature-based solution at removing emissions from the atmosphere while reviving and protecting ecosystems.

Since 2019, OMF and its community partners have planted a total of 1,620,724 trees—equivalent to offsetting almost 35,300 tCO_2e of emissions—in various areas in the Philippines. In partnership with the Green Earth Heritage Foundation, OMF aims to plant and nurture at least 5 million trees through 2025 in different forest lands and critical watersheds within the Meralco franchise area and beyond. The majority of the trees planted are species native to the Philippines, further enriching and preserving the country's biodiversity.

While seeking to revive and rehabilitate damaged and threatened forests and watersheds, OMF is also providing a steady flow of income to communities who help plant the trees through agroforestry. Mature trees and rehabilitated forests serve as natural carbon sinks and habitats for many animal species.

6.2 Air Quality: Maintaining Breathable Air

GRI 305-6 | GRI 305-7 | SASB IF-EU-120

Worldwide, emissions from power plants are the top drivers of air pollution. Cognizant of this adverse impact on the environment, One Meralco strives to maintain its non-greenhouse gas (GHG) emissions within standards set by the Philippine Department of Environment and Natural Resources (DENR).

2021 marked the first time One Meralco included data on its non-GHG emissions in its sustainability report to supplement its environmental disclosures. In the last three years, the concentrations of pollutants released by MGen's fossil fuel-fired power plants all fell within the acceptable threshold set by the DENR Environmental Management Bureau.

CONCENTRATION OF AIR POLLUTANTS RELEASED BY MGEN'S POWER PLANTS (in mg/Nm3)			
	2019	**2020**	**2021**
Nitrogen oxides (NOx)	373.09	315.50	328.78
Sulfur oxides (SOx)	65.89	584.22	481.16
Particulate matter (PM_{10})	55.62	53.06	37.62
Persistent organic pollutants (POPs)	Not being monitored		
Volatile organic compounds (VOCs)			
Lead (Pb)			
Mercury (Hg)			

Moving forward, MGen will explore ways to monitor other air pollutants such as POPs, VOCs, Pb, and Hg in order to better understand the environmental impact of its power plants across the country.

6.3 Water and Effluents: Keeping the Oceans Clean

GRI 303 | SASB IF-EU-140

The Philippines is confronted with a water scarcity crisis. At present, more than 3 million Filipinos continue to tap unsafe and unclean water sources. To conserve this vital resource, One Meralco has established various strategies to manage consumption without causing water stress within its areas of operation.

WATER MANAGEMENT METRICS OF MGEN (in liters)			
	2019	**2020**	**2021**
Withdrawn	1,385,612,450,101	1,232,175,026,142	1,271,898,962,659
Consumed	832,920,815	553,920,741	736,961,146
Discharged	1,384,779,529,286	1,231,621,105,401	1,271,162,001,513

In 2021, MGen, which contributes more than 99% of One Meralco's water use, withdrew nearly 1.3 trillion liters of seawater to cool its coal-fired power plants during operations through a once-through process. 99.9% of this extracted water was discharged back to the sea. Meanwhile, the remaining 0.01% consumed by the Company either evaporated during the cooling process or was used for power plant processes and office operations. Effluents generated in the same year went through water treatment facilities before being discharged safely to bodies of water.

FOSTERING A WATER-SMART WORKFORCE

Creating awareness about responsible ways to use and manage water and encouraging employees to become stewards of this precious and finite resource is an important part of One Meralco's drive to take care of Mother Earth.

In 2021, Meralco continued to invest in training its Pollution Control Officers in wastewater management, including the operation of septic vaults and sewage treatment plants (STPs), to strengthen the understanding of its personnel on wastewater sources, health impacts, and waste minimization.

Aside from training environmental officers, Meralco also engaged with regular employees to practice water conservation. Information about ways to use water wisely is shared on various platforms, including desktop wallpapers, email alerts, and physical campaign materials such as signages and posters. The Company also promoted the use of recycled water for cleaning and for watering plants within its premises.

Featured Story: Challenging Employees Towards Resource Conservation and Efficiency

On World Environment Day last year, Meralco, through its Resource Conservation and Efficiency Program, launched the Save-a-Watt, Save-a-Drop Challenge among its employees from 11 Sector Offices and 57 Business Centers. The challenge aimed to promote and raise awareness on the optimal use of energy and water resources across Meralco's facilities by calling for the most innovative resource-saving ideas and by implementing these in the workplace over six months. Participating offices measured their respective electricity and water usage savings from July to December 2021. As a result of these conscious efforts, Meralco achieved an 8% reduction in electricity consumption and almost 13% reduction in water consumption versus 2020 levels. Moving forward, the Company will continue to implement employee engagement initiatives that are aimed towards the adoption of sustainable practices.

Bright Smiles: Meralco Employees Saving the Planet, One Kilowatt and Drop at a Time

"Masaya kami to participate in this program dahil in our own little ways, nakakapag-contribute kami sa pag-protect ng planet. 'yung in-invest naming little time and effort kada araw ay nagbunga. Kasama dito ang daily monitoring ng facilities namin, pagre-repair ng leaks and defective faucets, pati na rin ang pagche-check kung may naiwang AC, lights, at ibang electric equipment na ka-on pero walang gumagamit.

"May challenges kaming kinaharap sa program na 'to tulad ng change in culture and behavior ng mga tao. Ang ginawa namin ay nagbigay kami ng announcements during weekly flag ceremony at nagbigay ng constant reminders every day. The key here is discipline.

"To sustain the team's performance and to continue contributing to conserving our electricity and water resources, we need to:

1. Understand the goal.
2. Be aware of our roles.
3. Learn from our lessons from yesterday to improve our results today."

—Franklin S. Mozo
Team Leader, Rizal Sector-Logistics

6.4 Waste: Minimizing Discarded Resources

GRI 306-1 | GRI 306-5

While waste is one of the more accessible topics not only to businesses but also to policy leaders and the general public, addressing the waste crisis requires complex solutions and all of society's actors working together. The Philippines has among the highest waste collection rates in Southeast Asia, but disposal is abysmal, with up to 70% of Filipinos without access to disposal facilities and sanitary landfills, causing waste to leak into bodies of water, harming the health of both aquatic animals and humans who rely on natural sources of water.

One Meralco responds to the mounting waste challenge by addressing the root cause of waste—the linear take-make-dispose model of resource use. The Group has put in place policies and programs to move away from this approach by institutionalizing the three Rs of waste management: reduce, reuse, and recycle. Meanwhile, if there are materials that inevitably reach end-of-life, they are disposed with the highest waste management standards being observed.

At the heart of One Meralco's waste management practice is its deep care for the health of its workforce, its communities, and the planet. Where there is minimal waste, safe and healthy communities thrive.

This section explores how One Meralco promotes responsible waste management.

A. Curbing Waste Generation

In 2020, One Meralco launched its Race to Zero Waste Program (RZW) to integrate its waste management practices and initiatives across Meralco's business units and subsidiaries. The goal of the program is to reduce waste generation and waste disposal in landfills across all facilities of One Meralco, including production sites, office buildings, Sector Offices, Business Centers, storage facilities, and substations.

Addressing the entire lifecycle of waste management—from generation and segregation to collection and disposal—the RZW Program is built on the success and momentum of Meralco's Group-wide ban on single-use plastics (SUP) that was put in place in 2019. The SUP ban covered all One Meralco offices and facilities and was even extended to the Group's suppliers, who complied with the mandate beginning 2020.

By 2021, the Group's employees and suppliers collectively avoided over 300,000 kg of SUPs, equivalent to 30 million plastic bottles, proving that small yet collective improvements can have an exponential positive impact on the well-being of the planet.

AMOUNT OF SOLID WASTE TREATED OR DISPOSED OF BY MERALCO (in tonnes)			
	2019	**2020**	**2021**
Biodegradable	-	727.33	1,643.73
Recyclable	16.00	482.76	820.96
Residual	76.80	1,151.64	421.12
TOTAL	**92.80**	**2,361.73**	**2,885.81**

In 2021, through a more robust waste management system—which included a waste analysis and characterization study, provision of more labeled waste bins, establishment of materials recovery facilities (MRFs), and conduct of awareness campaigns among others—Meralco was able to monitor and segregate its wastes more effectively and efficiently. That year, the Company recorded 2,885.8 kg of non-hazardous wastes, up by 22% from 2020. This was primarily driven by the return of employees to their offices as Meralco reopened its doors for onsite work.

Despite this increase in waste generation, the Company successfully diverted more than 85% of its total waste in 2021—Meralco's all-time best—a significant increase from the 51% waste diversion rate in 2020 and 17% in 2019. This improvement was a result of stricter enforcement of national waste management policies and Meralco-specific guidelines (such as the SUP ban across the Company's facilities and supply chain as well as multi-level segregation at source and in the Company's 11 MRFs), expansion of waste management facilities, and better engagement with employees through waste-focused communication activities.

In 2021, Meralco was awarded the ISO 14001 Environmental Management System Certification, a seal of approval to the strength of the Company's environmental management system, which includes waste management policies, guidelines, protocols, and initiatives among others.

Featured Story: Treasure from Trash: Meralco Emerges Victorious in the X-Trash Challenge

Meralco's commitment to fostering a healthier and cleaner planet is largely driven by its waste diversion initiative, under its Race to Zero Waste Program, which is aimed at protecting land and water ecosystems by limiting the amount of garbage disposed in landfills and oceans.

Last year, Meralco joined 13 other companies in the X-Trash Challenge, launched by the Philippine Business for Social Progress in collaboration with Basic Environmental Systems and Technologies, Inc. The initiative raised funds for food packs through the donation of recyclables, benefiting close to 300 low-income families in Cavite, Makati, and Muntinlupa. The beneficiaries were waste pickers involved in their communities' own solid waste management projects.

From May 1 to September 15, 2021, Meralco employees banded together and collected recyclable paper, metal, and plastic wastes from various company facilities. The Company likewise engaged its suppliers

and contractors to contribute to the waste collection drive, making the initiative a truly collaborative effort across Meralco's supply chain ecosystem.

Ultimately, Meralco emerged as the top contributor among the 13 participating companies after donating 37,593 kg of recyclables, equivalent to nearly 230 food pack donations for the program beneficiaries.

B. Promoting Health Without Harm

In 2021, as the Philippine economy gradually reopened and employees were encouraged to report back to the office, Meralco continued and heightened its work on diverting infectious waste away from landfills by institutionalizing stricter segregation of medical wastes within the Company's facilities. Under the initiative #HealthWithoutHarm, which is part of the RZW Program, Meralco ensured the proper handling and disposal of medical wastes so that they do not end up in sites where they could be potential sources of pathogens and infect employees.

C. Greening the Network Through Eco-Friendly Transformers

As Meralco magnifies its sustainability efforts, it also mitigates its impact on the planet through materials it uses in its energy distribution business. At the forefront of the Company's transformation is the use of recyclable, biodegradable, and environment-safe materials throughout its operations. In 2019, Meralco began switching to using recyclable and natural ester oil (NEO) in its distribution transformers (DTs), including pad-mounted, vault-type, and overhead DTs. In so doing, Meralco upped the efficiency and reliability of its network without endangering the environment.

Distribution transformers are like the veins that carry electricity to the customers. They convert high voltage electricity from primary lines to low-voltage electricity for secondary lines to power households and businesses.

By switching from mineral oil to NEO, Meralco aligned itself with best-in class global practices in power distribution and brought the Company closer to its aspiration of becoming a sustainability leader in the energy sector.

A derivative of vegetable oil, NEO is a 99% biodegradable, recyclable, and non-toxic material. Unlike the conventional mineral oil, NEO has no petrochemicals, siloxanes, or halogens—substances that damage ecosystems and contribute to the planet's warming. These natural esters are taken from renewable crops, such as soybean, rapeseed, sunflower, canola, and corn. Furthermore, used NEO can be reprocessed as a raw material for other products such as soaps and lubricants.

The shift to NEO resulted in a wide range of benefits for Meralco, including increased transformer loading capability, fire safety, and reduced waste generation.

While Meralco's use of NEO in its transformers started in 2006, 2021 marked an even greater adoption as the Company used it as an insulating fluid for its main overhead distribution transformers (OHDTs). A total of 1,682 NEO-enabled OHDTs were delivered to Meralco in 2021—compared to 261 units in 2020—with additional 15,271 ester oil OHDTs planned for 2022. Additionally, the Company has also begun to replace the insulating fluids in about 220,000 of its existing distribution transformers with ester oil.

Transforming the transformers is only the start of a new, groundbreaking initiative, Meralco's Greening the Network (GTN) Program. GTN is focused on replacing old, more-polluting equipment with cleaner alternatives to avoid unnecessary wastes in material use and to reduce carbon emissions in the Company's end-to-end distribution system. Ultimately, Meralco aims to operate 100% of its transformers with NEO by 2030.

7 People: Nurturing Sustainability from Within

To fulfill its mission of powering the good life, One Meralco taps its workforce—consisting of the brightest minds and talents in the country's energy sector—to energize its purpose and impact.

The Group is committed to attracting the best individuals and nurturing their potential throughout their employment journey—from hiring to retirement. Aligned with global best practices and in support of **SDG 8: Decent Work and Economic Growth**, One Meralco heavily invests in people as the critical force to propel its business forward.

One Meralco's focus on diversity and inclusion also attests to the seriousness with which it pursues its sustainability journey. In 2021, the Group's workforce consisted of roughly 26% women, more than twice higher than the global energy sector average of 11%. In the future, as One Meralco grows its energy businesses, it envisions employing more women in jobs—particularly green occupations. This is aligned with the International Labor Organization's forecast that the current trend of the renewable energy sector demonstrating a greater gender balance will gain momentum in the coming years.[14] By 2030, 40% of Meralco's workforce will be comprised of women.

In addition to attracting the best people, One Meralco also endeavors to keep and nurture them in the long term. To do this, the Group constantly opens platforms for constructive engagement. For an organization with almost 19,700 employees, empowering each one to have a voice enriches the Group's human resources policies and programs and makes working at One Meralco a fulfilling experience for all. 30% of the Group's employees actively organize into Collective Bargaining Agreements (CBAs), where they dialogue with the management and resolve concerns productively and without the threat of dismissal.

Aside from ensuring a work environment where, in case of conflicts, the intent to amicably resolve issues is fundamental, One Meralco also places paramount importance on its employees' holistic well-being. The Group aims to eliminate all work-related unsafe/hazardous incidents through its continuing improvements in occupational health and safety and through strict compliance with safety regulations.

One Meralco employees also enjoy compensation above government-prescribed standards and peers in the country for them to not just meet their daily needs but also enable their own personal growth. And to further maximize each employee's potential, the Group provides its people with various opportunities for professional development as well as avenues to give back to the community.

A strong workforce is crucial to One Meralco's uninterrupted service to the nation. To achieve this, the Group ensures that it takes care of the people who take care of its business and stakeholders. From hiring to onboarding to continuous engagement, One Meralco puts its employees' human development aspirations to heart. For One Meralco, nurturing sustainability from within means investing in people's holistic wellness and providing opportunities to pursue purpose-driven work.

[14] International Renewable Energy Agency; International Labour Organization, "Renewable Energy and Jobs - Annual Review 2021," Abu Dhabi; Geneva, 2021.

7.1 Human Capital: Growing One Meralco's Tribe of Game Changers

GRI 102-8 | GRI 401 | GRI 406 | GRI 405

Human capital—the sum of knowledge, skills, and time that humans invest in and accumulate throughout their lives to contribute to social and economic progress—is wired in each of the 17 SDGs. As such, One Meralco's emphasis on holistic human capital development enables its employees to live and lead meaningful and prosperous lives—and careers—while giving back to society.

One Meralco employs a recruitment process that is fair, ethical, and inclusive. It is an equal-opportunity employer and hires qualified candidates regardless of gender, socioeconomic status, religion, age, and ethnicity. The Group continuously also attracts top talents to meet the fast-changing needs of the organization.

One Meralco employs a unique approach to talent resourcing that combines technology and progressive hiring principles. In particular, the Group utilizes innovation as well as diversity and inclusion as enablers for efficient and effective human capital development. These result in a healthy variety of perspectives and competencies that strengthens One Meralco's culture of excellence and compassion.

One Meralco's workforce was 19,668 employees strong in 2021, up by more than 2% from 2020 as a result of hiring more people as the economy reopened and recovered. A quarter of the Group's population is comprised of women employees—more than twice the global average for the energy sector.

MERALCO DISTRIBUTION UTILITY (DU) EMPLOYEES BY EMPLOYMENT STATUS						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Permanent	4,393	1,140	4,495	1,188	4,491	1,205
Probationary	170	52	112	20	137	72
FTH and Project-based	38	57	119	67	184	125
Third Party	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	**4,601**	**1,249**	**4,726**	**1,275**	**4,812**	**1,402**

SUBSIDIARY EMPLOYEES BY EMPLOYMENT STATUS						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Permanent	3,939	2,025	3,890	1,896	3,945	2,074
Probationary	145	344	121	313	217	297
FTH and Project-based	5,744	1,295	5,611	1,371	5,661	1,227
Third Party	45	3	24	2	27	7
TOTAL	**9,874**	**3,667**	**9,646**	**3,582**	**9,850**	**3,605**

A. Hiring: Providing Equal Opportunities for All

In support of **SDG 5: Gender Equality**, One Meralco advances a gender-balanced workplace that employs and empowers women. In 2021, at least 26% of the Group's 4,976 new hires were female—proportional to the share of women in the organization's existing workforce.

NEW EMPLOYEE HIRES						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Meralco DU	294	97	225	65	171	101
Subsidiaries	3,370	1,367	2,649	1,715	3,537	1,167
TOTAL	**3,664**	**1,464**	**2,874**	**1,780**	**3,708**	**1,268**

One Meralco's thrust for greater workplace diversity and inclusion is operationalized through a deliberate effort to source women for a variety of roles, from rank-and-file to leadership. In 2021, almost 25% of the Group's senior and middle managers were women.

MERALCO DU EMPLOYEES BY RANK						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Senior Managers	540	143	530	160	565	185
Middle Managers	449	263	439	257	462	299
Rank-and-file	3,574	786	3,638	791	3,601	793
TOTAL	**4,563**	**1,192**	**4,607**	**1,208**	**4,628**	**1,277**

SUBSIDIARY EMPLOYEES BY RANK						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Senior Managers	1,310	160	1,389	166	1,239	136
Middle Managers	776	353	748	326	788	384
Rank-and-file	6,067	2,832	5,780	2,740	5,424	2,563
TOTAL	**8,153**	**3,345**	**7,917**	**3,232**	**7,451**	**3,083**

In 2021, Meralco carried out key steps to further increase the share of women in its workforce:

- Conducted a thorough review of existing roles that may be filled by underrepresented individuals, creating more opportunities for women to participate;
- Partnered with the One Meralco Power Academy to train women on job roles traditionally held by men such as equipment operator and field inspectors; and
- Collaborated with the academe to create scholarship programs that will produce more female graduates in electrical engineering fields; and

- Encouraged and recruited young women from technical high schools and universities to pursue careers at Meralco.

A key first step to achieving a gender-diverse workforce is a progressive approach to recruitment. One Meralco's strategy taps best-in-class technology to assist in the recruitment process. For instance, Meralco's female virtual recruiter TRACI (Talent Resourcing Automated Communication and Information) is a recruiter chatbot present on popular digital platforms including Facebook Messenger. Using artificial intelligence and robotic process automation (RPA), TRACI notifies job seekers of vacancies and allows them to submit their applications conveniently in the safety of their homes.

By leveraging technology and amplifying Meralco's reach through social media, Meralco further enhances its recruitment practices and processes, with the aim of finding and bringing in the best talent the country has to offer.

B. Onboarding: Welcoming New Employees

When welcoming new hires into the Meralco family, the Company provides a smooth experience powered by its five-day, guided, and self-paced onboarding program, Orange Plug-in (OPI), which orients new employees on the Company's history and core values as well as on its current businesses and initiatives. In 2021, a sustainability module was enhanced in the onboarding material. This section of the program informed new hires about Meralco's sustainability philosophy and initiatives enshrined within its Powering the Good Life agenda.

In 2021, Meralco strengthened the use of OPI Online, a virtual version of OPI, during the pandemic-era onboarding. OPI Online courses were completed via Microsoft Teams and Office 365 to help new employees experience a smooth and safe integration into the Company. It was designed to provide employees with information about Meralco as an organization as well as its policies, tools, benefits, and other services. The online version proved to be highly effective and convenient due to the flexibility in the time spent by both employees and subject matter experts. Meralco is currently expanding OPI Online's sustainability content to capture One Meralco's new sustainability programs as well as the Group's long-term sustainability strategy.

Aside from learning about Meralco's sustainability practice, employees hired in 2021 also participated in sessions focused on learning and development, occupational health and safety, corporate governance, and data privacy to ensure that each new hire is well-equipped as a Meralco employee.

Meralco also guided its new hires during their probationary period through an initiative referred to as Employees' First 100 Days. Through this program, the Company helped them adjust to their new roles as well as to the policies and guidelines of the Company.

7.2 Labor Relations: Safeguarding Workers' Rights

GRI 402-1 | GRI 102-41

Human rights are a key indicator for measuring the S in ESG. Despite this criterion being harder to quantify compared with E and G, which already have established frameworks, Meralco performs strongly on its social responsibility to its employees by protecting workers' rights. While Meralco has always prioritized human rights protection, in 2021, the Company furthered its focus on this by establishing its Human Rights Policy. This policy embeds safeguards for its employees (and other stakeholders) across all levels of the organization by clearly outlining the systems, structures, and processes established in Meralco to protect the fundamental rights of employees. Ensuring its employees and workers enjoy the highest standard of human rights protection is central to the Company's long-term sustainable growth.

In support of this policy, Meralco nurtures a culture of trust, openness, and constructive engagement as reflected across its labor practices.

For instance, Meralco is committed to providing its employees various avenues for meaningful and constructive dialogue concerning labor issues. In particular, the Company supports collective bargaining agreements (CBA) between its rank-and-file and supervisory employees and its senior leadership. In 2021, 71% (almost 3 out of 4) of Meralco's employees were covered by CBAs.

EMPLOYEES COVERED BY CBA			
	2019	**2020**	**2021**
Meralco DU	4,360	4,429	4,394
Subsidiaries	1,272	1,612	1,553
TOTAL	**5,632**	**6,041**	**5,947**

Aside from institutionalizing dialogue through CBAs, Meralco also provides its employees a safe environment for reporting violations. The Company takes reports of infractions seriously and acts swiftly to investigate cases and to address the offender with appropriate sanctions.

One Meralco's Whistleblowing Policy encourages and enables offended parties or witnesses to violations to lodge complaints without the fear of retaliation. Reports are sent to the Corporate Governance and Compliance Office (CGCO), and upon the CGCO's receipt and review, appropriate action is taken immediately.

In the rare event of retaliation, the reporting person or witness may fill out a Retaliation Protection Report Form, which is then reviewed by the Management Disciplinary Committee or the relevant Board Committee for approval of the CEO, the Chairman of the Board, or a designated representative.

Meralco goes beyond actively responding to employee issues. To proactively address violations and to avoid misconduct from the start of an employee's journey with the Company, Meralco conducts training sessions for new employees and line managers on the Code on Right Employee Conduct (COREC).

Moving forward, Meralco will continue to educate and empower its employees regarding human rights. As initiatives are rolled out, the Company will also continue to keep abreast of new labor laws or regulations and other jurisprudences to always ensure compliance.

Featured Story: Institutionalizing Human Rights Protection in Meralco

The human rights movement has gained traction in businesses in recent years, with more regulators increasingly demanding transparency in the way corporations treat employees and workers throughout their value chains. Meralco has heard the call to institutionalize this transparency and recognize the importance of human rights in its operations.

Crafted and established in 2021, Meralco's Human Rights Policy demonstrates the Company's recognition that safeguarding human rights is central to achieving sustainable development. Meralco's strengthened commitment to championing human rights and integrating human rights principles and standards into its business operations and dealings is more than an investment with guaranteed returns.

Aligned with the United Nations' (UN) Guiding Principles on Business and Human Rights, Meralco's Human Rights Policy also encompasses the rights set out in the International Bill of Human Rights and International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The policy also institutionalizes Meralco's commitment to upholding the UN Global Compact's first two principles: (1) to support and respect internationally proclaimed human rights and (2) to not be complicit in human rights abuses.

Championed by the Corporate Governance and Compliance Office and the Sustainability Office, Meralco's Human Rights Policy prescribes all directors, officers, employees, and business partners across its line organizations and subsidiaries to work together to achieve the following commitments:

- Uphold the International human rights principles and covenants
- Respect human dignity and prevent any form of discrimination
- Stop child labor, forced labor, and human trafficking
- Ensure the freedom of association and collective bargaining
- Promote a safe and healthy workplace

To put the policy to work, Meralco has started deeply embedding human rights protection in all aspects of its business activities—from employee training and communication to official dealings with customers, communities, business partners, and regulators.

7.3 Occupational Health and Safety: Protecting Employees from Harm

GRI 403 | SASB IF-EU-320

Occupational health and safety are fundamental rights protected by Article 162 of the Labor Code of the Philippines. Further, Republic Act 11058 or the Occupational Safety and Health Standards Act ensures worker protection from all kinds of work-related hazards and upholds their right to refuse job assignments that are dangerous in nature. Meralco upholds the health and safety of its employees aligned with **SDG 8: Decent Work and Economic Growth**.

A. Providing a Safe Workplace for Employees

One Meralco demonstrates a strong commitment to upholding the right of its employees and workers to a safe and healthy environment. This begins with top management's decision to invest in safety as much as it does in productivity, quality, or labor relations among others. The Group aligns with international regulators and standards like the International Labor Organization in ensuring safety at work.

Meralco's Organizational Safety and Business Continuity Management (OSBCM) organization drives the Group's safety culture, implementing all organizational safety and health-related tasks and initiatives. The Environment, Safety, and Health (ESH) Committees across the utility's business units act as local safety champions and engage with Meralco's employees through monthly ESH meetings aimed at keeping the Group's safety and health standards and protocols relevant and ensuring these apply to all staff.

Meralco's flagship safety awareness program, TARGET ZERO: Zero Incident, Zero Harm, is a continuing initiative that aims to eliminate all work-related incidents. This program is reinforced by several occupational safety and health (OSH) initiatives, including "Unang Hakbang Para sa Kaligtasan: First Working Day Safety", an annual event held to access and improve the previous year's safety performance and to recognize excellent safety practitioners.

Moreover, in 2021, Meralco achieved 100% safety compliance requirements and passed all seven Department of Labor and Employment (DOLE) audits across its various operating facilities.

Meralco also promotes safety at work by leveraging information technology advancements. For example, the ESH Matters Portal is an online database of safety performance data, procedures, and guidelines related to environment, safety, and emergency response. In addition, both the Hazard Hunter Mobile App and Incident Report Management System (IRMS) are platforms which enable employees to easily and immediately report safety hazards and incidents.

Meralco also continued to run CODE (Care Operations for Disasters and Emergencies) Light Chat Bot, an app that enables employees to update their direct reports of their health status on a daily basis. Any symptom of any illness is lodged, and the data is analyzed by the Meralco Wellness Center to ensure employees are given health tips, assisted with treatments, and, in case of COVID-19 cases, transmission is

prevented. Post-pandemic, Meralco will continue to leverage such tools to ensure a quick check on employees' health, as this also helps the Company boost its productivity.

As a result of all these efforts to keep employees from harm, in 2021, One Meralco clocked in 39.5 million safe person-hours, a more than 5% decrease from 41.7 million safe-person hours in 2020. The Group also successfully reduced its recordable work injuries by nearly 15%—from 144 in 2020 to 123 last year.

B. Strengthening Capabilities for Emergency Response

One Meralco observes the highest standards of OSH and embeds safety awareness and practice in its employees' DNA. The Group conducts mandatory OSH training programs that include updated and relevant principles and standards for organizational safety and health, including Basic Life Support, Industrial Personal Protective Equipment Usage, Basic OSH Principles, and Electrical Safety.

The Group also conducts skills training on defensive driving, working at heights, and heavy equipment and basket truck operations, among other specialized competency programs. In 2021, Meralco offered 39 OSH training courses for its employees, totaling 35,280 training hours, representing a significant increase of 196% from 11,908 training hours 2020.

Meralco employees are also trained for disaster response and preparedness, empowering them to face hazards such as fire, earthquake, bomb threats, chemical spills, and others. Drills are regularly conducted that put employees' alertness, presence of mind, and know-how to navigate disasters in check.

In 2021, Meralco conducted three earthquake drills and one fire drill to ensure that its employees are well prepared to protect themselves and to respond to the call for help during times of disaster.

WORKERS COVERED BY AN OSH MANAGEMENT SYSTEM				
		2019	**2020**	**2021**
Permanent and Probationary	Meralco DU	5,755	5,815	5,905
	Subsidiaries	6,701	6,519	7,019
Project-based/fixed-term	Meralco DU	95	186	309
	Subsidiaries	7,161	7,298	7,771
Third Party	Meralco DU	2,155	2,238	9,583
	Subsidiaries	162	157	202
TOTAL		**22,029**	**22,213**	**30,789**

OTHER OSH METRICS				
		2019	2020	2021
Total employee hours worked	Meralco DU	12,356,681	12,631,044	13,026,699
	Subsidiaries	29,435,424	29,656,446	31,532,338
Safe man-hours	Meralco DU	12,356,472	12,624,538	13,026,160
	Subsidiaries	26,486,876	29,113,630	26,475,134
Occupational safety & health training hours	Meralco DU	55,760	11,908	35,280
	Subsidiaries	21,393	16,411	22,927

7.4 Remuneration: Rewarding Productivity and Excellence

GRI 102-35

As the country's premier power distribution utility, Meralco is committed to providing highly competitive remuneration opportunities that attract, retain, and motivate talent who deliver outstanding performance to its customers and communities. Meralco ensures market pay competitiveness across all employee levels and positions in the Company as well as internal pay equity, such that an employee is compensated based on the worth of their job and the value contributions they deliver to the organization.

Overall, Meralco's remuneration philosophy strives to fulfill its people's basic needs and offer opportunities to generate personal wealth both in the short and long terms.

Meralco offers base salary ranges that are well above minimum statutory levels and competitive against those of the industry and general business community. Employees can expect their salaries to grow over time through the Company's annual merit increase and promotion programs.

In support of its thrust to advance gender equity across the organization, Meralco ensures that the compensation of its female employees match what male employees receive on an annual basis. In 2021, the Company recorded an average pay gap of 0.9%, with the lowest gap in the senior management level.

AVERAGE GENDER PAY GAP FOR MERALCO[15]			
	2019	2020	2021
Senior Managers	-0.6%	-0.7%	-1.4%
Middle Managers	-3.9%	-3.9%	0.3%
Rank-and-file	12.3%	8.8%	11.6%
Project-based/fixed-term	18.4%	-105.7%	3.8%
WEIGHTED AVERAGE	**1.3%**	**-2.8%**	**0.9%**

[15] The average pay gap was identified by finding the difference between the average salary of female employees from the average salary of males and dividing the result with the average salary for male employees and then multiplying the result by 100%.

On top of competitive salaries, Meralco provides its employees with profit-sharing plans in the form of short-term bonuses and long-term incentives, such as Variable Incentive Plan, Annual Bonus Plan, and Long-Term Incentive Plan. Through these bonus and incentive packages, which tie individual employee performance to corporate business performance (which includes the achievement of sustainability goals for senior management), employees are further driven and invested in the success of the Company.

Furthermore, a robust employee benefits program—covering paid leaves, health and life insurance, and retirement plan, among others—is firmly in place and well above those prescribed by law.

The satisfaction of Meralco employees with the remuneration they receive from the Company is proven by the high return-to-work rate by those who availed of parent leaves. For instance, in 2021, 100% of employees who took parent leaves (maternity, paternity, and solo parent) maintained their employment with Meralco after their leaves.

MATERNITY LEAVE METRICS				
		2019	**2020**	**2021**
Entitled to the leave	Meralco DU	1,192	1,208	1,277
	Subsidiaries	3,569	3,147	3,491
Took the leave	Meralco DU	87	122	73
	Subsidiaries	226	181	164
Returned after the leave	Meralco DU	87	121	73
	Subsidiaries	213	178	141
Returned after the leave and still employed 12 months after	Meralco DU	85	121	72
	Subsidiaries	207	166	140

PATERNITY LEAVE METRICS				
		2019	**2020**	**2021**
Entitled to the leave	Meralco DU	4,563	4,607	4,628
	Subsidiaries	6,831	5,885	6,318
Took the leave	Meralco DU	262	250	218
	Subsidiaries	537	279	211
Returned after the leave	Meralco DU	262	250	218
	Subsidiaries	537	279	210
Returned after the leave and still employed 12 months after	Meralco DU	260	249	215
	Subsidiaries	450	257	186

SOLO PARENTAL LEAVE METRICS							
		2019		2020		2021	
		Male	Female	Male	Female	Male	Female
Entitled to the leave	Meralco DU	11	26	7	20	10	24
	Subsidiaries	97	225	84	125	910	996
Took the leave	Meralco DU	11	26	7	19	10	22
	Subsidiaries	10	35	8	35	9	32
Returned after the leave	Meralco DU	11	26	7	19	10	22
	Subsidiaries	24	35	35	35	37	32
Returned after the leave and still employed 12 months after	Meralco DU	10	26	6	17	10	22
	Subsidiaries	9	26	7	28	9	27

7.5 Training and Development: Investing in Excellence and Growth

GRI 404

Training and development play a crucial role in enabling employees to achieve their full potential. One Meralco ensures that its employees do not only possess the necessary competencies for their current roles; they are also groomed for leadership positions where they solve challenges and bring about innovative solutions that will better the Group's service to its stakeholders.

In 2021, Meralco rolled out over 953 training sessions focused on technical and leadership development, investing in an average of 13.9 training hours per employee, or a total of 273,720 training hours Company-wide. Meralco managed to deliver more training hours last year than in 2020 when it ran a total of 152,608 training hours (or an average of nearly 8.0 training hours per employee). Increasing efficiency in using online training platforms and the ease of restrictions on in-person meetings contributed to more training sessions being facilitated in 2021.

Meralco continues to seek ways to engage employees in continuing professional learning especially as face-to-face work gradually resumes. To achieve this, the Company first ensures that its training content remains relevant, leading-edge, and engaging for all participants—from the senior leadership to the rank-and-file. Additionally, as it embarks on a journey toward becoming a more sustainable enterprise, Meralco has started to purposefully embed sustainability topics in its learning and development curriculum.

Meralco's learning and development (L&D) curriculum includes various pathways for developing content, facilitating learning, and measuring progress on deepening relevant knowledge among its leaders and employees, including:

Senior Management Alignment – Every year, Meralco's leadership sit together to report on the previous year's training highlights and accomplishments, identify training needs of employees, and decide on the

Company's learning priorities for the year. This informs decisions for the training investments the Company will make and ensures that learning and development are purposeful and help meet key productivity objectives.

One Meralco Excellerate – Meralco launched a new L&D program in February 2021 called One Meralco Excellerate, in partnership with LinkedIn Learning and Talent Management. This is L&D's proactive approach to ensuring that our key talents have sufficient resources (learn anytime, anywhere) to be prepared for future roles. Excellerate aims to provide readily accessible learning pathways and content aligned with the Talent Development Plans of identified key talents. This is a strategic move to ensure that key talents are trained and are prepared for potential promotions or leadership roles in the future.

Leadership and Technical L&D Curriculum – Built within Meralco's compendium of L&D programs, Meralco's Leadership and Technical L&D curriculum features an annual training calendar for all employees. Under this curriculum, the Company has flagship programs, including:

Management Development Programs – Catered to incoming managers, these programs are focused on preparing employees who will be assuming managerial roles in the Company. The objective is to maintain and nurture a strong pool of competent leaders that will ensure business continuity for Meralco. Some of these programs are the Breakthroughs Program for incoming First Line Managers, the New Frontiers Program for incoming middle managers, and Game Changers Program for incoming senior managers.

Engineering Talent Development Program – Designed to address competency development needs of the Company's engineers and anchored on the expertise areas vital to the operation of the Distribution Utility, this program utilizes classroom and hands-on experiences to develop and enhance competencies. The program also features interventions delivered in partnership with academic and engineering organizations, to help engineers advance in their profession.

Meralco Linecrew Training Curriculum – This curriculum provides extensive structured learning to different classes of linecrew through lectures, hands-on experiences, and on-the-job training, enabling linewomen and men to advance to higher levels of expertise. Through this program, Meralco is able to ensure that the Company has a steady supply of highly skilled technical employees that will further enhance the Company's service delivery.

AVERAGE TRAINING HOURS FOR MERALCO DU EMPLOYEES PER RANK						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Senior Managers	37.1	38.5	23.5	20.9	49.7	35.7
Middle Managers	33.6	33.4	22.0	20.7	43.7	41.9
Rank-and-file	46.1	37.6	16.1	29.2	33.8	32.4
WEIGHTED AVERAGE	**43.4**	**35.1**	**17.0**	**24.9**	**35.3**	**32.0**

AVERAGE TRAINING HOURS FOR SUBSIDIARY EMPLOYEES PER RANK						
	2019		2020		2021	
	Male	Female	Male	Female	Male	Female
Senior Managers	2.5	9.4	1.7	9.4	2.3	6.7
Middle Managers	10.2	10.1	10.9	10.3	12.1	13.7
Rank-and-file	3.9	2.2	3.1	2.5	4.8	5.4
WEIGHTED AVERAGE	**3.6**	**3.1**	**3.0**	**3.3**	**3.9**	**5.6**

Moving forward, Meralco will continue to invest in learning and development to maximize the potential of its employees. Aside from imparting learning through established curricula, the Company is also actively fostering a strong mentoring culture by empowering managers to become better subject matter experts and team leaders as well as encouraging them to promote a healthy mentor-mentee relationship among employees in lower ranks. The Company will also implement other initiatives (including end-to-end competency assessments) to strengthen a culture of goal-orientedness, leadership, and accountability among Meralco employees.

Featured Story: From Knowing to Being: One Meralco Employees Gauge Their Sustainability Acumen

The success of One Meralco's sustainable business transformation heavily relies on its employees making the necessary mindset shift towards sustainability.

In 2021, the Group continued with its annual SustainABILITY survey. Championed by the Sustainability Office and first launched in 2020, last year's iteration of the SustainABILITY survey was an acumen test which sought to measure employees' knowledge about fundamental concepts related to sustainability and One Meralo's sustainability agenda. 2021's SustainABILITY also gathered actionable feedback from employees on the Group's sustainability initiatives and how effectively these are being communicated to internal stakeholders.

The acumen test was divided into two parts: Part 1 revolved around questions on basic sustainability concepts (e.g., definition of sustainable development, the 17 SDGs), while Part 2 was concerned with matters specific to One Meralco's sustainability journey (e.g. sustainability agenda, initiatives under the four sustainability pillars of the Group).

Despite being optional, a total of 812 employees from Meralco's business units and subsidiaries, including from across all pay grades, took the test, resulting in an output that sufficiently captured the Group's overall knowledge on sustainability.

The results of the 2021 acumen test will inform the Sustainability Office's initiatives for 2022. From hereon, this test will be administered annually as a tool to gauge One Meralco employees' knowledge on basic sustainability concepts as well as the Company's sustainability strategy, programs, and initiatives.

Featured Story: Inspiring and Engaging the Workforce Through the Powering the Good Life Webinars

To complement SustainABILITY, Meralco also launched the Powering the Good Life (PGL) webinars in 2020, a collection of webinars focused on d sustainability topics. In 2021, the Sustainability Office, in partnership with the Learning & Development Unit, conducted the following PGL webinars:

- Save-A-Watt: To Energy Efficiency and Beyond Webinar
- The Future Is YOUrs: A Youth-Led Huddle on Sustainable Action
- The 2030 SDGs Game

The *Powering the Good Life* webinar series promotes the value of changing lifestyles, habits, and thinking towards sustainability. PGL will continue to organize webinars on emerging issues and trends in sustainable development. More importantly, it will continue to enjoin employees to choose to live more sustainably and to support Meralco's efforts to contribute to a safe and prosperous world.

Bright Smiles: Sustainability Sparks from Within

"The Powering the Good Life (PGL) webinar series rolled out by the Sustainability Office came at an opportune time in my personal journey—not just as an employee but also as a wife, a mom, and a homeschool teacher for my daughter.

"Previously, my understanding of sustainability was centered around the corporate environmental protection, but through the PGL webinars, my perspective has broadened. It provided me an opportunity to learn how I and my family can take part in taking care of the environment through waste segregation, using sustainable products in our day-to-day lives, and conserving electricity by having energy efficient appliances at home.

"Also, after hearing the stories of youth leaders in The Future Is YOUrs, I was inspired to emulate their efforts as well as to teach my daughter to do her share as early as today in taking care of the environment. I am grateful for these webinars, and I am excited for what's to come this year."

—Engr. Botany KC Anne Sevilleja
Executive Assistant, Customer Retail Services

7.6 Employee Engagement: Fostering Holistic Personal Development

Meralco's leadership in the power sector is made possible by employees who are committed to its mission to power the good life for Filipinos. Keeping employees committed to an ideal and to pursue purposeful work is possible when their needs are met and when they are supported to achieve professional growth so they can in turn realize their personal aspirations and be in a better position to serve others.

To foster a holistic personal development, Meralco ensures that employees receive support for their physical, spiritual, emotional, and mental health and welfare through various programs and initiatives.

A. Employee Wellness: Nurturing Healthy Employees

Wellness begins with a healthy body. Compelled to work from home during the continuing pandemic, many people found themselves sitting more and moving less. The lack of physical activity, plus the stress many experienced especially in the first year of the global health crisis, resulted in weight gain and its associated health risks for many, thus the phenomenon called 'COVID-15' in which Harvard Medical School researchers found that people who gained weight during the pandemic put on up to 15 pounds on average compared to the typical 2.5-pound weight fluctuation.[16]

To counter this, in 2021, Meralco took conscious effort to care for its employees' physical fitness by organizing and facilitating group physical activities such as live Zumba and yoga classes through the Meralco Workplace (counterpart of Facebook for companies and organizations). Meralco utilized different communication platforms and channels (email, Workplace, text blasts, posters, signages) to disseminate health and wellness information, including COVID-19 safety protocols. This helped increase awareness among employees of various ways to stay physically active and safe while working from home.

Meanwhile, emotional support among employees was also boosted through camaraderie, as Meralco continued to hold its annual corporate activities, which were delivered online, such as the Foundation Day, One Meralco Cool-tural Festival, One Meralco Salu-salo, and Service Awards. In 2021, these activities were well attended and brought Meralco employees together and promoted team strength and cohesion.

Meralco also placed a high premium on employees' spiritual health. Especially during uncertain and challenging times, spirituality has served as an anchor to people's well-being. In 2021, Meralco continued to advocate for and protect its employees' rights to practice different religions and beliefs by providing ample and suitable opportunities and channels for worship.

From a mental health standpoint, over the last two years, Meralco's counselors and medical experts were readily available to provide relief to employees who experienced heightened levels of stress as well as symptoms of anxiety and depression.

[16] M. Elizabeth Pegg Frates, "Did we really gain weight during the pandemic?," Harvard, 5 October 2021. [Online]. Available: https://www.health.harvard.edu/blog/did-we-really-gain-weight-during-the-pandemic-202110052606.

Furthermore, the Company also organized exclusive webinars on various topics on self-care and mental wellness including:

- Managing Stress, Anxiety, and Burnout
- Maintaining Positivity Amidst Crisis
- Mindfulness: Change the Mode of the Mind During the COVID-19 Pandemic
- The Power of Art and Movement for Mental Health & Well-Being

Through the provision of well-rounded and all-encompassing personal development initiatives, Meralco is able to foster the passion, drive, and excellence of its people: key ingredients to reaching its goals towards a better world.

Featured Story: Mental Wellness Takes a Front Seat

In 2021, mental wellness became a top priority for Meralco as it strived to support employees suffering from anxiety and stress related to the pandemic. beyond this, Meralco sought opportunities to nurture mentally strong employees. The employee engagement initiative on mental health was launched in August 2021 to address common sources of stress in the workplace, which include feedback on the need for work life balance, workload management, and addressing long working hours brought about by the digital environment and the "always-on" culture of the pandemic. The program birthed two major initiatives: Mindful Meetings and Me Time.

The Mindful Meetings initiative focuses on meeting etiquette reminders, which were issued to serve as guidance to the organization in ensuring that:

- Meetings are scheduled only within business or work hours and kept short and brief while still achieving meeting objectives.
- Meetings are avoided during lunch breaks and weekends.
- Meeting organizers and attendees are mindful to start and end meetings on time.
- Employees are purposive and deliberate on how they spend their time confetti—the period between meetings or tasks where employees can pause and do other things like walking, stretching, or simply standing up from the work area to improve mood and general health.

Meanwhile, the Me Time initiative focuses on encouraging employees to set aside an hour every Wednesday from 1:00 to 2:00 PM to align with their team or sharpen the saw by learning something new. This is not considered personal time off, but rather, it is intended to give time and space to employees to pause, think and be more productive.

A feedback survey was conducted in September 2021 to gather results on the effectiveness of these major mental health initiatives launched and measure knowledge and compliance to the program. In summary, the survey showed that four out of five Meralco employees were aware of the new initiatives, while three out of five were actively participating and complying with the guidelines.

Meralco plans on building upon the success of these initiatives by launching targeted mental wellness programs specific to certain units within the Company for a more specialized and effective approach.

Featured Story: Employee Engagement on the Rise

Meralco recognizes that understanding its employees' needs and motivations is critical to its thrust to nurture sustainability from within. As such, in 2021, the Company conducted an employee engagement survey called Pulse Employee Engagement Survey which ran from September to October to better understand the sentiment of its employees amid the ongoing pandemic.

The survey received an overall response rate of almost 100%, representing 5,765 out of 5,770 regular employees. This was the highest participation from Meralco employees to the Pulse Survey since it rolled out in 2011, which indicated a healthy engagement Company-wide and an openness from the people on topics that concern and impact their work.

Among the salient responses from the Pulse Employee Engagement Survey included the following: Employees said that they understand how their work impacts the Company (99%), that they clearly understand the goals of the Meralco (99%), that they are proud to be working with the organization (99%), and that they are informed and updated on Company matters (95%).

MERALCO PULSE SURVEY RESULTS			
	2017	**2021**	**Change**
Understand business goals	98.6%	99.2%	0.6%
Own work impacts business goals	98.6%	99.2%	0.6%
Proud to be working in company	98.0%	98.5%	0.5%
Inspired by coworkers	93.3%	94.7%	1.4%
Someone cares about me	93.2%	94.7%	1.5%
Acknowledged for a job well-done	75.5%	80.9%	5.4%
Works well with immediate supervisor	93.9%	94.6%	0.7%
Regular performance discussions	83.6%	88.6%	5.0%
Right tools and information	89.7%	94.5%	4.8%
Training and development	84.5%	92.4%	7.9%
Opportunity to grow and develop career	83.7%	90.0%	6.3%
Informed and updated on company matters	92.1%	95.2%	3.1%
Overall engagement rating	**90.4%**	**93.5%**	**3.1%**

Featured Story: Embracing Diversity and Inclusion in Meralco

In 2021, after the celebration of the International Women's Day in March, Meralco launched its #Mbrace Program to drive and heighten diversity and inclusion (D&I) within the organization. In an industry traditionally dominated by men, the Company's #Mbrace Program aims to build a more gender-balanced workplace that recognizes the important role of women in society and the unique talent and skills they bring to the organization.

Anchored on Meralco's commitment to the UN Women's Empowerment Principles and guided by its membership to the Philippine Business Coalition for Women Empowerment, the #Mbrace Program supports the achievement of **SDG 5: Gender Equality** and **SDG 10: Reduced Inequalities** and delivers on the Company's commitment to the UN Global Compact's **Principle 6 on Elimination of Discrimination in Employment**.

Through this program, Meralco is laying the groundwork to elevate gender D&I in its workplace over three waves:

- **Phase 1 (Embark)** – Meralco is building a firm foundation for embedding D&I in all aspects of its operations through targets set at the corporate level.
- **Phase 2 (Embed)** – Meralco will drive culture change through targets set at the departmental and subsidiary levels, which will be operationalized in key organizational units based on management direction.
- **Phase 3 (Embrace)** – Meralco aspires to drive and achieve best-in-class performance in gender D&I, where goals and competencies are set at the individual level.

As a direct result of these three waves of action on D&I, Meralco envisions an increase in women representation in the Distribution Utility to 40% of its workforce by 2030. To achieve this, the Company is actively investing in the development of women talents through several initiatives.

In partnership with Don Bosco College-Canlubang, a leading technical and vocational school, Meralco launched the Technician Scholarship Program to develop a pool of women technicians and engineering graduates, which will feed into the Company's recruitment and resource capability program.

In addition, in 2021, Meralco relaunched its Linewomen 2.0 Program, under the Meralco Linecrew Training Program (MLTP), to develop a pool of skilled female line workers who will join and even lead linecrews. This program was originally rolled out in 2013, the first of its kind in Southeast Asia that trains women in a traditionally male-dominated industry. Meralco currently has nine women linecrew members with 16 more to begin training in May 2022.

Meanwhile, for women in its workforce, Meralco established the Yes You Can! (YYC) Program, a coaching and mentoring initiative led by the Company's female executives. YYC has been helping women managers and supervisors gain more confidence and self-awareness, overcome the impostor syndrome, achieve

their job and career development objectives, and unlock their full potential as leaders. Last year, YYC engaged nine coaches and 18 coachees in 131 coaching sessions.

Through all these efforts, in 2021, Meralco achieved almost 23% women representation (up from 21% in the previous year)—more than twice the 11% global energy sector average.

In 2022 and beyond, Meralco will expand #Mbrace to not only encourage greater women participation in the workplace but also LGBTQ+ representation. The Company also envisions the program to drive inclusion beyond gender in areas such as disability and socio-economic status among others.

Bright Smiles: Building a Gender-Diverse Workforce Through the Linewomen 2.0

"Dahil nakita ko na ang kayang gawin ng mga lalaking line crew, naisip ko na kaya ko rin. Nagustuhan ko sa trabaho bilang linecrew ay ang mga ngiti at pasasalamat ng tao na naibalik ang kuryente nila. Kahit babae tayo, huwag matakot at mahiya na patunayan ang ating kakayahan."

—Angelita Estrellado
Linewoman, Paranaque Sector

"Lumawak ang aking kaalaman ng dahil sa training at karanasan sa trabaho. Natuto akong makapag-maneho ng truck, makisama sa mga katrabaho, at higit sa lahat, makatulong na makapagbigay serbisyo sa bawat tahanan. Huwag kayong matakot na subukan ang trabaho na akala ng lahat ay kalalakihan lang ang kayang gumawa. Kung kaya nila, kaya din nating mga kababaihan. Lakas ng loob, tapang, talino, maging positibo at tiwala sa sarili para maging isang matagumpay na linecrew."

—Charmaine Angles
Linecrew, Valenzuela Sector

B. Employee Volunteerism: Giving Back to Communities

Beyond taking care of its employees, Meralco also provides them with opportunities to take care of others. Every year, Meralco employees join to serve One Meralco Foundation's (OMF) volunteerism programs and fund-raising campaigns to help those hit by natural calamities.

In 2021, Meralco employees donated up to PhP 4.9 million to five fund-raising campaigns initiated by OMF, which extended much-needed aid to hundreds of families in calamity areas. For instance, when Super Typhoon Odette hit the southern regions in the country, PhP 1.1 million was raised by Meralco employees to help provide relief packages to the thousands of calamity victims.

Stories about OMF's social responsibility initiatives in 2021 and how Meralco employees contributed to their successes can be found in the 2021 OMF Annual Report, *Malasakit*.

8 Prosperity: Creating Better Lives for All

Power unlocks economic progress.

One Meralco's commitment to creating better lives for all is inspired by the United Nations' Sustainable Development Goals (SDGs), a set of aspirational targets to address society's most-pressing challenges by 2030. These Global Goals are a common language shared by government and private sector leaders to "ensure that all human beings can enjoy prosperous and fulfilling lives, and that economic, social, and technological progress occurs in harmony with nature."

As such, One Meralco envisions a future with **zero poverty (SDG 1)** and **reduced inequalities (SDG 10)** by powering **decent work and economic growth (SDG 8)**. The Group delivers on these goals by enabling people to create meaningful and enduring economic value to live their best lives while ensuring efficient and prudent use of Earth's finite resources. By delivering electricity from power plants to distribution lines to businesses and homes, One Meralco empowers its external stakeholders to tap limitless opportunities for responsible and sustainable growth.

For its customers, Meralco powers the good life by ensuring access to electricity that energizes progress at the household and corporate levels. For communities, Meralco's commitment is to reach the unserved and underserved, so that no one is left behind, and everyone has the opportunity to take part in the country's economic development no matter how remote these communities may be.

Beyond engaging with its customers and communities, Meralco enjoins its deep supply chain in its transformative journey towards sustainability. In 2021, the Group engaged with suppliers and contractors in an exercise that requires them to align with ESG criteria to continue to be accredited with Meralco. This exercise is yielding low-hanging economic benefits for both the Group and its partners in its initial adoption and is expected to seize far greater incentives in years ahead.

Meralco's transition towards becoming a sustainable enterprise requires long-term commitment and action that is only possible with senior leadership buy-in. Thus, at the heart of this journey is One Meralco's corporate governance, which decisively operates along principles of integrity and credibility, and in alignment with the Sustainable Development Goals. The leadership behind Meralco enables decisions to be made at the top level that impacts the Company's progress in this transformative journey.

A business that stays profitable, relevant, and contributes to positive social change is a prosperous business. A prosperous business unlocks prosperity for its constituents and the communities it impacts. This section details One Meralco's work around Prosperity, the fulcrum that holds together its other sustainability pillars—Power, Planet, and People.

8.1 Economic Impact: Creating and Delivering Shared Value to Stakeholders

GRI 201 | GRI 203

At a fundamental level, One Meralco generates financial value for its stakeholders in the form of employee wages, government taxes, and investor returns.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (in PhP million)			
	2019	**2020**	**2021**
Direct economic value generated (total revenues)	**322,592**	**277,929**	**322,317**
Economic value distributed	296,476	255,103	293,692
Operating costs (including payment to suppliers)	*253,857*	*216,692*	*248,279*
Employee wages and benefits	*13,106*	*12,301*	*15,892*
Payments to providers of capital (investors and shareholders)	*19,706*	*18,605*	*18,246*
Payments to government (taxes)	*9,661*	*7,335*	*10,851*
Community investments (expenses for CSR projects)	*146*	*170*	*424*
Economic value retained	26,116	22,826	28,625

Economic value measures the benefits derived from goods and services by an individual or organization. In 2021, One Meralco's direct economic value generated (or revenues) increased by at least 16% from PhP 278 billion in 2020 to PhP 322 billion. This was due to the gradual recovery of the Philippine economy and the Group's strong business performance, as proven by the growth in Meralco's and MGen's energy sales.

To truly contribute to inclusive economic development, One Meralco ensures that the value it generates flows equitably to all its stakeholders. In 2021, the Group distributed 91%—equivalent to PhP 293.7 billion—of its revenues to its various stakeholders in the form of payments to suppliers of goods and services, salaries and incentives to employees, dividends and interest payments, payments to the government in the form of taxes and other fees, and community investments through various corporate social responsibility (CSR) projects.

Operating costs increased by almost 15% from PhP 216.7 billion in 2020 to PhP 248.3 billion in 2021, owing to the resumption of One Meralco's business expansion activities that were postponed in the previous year due to the COVID-19 pandemic.

Employee wages and benefits likewise increased by 29% from PhP 12.3 billion in 2020 to PhP 15.9 billion in 2021 due to an increase in new hires as well as merit increases for the Group's existing employees.

Meanwhile, One Meralco's payments made to providers of capital declined by nearly 2% from PhP 18.6 billion in 2020 to PhP 18.2 billion in 2021. This was prompted by the decline in the Group's consolidated core net income in 2020, which resulted in lower lookback dividends. Meanwhile, interest payments have

increased due to additional debt incurred for the purchase of the additional stake in Global Business Power (GBP) and inclusion of GBP's interest expense beginning April 2021.

On the other hand, taxes and other fees paid to the Philippine government increased by 48% from PhP 7.3 billion in 2020 to PhP 10.9 billion in 2021 due to the additional income tax resulting from the recalculation of deferred tax assets, net of lower current income tax, after the Corporate Recovery and Tax Incentives for Enterprises (CREATE) was signed into law in March 2021. Other factors contributing to this increase include documentary stamp taxes paid on new loans as well as higher real property and business taxes.

Finally, investments in CSR projects increased to PhP 424 million, higher by more than 149% vis-à-vis the previous year. This was mainly driven by the restarting of CSR initiatives put on hold by the One Meralco Foundation in 2020 due to strict restrictions in mobility.

Beyond all these financial gains, the enduring value that the Group creates for its customers and communities is through the sustained provision of affordable, reliable, and high-quality products and services to empower and help them prosper under all challenging societal conditions. One Meralco draws its purpose from fueling sustainable economic growth without leaving anyone behind.

8.2 Customer Enablement: Ensuring Engaged and Satisfied Clients

GRI 418-1

Meralco's work on powering the good life for Filipinos does not end after a customer's light is switched on. Beyond connecting customers to the grid so they can receive electricity and experience what power it brings to change lives for good, Meralco ensures that those already electrified continues to be so throughout their journey.

Customer enablement is key to making this happen. In 2021, Meralco extended care to its 7.4 million-strong customer base so that they will continuously stay connected, and that the customers themselves are aligned with the same goal of enjoying uninterrupted service and that they are willing to do what is needed to achieve this. By the sheer weight of numbers, this is no easy task yet of primordial importance.

To deliver on this, Meralco taps best-in-class customer service innovation to support an always-ready customer service team. The company's customer knowledge base ensures interactions with customers are insightful and actionable, where concerns that are properly reported are resolved in the best interest of both customers and the Company. Field representatives are equipped with an app that offers real-time information, avoiding the service from being discontinued if it happens that a customer is making a payment at the last minute.

Meralco also partnered with customers to achieve energy efficiency, as inefficient use of this finite resource leads to disconnection or lower service levels. Meralco enhanced channels to raise awareness among its customers on ways to conserve energy, including a bill revamp which tracks year-on-year trend in energy consumption. In the last mile of the Group's relentless customer engagement efforts, Meralco gives customers the chance to be connected even for those who are due for disconnection.

Simply put, customer enablement acknowledges that there is a two-way street Meralco and its customers must take together to ensure customer satisfaction. More details about the Company's work on creating a satisfying and delightful customer journey can be found in the sections below.

A. Transforming Customer Service

As it continues to care for its customers, Meralco constantly innovates its customer care solutions to provide clients with the best possible service and meet their changing needs.

In 2021, in response to the growing sentiment of customers on the challenges they encounter in understanding their electricity use, Meralco redesigned its electricity bill, which now includes easier-to-read details about a customer's historical consumption, total amount to be paid, and due date. In addition, the bill now also prominently features the 10-digit Customer Account Number, which was introduced in 2020 to make payment transactions simpler and more convenient for customers. All these are aimed at helping customers better manage their consumption and budget every month. The revamped bill also informs customers of the equivalent carbon emissions of their monthly electricity use, encouraging them to be more environmentally conscious while saving on costs.

Beyond enhancing its bill, Meralco also introduced new technology-enabled customer care initiatives to make the customer journey more efficient and hassle-free:

- **Customer 360** – This system aggregates all of a customer's structured and unstructured data across the organization and makes the consolidated data available at the moment of customer interaction. Customer 360 acts as a hub that links and synchronizes all the information about a customer and enables an integrated and multi-channel view of customer engagement for more meaningful and quicker transactions.

- **Customer Care Group** – In support of **SDG 9: Industry, Innovation, and Infrastructure,** Meralco enhanced its customer care and support services in 2021, employing best-in-class contact center automation tools to enable customer care representatives to respond more efficiently to customer inquiries received through the Meralco hotline, email, and social media platforms.

  Since the creation of the Customer Care Group, several key metrics have significantly improved. In particular, answer rate increased to an average of nearly 98% in 2021 from 94% in 2020. Furthermore, in the same period, customer waiting time was reduced from 20.39 seconds to only

12.96 seconds (within the top incentive Level A established by the Energy Regulatory Commission for distribution utilities), while handling time was optimized to 10.72 minutes from 11.50 minutes in the previous year.

- **Customer Care Chatbots -** Meralco also continued to roll out live chat bot and chatbot beyond outage to complement its Customer Care Group. Chat bots offer intuitive, convenient, real-time assistance right on a customer's computer or mobile device. For customers who are more comfortable using chat as a means of communication, Meralco's Live Chat and Chatbot Beyond Outage apps offer self-service channels activated on Meralco Online and Meralco Mobile.

- **Real-Time Validation Before Disconnection (RTV)** – The RTV is an application issued to Meralco's disconnection personnel, which allows them to validate a customer's service connection status while on the field. This app was deployed to prevent unwanted disconnections from happening while customers with overdue disconnection notices are paying at the last minute. The use of the RTV has led to improved customer satisfaction as well as to more efficient and conflict-free field operations.

As a result of these initiatives to enhance customer-centricity, Meralco's Customer Experience Index (CXi) score increased from 7.54 (out of 10) in 2020 to 8.10 in 2021. The Company uses CXi—enabled via an automated, real-time, post-transactional survey—to measure and quantify its customers' sentiments regarding their experience with and perceptions of Meralco. Moving forward, the Company will continue to utilize technology to improve its service delivery and ensure that its customers are satisfied with their relationships and journeys with Meralco.

B. Promoting Partnerships for Energy Efficiency

Meralco is uniquely positioned to lead the country's economy towards decarbonization, and to support economic and social progress and long-term sustainability with fairly priced, reliable, and increasingly green energy. Partnering with its wide-ranging stakeholders, especially intensive energy users like commercial and industrial businesses, towards energy efficiency is a low-hanging fruit in this journey, and creates massive value for Meralco, its customers, and the planet.

To harness stakeholders' buy-in on energy efficiency, Meralco launched an informative website dubbed Power Ideas, targeted to corporations. Power Ideas offers exactly that–or game-changing yet often overlooked ideas and ways to ensure businesses make the most of their electricity use before and beyond energization.

Power Ideas provides its audiences expertly produced videos on a range of topics, including power quality, energy efficiency, energy supply, and innovation. it also highlights case study interviews with companies that have partnered with Meralco and its subsidiaries for their energy and sustainability goals.

Aside from Power Ideas, in 2021, Meralco also continued conducting Power Up Live, a webinar series dedicated to bringing together expert speakers from industry and policy to facilitate deep-dive conversations on energy efficiency. The Power Up Live webinars were attended by business leaders and executives and served as Meralco's platform to promote energy efficiency initiatives among corporations, as aligned with **SDG 7: Affordable and Clean Energy**. The webinars explored various topics such as updates on energy standards and practices in energy management, the latest policies supporting energy efficiency, and Meralco's energy efficiency services and solutions. The webinars also served as a channel through which business and government leaders discuss concerns and matters affecting the local energy sector.

Among salient topics discussed last year was the Green Energy Options Program (GEOP), a new initiative by the Department of Energy that allows consumers to choose to source renewable energy from a licensed supplier as opposed to consuming whatever type of energy is supplied by the distribution utility. Meralco's participation in GEOP will enable it to provide customers with renewable energy. Some of the Company's commercial and industrial customers have expressed their interest to join this program once Meralco rolls it out within the next few years.

8.3 Community Engagement: Uplifting the Unserved and Underserved

GRI 203-1 | GRI 203-2 | GRI 413

Meralco is committed to powering lasting and meaningful progress. Key to this is the electrification of marginalized households and communities. In addition, by energizing schools, the Company supports the learning continuity of the country's youth and lays a sure foundation for sustainable development.

This section shares stories about the communities that benefited from Meralco's social responsibility initiatives in 2021.

A. Electrifying Marginalized Communities

In 2021, One Meralco Foundation (OMF) invested PhP 19.1 million in its Household Electrification Program to provide electricity access to low-income families within and beyond Meralco's franchise area. In particular, OMF funded the installation of service entrances, metering centers, breaker walls, and intermediate polls for 7,509 low-income households. These initial set up costs are usually shouldered by residential customers applying for a Meralco connection but have been absorbed by Meralco for this community.

In parallel with the Household Electrification Program, OMF also invested PhP 6.2 million in its School Electrification Program in 2021 to electrify 16 schools across the country, ensuring that children and teachers were supported in the learning journey as limited face-to-face classes resumed.

Aside from these two flagship programs, OMF collaborated with non-profits JCI Quezon City Capitol, One Million Lights Philippines (OML PH), and Power 4 All to illuminate 60 homes in a Dumagat community in Antipolo, Rizal, last year. Flashlights and solar lanterns were distributed to community members, replacing kerosene lamps which were more expensive and unsafe to use.

Meanwhile, in El Nido, Palawan, OMF and OML PH distributed portable lamps to residents in Barangays Bucana, Teneguiban, and Bebeladan—three of the poorest coastal areas on the island—where some 600 families lived without access to electricity. The lamps provided by the two organizations were water- and drop-resistant and can be strapped on as headlamps, which are now used by local fishermen during night in fishing activities. With this gift of light, children in the communities are now also able to read and study with ease every night, and mothers can now pursue home-based industries for longer periods every day.

Featured Story: Extending Kalinga Through Solarization of Gawad Kalinga Community Households

In 2021, Meralco subsidiary Spectrum installed 670-watt-peak (Wp) solar panels that benefitted 150 low-income households in Gawad Kalinga communities in San Pedro and Santa Rosa, Laguna, enabling households to reduce their energy spend and their environmental footprint as they harvest cleaner power In addition, Spectrum deployed engineers and subject-matter experts to train residents on solar PV installation, operation, and maintenance. This opened new livelihood opportunities for the community members to develop highly in-demand skills in a dynamic and emerging field, pursue meaningful work, and live prosperous lives.

Bright Smiles: Gawad Kalinga resident Yolanda Benitez shares about her Spectrum solar powered home

"Sa ngayon, inoobserbahan namin ang epekto ng solar panels sa aming electricity bill. May mga buwan talagang malaki ang pagbaba ng aming bill. Maraming nagtatanong sa aking mga kapitbahay at kaibigan tungkol sa experience ko sa solar na galing sa Spectrum. Nakakatulong talaga siya at sana tuluy-tuloy na ang mababa na bayarin naming sa kuryente."

—Yolanda Benitez
Program Beneficiary

B. Forging Cross-Sectoral Partnerships for a Greener EDSA

Metro Manila's main thoroughfare EDSA has long been described as a parking lot more than a highway. With over 360,000 vehicles traversing the road daily on average, EDSA suffers from the challenges of air and noise pollution aside from the usual heavy traffic congestion.

Yet, EDSA is a conduit to many other destinations. It is only fitting, therefore, that this major connector to many parts of the metro—which conveys people, goods, and services and is central to economic progress and prosperity—be given a much-needed uplift.

On May 25, 2021, Meralco joined the Green EDSA Movement (GEM), a private sector-led initiative comprising business leaders and environmental advocates who aim to transform EDSA into a green and people-friendly road.

To support GEM, Meralco converted its company-managed streetlights along EDSA to LED and electrified 128 of its vehicle fleet across its Sector Offices and Business Centers, including those situated along EDSA, throughout the year. Meralco also committed to helping transform EDSA into a tree-lined greenway through a potential partnership with OMF on its One for Trees Program.

8.4 Supply Chain: Influencing Business Partners to Embrace Sustainability

GRI 102-9 | GRI 102-10

One Meralco's ecosystem consists of many constituents, including a broad and deep chain of companies which are essential cogs in the wheels of the economy. Committed to nation-building and powering progress for local enterprises, the Group purposefully sources its goods and services from Philippine-based suppliers amid foreign counterparts being available. As a result, One Meralco spent nearly PhP 38 billion in 2021 on local procurement contracts, a significant amount of investment in local businesses that in return impact their own partners in their value chains.

TOTAL PROCUREMENT SPEND IN 2021 (in PhP million)			
	LOCAL	**FOREIGN**	**SUBTOTAL**
Meralco	27,800	3,000	30,800
Subsidiaries	10,157	8,947	19,104
TOTAL	**37,957**	**11,947**	**49,904**

TOTAL NUMBER OF SUPPLIERS BY CLASSIFICATION IN 2021			
	TIER 1	**NON-TIER-1**	**SUBTOTAL**
Meralco	2,861	-	2,861
Subsidiaries	3,222	466	3,688
TOTAL	**6,083**	**466**	**6,549**

TOTAL NUMBER OF SUPPLIERS BY LOCATION IN 2021			
	LOCAL	**FOREIGN**	**SUBTOTAL**
Meralco	2,303	558	2,861
Subsidiaries	3,437	251	3,688
TOTAL	**5,740**	**809**	**6,549**

One Meralco directly influences the revenue and business growth of its suppliers. In turn, these partners impact the Group's overall ESG performance, making it imperative for One Meralco to engage with all constituents in its value chain to adopt sustainability principles in their own operations.

In 2021, Meralco continued to roll out the Meralco Supplier Sustainability Scorecard (MS^3), which defines 131 sustainability criteria based on the GRI Standards and covers 14 of the 17 SDGs for suppliers to comply with to continue to be accredited with Meralco. MS^3 has since been rolled out to 163 suppliers who collectively constitute 87% of the Company's procurement spend.

MS^3 was established the previous year to introduce sustainability in Meralco's supply chain in three waves: Introduce from the second half of 2020 to 2021, Influence in 2022, and Ingrain in 2023 and beyond. The "Introduce" wave focused on gathering data and baselining the ESG performance of Meralco's top suppliers based on an initial set of sustainability criteria. The "Influence" wave in 2022 built upon the baseline, establishing sustainability standards, and assessed all of Meralco's suppliers based on the said sustainability criteria and requirements. A passing score in the assessment is a prerequisite for suppliers' continuing accreditation with Meralco. "Ingrain" beginning in 2023 will be focused on driving sustainability excellence in Meralco's supply chain through continuous improvement measures such as expanding ESG requirements and increasing sustainability standards.

Beyond compliance, MS^3 has borne greater fruit and today serves as a platform for Meralco to have meaningful conversations with its suppliers. Meralco thus began understanding the challenges suppliers face on becoming more sustainable, enabling the Company to guide suppliers in building their own sustainability strategies and programs.

Harnessing the momentum of this groundbreaking program, Meralco's Supply Chain Management team is set to introduce and implement more sustainability initiatives going forward, touching on topics such as circular economy, Scope 3 emissions reduction, and supplier diversity.

Bright Smiles: Value Chain Partners Share Their Meralco Supplier Sustainability Scorecard (MS^3) Journey

"Before Meralco rolled out MS^3, our company already had initiatives on waste segregation as well as water and electricity conservation, but we did not have any monitoring of our data beyond government requirements. Now that we are fully compliant with Meralco's sustainability requirements, we will take steps to further improve our data collection process to properly manage our own sustainability programs.

"We also plan to appoint an employee who will exclusively monitor our sustainability performance and our compliance to MS^3. We have realized through MS^3 that we need to strengthen and strictly enforce our own corporate policies related to sustainability. Moving forward, we will further embrace and practice sustainability in our own operations."

—Randy Jemina, Sales and Operation Coordinator
Dura-Poles, Inc.

"Bago ang MS^3, sinusunod lang namin ang mga minamandato ng pamahalaan. Dati, hindi namin mino-monitor ang konsumo namin sa kuryente at tubig. Iniiwanan ng mga empleyado namin na nakabukas ang mga ilaw at gripo. Ngunit dahil sa MS^3, nakita naming hindi lamang kami nakatutulong sa pangangalaga ng kalikasan ngunit makatitipid din pala kami. Nagsimula na rin kaming mag-segregate ng basura. Dati kasi ay tinatambak lang namin ito—ngayon, pinaghihiwahiwalay na namin ito nang maayos.

"Ang pag-iigting ng Meralco sa kanilang single-use plastic ban bilang bahagi ng MS^3 ay malaki ang epekto sa amin. Mas tumagal ang proseso bago makapag-deliver ng materyales dahil plastic ang mas madaling gamitin pero 'di kalaunan ay napadali rin ito.

"Dahil sa MS^3, mas iniisip na namin kung anong initiatives ang pwede naming gawin para mas maitaguyod ang sustainability sa aming kompanya. Masasabi namin na dahil sa programang ito, mas lumawak at lumaki ang pagpapahalaga namin sa sustainability."

—Zeny Rulloda, Sales & Admin Manager
Realiza Ciudad, Human Resource & Accounting Officer
Joan Fernandez, Billing & Collection Officer
Kato Metal Corporation

8.5 Governance: Going Above Board

GRI 406 | GRI 205-1 | GRI 205-2 | GRI 205-3 | GRI 102-32 | GRI 102-35 | GRI 102-17 | GRI 102-26 | GRI 102-28 | GRI 102-33 | GRI 102-34 | GRI 102-19

Strong and steady leadership and a corporate governance based on long-term business sustainability is at the core of any successful enterprise. For Meralco, its governance structure and policies rests upon its highest decision-making body, the Board of Directors, which determines the foundations of its business such as its vision and core values, composition and functions of its directors, the responsibilities and privileges of its stakeholders—senior leaders, middle managers, rank-and-file employees, shareholders, and all parties it engages. It is also through governance that Meralco tightens the screw on its environmental and social performance, as it decides on which sustainability policies and programs to develop and execute.

A. Corporate Governance: Operationalizing Ethical Business Principles

Meralco recognizes the value that good governance creates in ushering prosperity for its stakeholders while promoting environmental protection and social justice.

Anchored on the principles of Fairness, Accountability, Integrity, Transparency, and Honesty (FAITH), Meralco's governance framework, policies, and programs enable effective management and monitoring

of corporate performance, reinforce accountability, protect stakeholder welfare, and enhance ethical work culture while ensuring full commitment to the Company's environmental and social responsibilities.

Meralco's Manual of Corporate Governance and its Code of Ethics exemplify the high standards of behavior and professional conduct the Company's management and employees aspire to achieve. The Manual of Corporate Governance also fosters a culture of integrity and states the responsibilities of the Board of Directors, Management, and the Company to stockholders and other stakeholders. In parallel, the Code of Ethics guides its leadership, management, and employees in decision-making, transactions, and interactions, ensuring alignment with the Company's core principles in performing their respective duties. Furthermore, Meralco's policies against unethical conduct, such as the Anti-Bribery and Corruption Policy, emanate from the Manual and the Code.

Applying Meralco's principles and standards into practice requires constant awareness-building across the Company's business units. Accordingly, Meralco's Corporate Governance and Compliance Office (CGCO) regularly conducts onboarding sessions for its officers and provides orientation and corporate governance refresher programs to all employees. These efforts enable Meralco's workforce to have a firm grasp of the depth and breadth of the Company's businesses (with a view towards stakeholder identification and engagement), regulatory environment, and high standards of governance.

To ensure full compliance with Meralco's governance policies, all officers and employees are required to annually submit disclosure and commitment forms. In particular, HRExpress is a customized online facility through which Meralco employees can signify their Commitment to Corporate Governance, submit their Conflict-of-Interest Disclosure and Full Business Interest Disclosure forms, as well as divulge gifts or tokens received from third parties through the online Gift Registry. In 2021, 100% of Meralco's workforce complied with these annual corporate governance requirements.

Meralco keeps its senior management abreast of employee concerns by ensuring that open lines of communication are in place. Receiving whistleblower reports indicates employees' heightened awareness on governance policies, trust in management, and confidence in the established whistleblowing procedures. The Company's "e-Report Mo" Whistleblowing Program provides a secure platform for reporting misconduct, questionable accounting and auditing procedures, and other unethical behavior in Meralco. In 2021, there were no reported incidents of corruption and discrimination in the Company.

NUMBER OF REPORTED CORRUPTION INCIDENTS IN MERALCO			
	2019	**2020**	**2021**
Under ongoing investigation	0	0	0
Closed with corresponding corrective action	0	0	0
Closed without corresponding corrective action	0	0	0
TOTAL	**0**	**0**	**0**

COMMUNICATION OF ANTI-CORRUPTION POLICIES AND PROCEDURES IN MERALCO			
	2019	2020	2021
Board of directors	11	11	11
Senior management	683	690	750
Middle management	712	696	761
Rank-and-file	4,360	4,429	4,394
Project-based/Fixed-term hires[17]	0	0	0
Third-party workers	0	0	0
Business partners	2,091	2,762	2,861

TRAINING ON ANTI-CORRUPTION IN MERALCO			
	2019	2020	2021
Board of directors	11	11	11
Senior management	683	690	750
Middle management	712	696	761
Rank-and-file	4,360	4,429	4,394
Project-based/Fixed-term hires[11]	0	0	0
Third-party workers	0	0	0
Business partners	0	0	0

NUMBER OF REPORTED DISCRIMINATION INCIDENTS IN MERALCO			
	2019	2020	2021
Under ongoing investigation	0	0	0
Closed with corresponding corrective action	0	0	0
Closed without corresponding corrective action	0	0	0
TOTAL	**0**	**0**	**0**

B. Sustainability Governance: Institutionalizing Sustainability Leadership

Sustainability is at the core of One Meralco's strategy and operations. To embed sustainability in the Group's strategic growth, Meralco established its Sustainability Office in September 2019, immediately after President and CEO, Atty. Ray C. Espinosa, assumed office and placed sustainability at the top of his agenda. The Sustainability Office is mandated to drive sustainability within One Meralco and champions Group-wide sustainability direction and long-term goals. In January 2020, Meralco appointed its first Chief Sustainability Officer (CSO), Raymond B. Ravelo, who reports directly to the President & CEO, ensuring that the Group's sustainability agenda is aligned with and has the strong support of the top leadership. As

[17] Starting 2022, regular project-based employees will be included in the Company's annual corporate governance disclosure requirement and governance training.

a result of this direct engagement with the President & CEO, in March 2021, Meralco established a Board-level Sustainability Committee that helps ensure the Company and its subsidiaries align with and adopt coherent sustainability strategies, frameworks, policies, and programs.

The establishment of Meralco's Board-level Sustainability Committee and the approval of a Sustainability Committee Charter is a strong push forward, boosting the work and impact of the Company's Sustainability Office. As a result, sustainability was added as a core value of Meralco in 2021, with both senior leadership and Group-wide employees echoing the official value statement: "Sustainability is the core of all we do. We work to power our communities, to preserve our planet, to empower our people, and to create prosperity for all."

The SO is comprised of three units:

STRATEGY AND COMMUNICATIONS

This organization is responsible for developing Meralco's sustainability agenda and integrating it into the Group's corporate objectives and strategies. It also spearheads the development and periodic update of Meralco's long-term sustainability strategy. It likewise identifies metrics across the 4Ps (e.g., GHG emissions, waste, household electrification, gender diversity) and determines appropriate baselines and targets that accurately assess the Group's sustainability performance.

As a thought partner and adviser to line leaders, this unit supports and enables line organizations to ideate, develop, and monitor sustainability strategies and programs at the business unit level, ensuring alignment with and promotion of corporate sustainability goals and thrusts.

In addition, the team is responsible for generating awareness on sustainability both within the Group as well as among external stakeholders and the general public, employing various communication channels like Meralco's digital assets, webinars, TV, and print.

PROGRAMS

This organization is tasked to lead and guide the effective and efficient execution of sustainability programs across One Meralco. The team drives and integrates key cross-functional and cross-organizational programs, including Green Mobility, Resource Conservation and Efficiency, Race to Zero Waste, and #Mbrace.

This unit also assists and empowers Meralco's line organizations in implementing their own sustainability initiatives through targeted support for specific workstreams, provision of sustainability frameworks and tools, and sharing of subject matter expertise.

Lastly, the team fosters program-specific partnerships with external organizations (e.g., government agencies, companies) to promote not only knowledge and best practice sharing but also alliance-building towards the collective achievement of the SDGs.

REPORTING AND PARTNERSHIPS

This organization is in charge of measuring and monitoring sustainability performance as well as ensuring accountability and transparency across One Meralco. It is also responsible for capturing and codifying the Group's sustainability efforts and outcomes through the Meralco Sustainability Report in compliance with the requirements of the Securities and Exchange Commission (SEC).

In addition, this unit facilitates engagement with ESG agencies, which produces independent ESG assessment reports used by the Company to evaluate the its overall sustainability performance. Lastly, it oversees and drives Meralco's partnerships with local and international sustainability associations and organizations, ensuring the Company's contributions to these communities of sustainability advocates and practitioners.

Featured Story: Leading the Charge: Meralco's Sustainability Committee and Sustainability Champions

Driven by its mission to power the good life, Meralco—from its Board of Directors down to its line crews—is aligning its purpose, policies, and operations on sustainability, knowing full well that amid the planetary threats of pollution, biodiversity degradation, and climate change, showing greater responsibility is the only way businesses and societies can thrive.

Last year, Meralco's Board-level Sustainability Committee was established as the Company's highest governance body on sustainability. Composed of Chairman Manuel Pangilinan, Vice Chairman Lance Gokongwei, non-executive directors Jose Ma. Lim and Frederick Go, and independent director Pedro Roxas as voting members, the Sustainability Committee harnesses the strength of some of the country's most seasoned business leaders in advancing the agenda of sustainable development and corporate responsibility within Meralco and its subsidiaries. The Company's management is represented by two non-voting members: President & CEO Atty. Ray Espinosa and CSO Raymond Ravelo.

In the same year, Meralco unveiled its long-term sustainability strategy (LTSS), which outlines One Meralco's decarbonization journey over three horizons from 2030 to 2050. Reviewed by the Sustainability Committee, LTSS marks the beginning of the Group's three-decade transformation, with an end goal to be coal-free by mid-century.

To achieve these important aims, it is necessary to have leaders and managers echoing Board-level efforts across the organization. Thus, 24 Sustainability Champions, consisting of One Meralco's most capable and trusted senior managers, were appointed in August 2021. The Sustainability Champions are the advocates for Meralco's sustainability agenda, cascading this from the boardroom down to Meralco's workforce and business ecosystem. As part of their ongoing work, the Champions ideate ways to advance Meralco's ESG progress. They convene and collaborate with stakeholders to deliver the necessary work to realize the Group's sustainability agenda. The Champions keep a dynamic and a synergistic community engaged in delivering on a shared aspiration for a sustainable One Meralco.

As one of their key outputs last year, in September 2021, the Sustainability Champions met to understand Meralco's waste impacts and explore ways to move its supply chain towards circularity. As a result, the Champions strengthened collaborations for One Meralco's sustainability programs such as Green Mobility, Resource Conservation and Efficiency, and Race to Zero Waste. Beyond these, the Champions also contributed to the launch of new programs such as #Mbrace Diversity and Inclusion Program and The Good Life Market, an online marketplace of locally sourced, sustainable products.

This is only the beginning for One Meralco's new sustainability advocates. In 2022, the Sustainability Committee and Sustainability Champions, in collaboration with the Sustainability Office, will work closely together in advancing and elevating the Group's sustainability journey—a voyage that ultimately finds its way back to Meralco's mission to power the good life for the Filipino, not only today, but for generations to come.

9 One Meralco's Outlook on Sustainability

FROM ADVERSITY TO RECOVERY: POWERING A BRIGHTER TOMORROW

In 2021, Filipinos began to see the light at the end of the tunnel as COVID-19 slowly released the nation from its grip. As the country bounced back towards recovery, One Meralco raised its beacon higher and responded not only to the urgent need to revitalize a disrupted economy but also to power a sustainable and resilient future.

One Meralco thus continued its work of delivering life-giving, unhampered, and fairly priced energy its customers and communities in a year marked by an immense need to recharge and reset. Likewise, deeply aware that powering the good life is possible only in a safe and healthy planet, the Group increased the pace with which it continued its course towards decarbonization.

This drive is at the heart of One Meralco's long-term sustainability strategy, unveiled in this report, fittingly titled *Kalinga*. With genuine compassion for people and profound care for the planet, One Meralco is carrying out its low-carbon transition through 2030, assessing an accelerated shift to green technologies by 2040, and preparing for deep decarbonization towards becoming coal-free by 2050.

Indeed, coming out of a dark tunnel is only the beginning, and the journey towards a brighter tomorrow stretches ahead. Despite the challenges that may abound, One Meralco will continue caring for people and planet as it powers the good life for all.