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Company Information

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Industry Classification: E40100
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COVER SHEET

SEC Registration Number

PW-102

Company Name

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

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-Q		

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
40,228	Last Tuesday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. William Pamintuan	wspamintuan@meralco.com.ph	8632-8014	N/A

Contact Person's Address

Lopez Building, Ortigas Avenue, Pasig City

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT UNDER SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.2(c) THEREUNDER

1. **For the Quarterly Period Ended:** June 30, 2025

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

3. **BIR Tax Identification Code:** 000-101-528-000

4. **Name of Issuer as specified in its Charter:** Manila Electric Company

5. **Country of Incorporation:** Philippines

6. **Industry Classification:** (SEC use only)

7. **Address of principal office:** Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City
   Postal Code: 1605

8. **Issuer's telephone numbers including area code:** (02) 8632-8014

9. **Former name, former address and former fiscal year, if changed since last report:** Not Applicable

10. **Securities registered pursuant to Sections 18 and 12 of the SRC or Sections 4 and 8 of the RSA:**

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	1,127,092,509
Debt Securities (Bonds)	PhP2.87 Billion

11. **Are any or all of these Securities listed on a Stock Exchange?**
    Yes [x] No [ ]

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

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

a) Has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation

Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes [x] No [ ]

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

Yes [x] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The 1st Half 2025 Financial Statements is hereto attached and made integral part of this report.

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

Please refer to the attached 1st Half 2025 Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II – FINANCIAL INFORMATION

Not applicable.

SIGNATURE

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

MANILA ELECTRIC COMPANY
Issuer

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

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

Date: August 14, 2025

Cc: Disclosure Department
Listings and Disclosure Group
Philippine Stock Exchange

Issuer Compliance and Disclosure Department
Philippine Dealing & Exchange Corp.

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company ("*MERALCO*") and its subsidiaries, collectively referred to as the *"MERALCO Group*" should be read in conjunction with the unaudited interim consolidated financial statements as at June 30, 2025 and December 31, 2024 and for the six months ended June 30, 2025 and 2024. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (*"PFRS*s*")*. *PFRS* Accounting Standards include statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying unaudited interim consolidated financial statements is presented in Philippine peso, *MERALCO Group'*s functional and presentation currency, as defined under *PFRS.* All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The exchange rate used to translate U.S. dollar to Philippine peso in this report and in the accompanying unaudited interim consolidated financial statements is US$1.00 to ₱56.33, the closing rate as at June 30, 2025 quoted through the Philippine Dealing System.

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

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)	Increase (Decrease)	
			Amount	%
Condensed Statements of Financial Position				
Total assets	₱753,924	₱617,958	₱135,966	22
Current assets	192,398	179,616	12,782	7
Cash and cash equivalents	91,754	84,480	7,274	9
Equity attributable to equity holders of the parent	153,922	144,599	9,323	6
Total debt	204,811	94,776	110,035	116
Current liabilities	244,730	236,374	8,356	4
Total liabilities	554,070	432,076	121,994	28

	Unaudited			
	Six Months Ended June 30		Increase (Decrease)	
	2025	2024	Amount	%
Condensed Statements of Income				
Revenues	₱245,219	₱237,477	₱7,742	3
Costs and expenses	219,669	212,473	7,196	3
Other income, net of expenses	3,712	3,640	72	2
Income before income tax	29,262	28,644	618	2
Net income	24,461	23,117	1,344	6
Net income attributable to equity holders of the parent	23,635	22,441	1,194	5
Earnings per share (EPS), attributable to equity holders of the parent	20.97	19.91	1.06	5
Condensed Statements of Cash Flows				
Net cash provided by operating activities	22,412	21,335	1,077	5
Net cash used in investing activities	(116,518)	(1,284)	(115,234)	8,975
Net cash provided by (used in) financing activities	101,183	(16,096)	117,279	(729)
Operational Data				
Number of customers (in thousands):				
Residential	7,512	7,326	186	3
Commercial	601	588	13	2
Industrial	11	11	–	–
Streetlight	5	5	–	–
Electricity sales volume (in *GWh*)	27,091	26,954	137	1
System loss (in percentage) :				
MERALCO	5.88	6.07	(0.20)	(3)
Clark Electric Distribution Corporation ("*Clark Electric*")	1.97	2.26	(0.29)	(13)

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

Financial KPI	**Definition**	**June 30, 2025** (Unaudited)	**December 31, 2024** (Audited)
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	1.33	0.66
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.79	0.76

		Unaudited	
		Six Months Ended June 30	
		2025	**2024**
Core EBITDA	*CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, and provision for income tax	₱43,186	₱39,747
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	10%	9%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	15%	17%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	36%	39%

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to over 8.13 million customer accounts in 39 cities and 72 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon.

The operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and/or services, as follows:

- Power

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

  Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers of *MERALCO*, Clark Electric Distribution Corporation ("*Clark Electric"*) and Shin Clark Power Corporation ("*Shin Clark Power")*. Electricity distribution within the *MERALCO* franchise area accounts for approximately 50% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone and the sub-zones, and *Shin Clark Power*'s franchise area covers the New Clark City ("*NCC*").

  Shin Clark Power Holdings, Inc. *("Shin Clark")* through a Joint Venture Agreement ("*JVA*") with Bases Conversion and Development Authority ("*BCDA*"), manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare *NCC* located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac. The franchise to operate the electric distribution system in *NCC* was granted by Congress under Republic Act No. 11420 to *BCDA* which assigned the same to *Shin Clark Power*, in exchange for 10% equity interest in *Shin Clark Power*. *Shin Clark Power* was incorporated and registered with the Securities and Exchange Commission ("*SEC*"). *Shin Clark Power* has a Certificate of Public Convenience and Necessity issued by the *ERC* to operate as a distribution utility ("*DU")* for a period of 25 years.

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

  Power generation – The *MERALCO Group* has a combined group generating capacity of 5,068 *MW* (net) of coal, liquid natural gas, and renewable and diesel plants in the Philippines and Singapore. In addition, it is currently developing a total of 3,500 *MW* (gross) of solar capacities.

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

  Global Business Power Corporation *("GBPC")* owns 841 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. The portfolio also includes the 2 x 108.5 *MW* (net) *CFB* plant in Maasim, Sarangani of Sarangani Energy Corporation ("*Sarangani Energy"*). *GBPC* has a 50% less one share interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in *Sarangani Energy*.

  MGen Renewable Energy, Inc. ("*MGreen*") is a wholly owned subsidiary of *MGen* engaged in the development, construction and operation of solar-powered generation facilities. It has a 60% equity in Powersource First Bulacan Solar, Inc. ("*First Bulacan*"), which owns and operates a 80 *MWdc*/50 *MWac*

utility scale solar facility located in San Miguel, Bulacan, and has an *ERC*-approved *PSA* with *MERALCO* for a period of 20 years up to April 2041.

Following *MGreen*'s acquisition of a majority stake in *SPNEC* in December 2023, *MGreen* further raised its voting interest in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion *SPNEC* shares in January 2024. Terra Solar Philippines, Inc. ("*Terra Solar*"), a wholly owned subsidiary of *SPNEC*, is developing a 3.5-*GWp* solar power plant facility with a 4,500-*MWh* battery energy storage system. The project with the first phase involving 2,500 *MWdc* is expected to begin commercial operations in the first quarter of 2026 while the balance is due to be completed in 2027.

MGen secured the Department of Energy's ("*DOE*") reaffirmation of the status of its Atimonan One Energy, Inc. ("*A1E"*) 1,200-*MW* ultra supercritical coal-fired power project as a Committed Project, which followed the agency's confirmation that the project remains outside the coverage of the coal moratorium policy.

MGen and Therma NatGas, Inc. ("*TNGP*") have jointly entered into an Investment Agreement with the parties owning 60% and 40% interests in Chromite Gas Holdings, Inc. ("*CGHI")*, respectively.

PH Renewables Inc. *("PHRI")*, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation, owns and operates a total of 80.1 *MWac* solar plant in Baras, Rizal ("*Baras Solar Plant*").

Also, in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*") and *MGreen,* Nuevo Solar Energy Corporation ("*NSEC*") owns and operates a 68 *MWac* solar plant project in Ilocos Norte.

MGreen closed an investment agreement with *Vena Energy*, for the development, construction and operation of the 450 *MWac* solar plant in Bugallon, Pangasinan through 3 Barracuda Energy Corporation ("*Barracuda Energy*"). The project commenced its construction in the fourth quarter of 2024 and is expected to achieve commercial operation by first quarter of 2026.

MGen also has a combined 58% (direct and indirect interests) in PacificLight Power Pte Ltd. ("*PacificLight Power*"), which owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by *LNG* in Jurong Island, Singapore. A 100 *MW* fast-start *LNG* plant is under construction and is expected to provide ancillary services to the Singapore grid under a 25-year Fast Start contract with the Energy Market Authority ("*EMA*").

On January 6, 2025, *PacificLight Power* was awarded the right to build, own and operate a hydrogen-ready Combined Cycle Gas Turbine ("*CCGT*") facility in Jurong Island by the *EMA* of Singapore. The project shall be the largest single H-class *CCGT* plant in Singapore, with the capacity of at least 600 *MW*. The plant is scheduled to begin commercial operations in January 2029.

RES – This business segment sources and supplies electricity to qualified contestable customers. Being *DU*s, *MERALCO* and *Clark Electric* are also qualified and act 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*.

Vantage Energy Solutions and Management, Inc. ("*Vantage*") and Phoenix Power Solutions, Inc. ("*Phoenix Power*"), wholly owned subsidiaries of *MERALCO*; MeridianX Inc. ("*MeridianX*"), a wholly owned subsidiary of *Comstech*; and Global Energy Supply Corporation ("*GESC*"), a wholly owned subsidiary of *GBPC* are affiliate *RES*s. Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC* on November 17, 2017. As at July 28, 2025, the approval of *Clarion*'s *RES* license is still pending with the *ERC.*

- Other Services

  The other services segment is involved principally in services associated with electricity distribution, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications 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*, Miescor Builders, Inc. *("MBI")* and Miescor Logistics, Inc. *("MLI")* (collectively known as "*MIESCOR Group*"), Corporate Information Solutions, Inc. *("CIS")*, CIS Bayad Center, Inc. *("Bayad") and* Customer Frontline Solutions, Inc. ("*CFSI*") (collectively referred to as "*CIS Group*"), eMeralco Ventures, Inc. ("*e-MVI")*, Paragon Vertical Corporation *("Paragon")* and Radius Telecoms, Inc. *("Radius")* (collectively referred to as "*e-MVI Group*"), *Comstech*, Lighthouse Overseas Insurance Limited *("LOIL"),* Meralco Financial Services, Inc. *("Finserve")*, Meralco Energy, Inc. ("*Mserv")*, Mspectrum, Inc. ("*Spectrum*) and Movem Electric Inc. ("*Movem*").

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

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

RESULTS OF OPERATIONS

The consolidated results of operations and the contribution of each business segment to *MERALCO Group*'s revenues, costs and expenses, other income, and net income for the six months ended June 30, 2025 and 2024 are discussed below.

	Unaudited			
	For the Six Months Ended June 30, 2025			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱239,116	₱9,174	(₱3,071)	₱245,219
Costs and expenses	214,983	7,452	(2,766)	219,669
Other income (expense) - net	4,082	83	(453)	3,712
Net income attributable to equity holders of the parent	24,013	448	(826)	23,635

	Unaudited			
	For the Six Months Ended June 30, 2024			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱230,978	₱8,568	(₱2,069)	₱237,477
Costs and expenses	207,585	7,040	(2,152)	212,473
Other income (expense) - net	3,220	(312)	732	3,640
Net income attributable to equity holders of the parent	22,454	662	(675)	22,441

2025 compared with 2024

REVENUES

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

	Unaudited					
	For the Six Months Ended June 30					
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱239,116	97	₱230,978	97	₱8,138	4
Other services	9,174	4	8,568	4	606	7
Inter-segment transactions	(3,071)	(1)	(2,069)	(1)	(1,002)	48
Total	**₱245,219**	**100**	**₱237,477**	**100**	**₱7,742**	**3**

Consolidated revenues rose by 3% to ₱245,219 million from ₱237,477 million primarily driven by higher volumes sold by the distribution utility, increase in pass through transmission charge and higher revenue contributions from *MGen* through its participation in the reserve market.

Other services revenue increased by 7% from ₱8,568 million to ₱9,174 million due to higher revenues from *MIESCOR*. The increase was mitigated by the deconsolidation of *MIDC* at the end of September 2024.

Power

Revenues of power segment represent those from electricity distribution, *RES* and power generation businesses. *MERALCO*, *Clark Electric* and *Shin Clark Power* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, *Vantage, MeridianX, Phoenix Power* and *GESC* supply electricity to their respective contestable customers. Revenues of the power generation companies of *GBPC, First Bulacan*, *PHRI*, SP Calatagan and SP Tarlac are included in the power segment.

Revenues of the power segment in the first half of 2025 was at ₱239,116 million, reflecting a 4% increase from ₱230,978 million in the same period last year. This growth was primarily driven by higher distributed volume, increased pass-through transmission charges, and stronger revenue contributions from the reserve market.

MERALCO's average retail rate increased by 11% to ₱11.41 per *kWh* in the first half of the year from ₱10.27 per *kWh* in the same period in 2024.

Generation charge, which accounted for 64% of the total retail rate, went up due to higher cost of liquefied natural gas (*LNG*) and natural gas, full recovery of previously deferred charges for First Gas Sta. Rita and San Lorenzo plants, as approved by the *ERC*, and peso depreciation to an average of ₱57.14 per US dollar in the first six (6) months of this year from an average of ₱56.89 per US dollar in the same period last year.

Transmission charge, which was 8% of the retail rate, increased by 25% with higher service charges from additional capacity sourced by the National Grid Corporation of the Philippines ("*NGCP*") under its new Ancillary Services Procurement Agreements ("*ASPAs*") and capacities from the reserve market. The ancillary service charge billed by *NGCP* included about ₱0.33 per *kWh* of deferred reserve market charges, the collection of which was initially suspended by the *ERC* in March 2024 pending further evaluation of the price determination methodology. The *ERC* eventually approved the staggered collection of the said charges from February to April 2025.

The following summarizes the customer count of the electricity distribution business as at June 30, 2025 and 2024 and the corresponding electric consumption per customer class for the six months ended June 30, 2025 and 2024:

	No. of Customers *(in thousands)*		**Electricity Sales** *(in GWh)*		**% Change**	
Customer Class	**2025**	**2024**	**2025**	**2024**	**No. of Customers**	**Electricity Sales**
Residential	7,512	7,326	9,779	9,715	3	1
Commercial	601	588	10,102	10,068	2	–
Industrial	11	11	7,137	7,097	–	1
Streetlights	5	5	73	74	–	(1)
Total	**8,129**	**7,930**	**27,091**	**26,954**	**3**	**1**

Consolidated distribution utility energy sales volumes for the six months ended June 30, 2025 rose to 27,091 *GWh* from 26,954 *GWh* in the same period last year.

Commercial segment had the biggest share of 37% in the energy sales mix, while residential and industrial accounted for 36% and 26%, respectively.

Commercial segment recorded 10,102 *GWh* in energy sales from 10,068 *GWh* last year as sustained expansion in malls and wholesale supermarkets and scaling of cafés and quick-service restaurants offset the impact of lower real estate occupancy rates and sluggish tourist hotel arrival.

Residential segment recorded 9,779 *GWh* from 9,715 *GWh* due to the steady growth of newly energized accounts that lifted the otherwise flat demand from organic customers, particularly when compared with the peak months of May and June in 2024.

Industrial segment was at 7,137 *GWh* from 7,097 *GWh* in energy sales in the first half of 2024, driven by robust demand for semiconductors and cement and resurgence in domestic steel production which helped cushion the impact of contracted consumption in the food and beverage manufacturing sector.

Meanwhile, consolidated customer count was at 8.1 million customers as at end of first half of 2025, 3% higher than the 7.9 million customers a year ago.

Other Services

Non-electric revenues consist mainly of businesses generated from (i) foreign attachments to the *MERALCO* and *Clark Electric* poles; (ii) space rentals; and (iii) revenues of subsidiaries not engaged in the power business, which include businesses generated from third party customers by: (a) *MIESCOR Group* from its *EPC* contracts; operations and maintenance works involving transmission and telecommunications lines; (b) *MServ* for the supply and installation of powerhouse, load side equipment, and energy efficiency services; (c) *CIS Group* handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions; (d) *Radius* with its data and internet services; and (e) *Movem* with its sales of e-vehicles to electric vehicles expansion enterprises and e-shuttle services.

Revenue of other services increased by 7% from ₱8,568 million to ₱9,174 million due to higher revenues from *MIESCOR*. The increase was mitigated by the deconsolidation of *MIDC* at the end of September 2024.

COSTS AND EXPENSES

Consolidated costs and expenses for the six months ended June 30, 2025, amounted to ₱219,669 million, higher by ₱7,196 million compared with ₱212,473 million in 2024. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Six Months Ended June 30					
	2025		**2024**		**Increase/Decrease**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
	(Amounts in millions)					
Power[1]	₱214,983	98	₱207,585	98	₱7,398	4
Other services	7,452	3	7,040	3	412	6
Inter-segment transactions	(2,766)	(1)	(2,152)	(1)	(614)	29
Total	**₱219,669**	**100**	**₱212,473**	**100**	**₱7,196**	**3**

[1] *Ibid.*

Power

Costs and expenses of power segment for the six months ended June 30, 2025 amounted to ₱214,983 million, 4% higher compared with ₱207,585 million in 2024. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Six Months Ended June 30					
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Purchased power	₱185,576	86	₱174,283	84	₱11,293	6
Salaries, wages and employee benefits	9,002	4	7,479	4	1,523	20
Depreciation and amortization	8,057	4	8,014	4	43	1
Contracted services	5,004	2	4,596	2	408	9
Coal and fuel	4,521	2	6,311	3	(1,790)	(28)
Others	2,823	2	6,902	3	(4,079)	(59)
Total	**₱214,983**	**100**	**₱207,585**	**100**	**₱7,398**	**4**

Purchased power cost ("*PPC*") increased by 6% to ₱185,576 million from ₱174,283 million consistent with the movement in pass-through revenues which increased due to higher volume purchased as well as higher transmission charge.

Salaries, wages and employee benefits expense increased primarily due to the expansion of operations within the power generation segment, which led to a higher manpower count. The increase also reflects annual merit adjustments and higher employee retirement benefit costs, driven by adjustment in discount rate assumption used in determining the defined benefit obligation.

Coal and fuel are costs primarily incurred by the power generation business – mainly *GPBC* and its subsidiaries – declined by 28% in the first half of 2025, driven by lower market prices for coal and fuel.

Other expenses consist of business taxes and permits, 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 six months ended June 30, 2025 amounted to ₱7,452 million, 6% higher compared with ₱7,040 million in 2024.

	Unaudited					
	For the Six Months Ended June 30					
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Contracted services	₱2,543	34	₱1,407	20	₱1,136	81
Salaries, wages and employee benefits	2,414	32	2,419	34	(5)	–
Depreciation and amortization	496	7	1,185	17	(689)	(58)
Others	1,999	27	2,029	29	(30)	(1)
Total	**₱7,452**	**100**	**₱7,040**	**100**	**₱412**	**6**

The increase in cost and expenses of other services business segment reflects the costs of increasing business activities for the six months ended June 30, 2025 compared with the same period in 2024, consistent with the increase in related revenues.

Contacted services rose to ₱2,543 million from ₱1,407 million, primarily driven by the increase in *MIESCOR* Group's contracted services, which grew from ₱584 million to ₱1,513 million in line with the expansion of related revenues. This increase was partially offset by lower depreciation and amortization expenses following the deconsolidation of *MIDC* at the end of September 2024.

OTHER INCOME (EXPENSES)

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

	Unaudited			
	For the Six Months Ended June 30			
			Increase/Decrease	
	2025	2024	Amount	%
		(Amounts in millions)		
Power[2]	₱4,082	₱3,220	₱862	27
Other services	83	(312)	395	(127)
Intersegment transactions	(453)	732	(1,185)	(162)
Total	**₱3,712**	**₱3,640**	**₱72**	**2**

Other income, net of expenses, increased by ₱72 million for the six months ended June 30, 2025, primarily due to higher share in net earnings of associates. This growth was partially offset by increased interest and financial charges arising from the ₱75 billion term loan availed in January 2025.

Power

Other income (expenses) of power segment consists of:

	Unaudited			
	For the Six Months Ended June 30			
			Increase/Decrease	
	2025	2024	Amount	%
		(Amounts in millions)		
Equity in net earnings of associates and joint ventures	₱8,087	₱5,048	₱3,039	60
Interest and other financial charges	(4,347)	(2,217)	(2,130)	96
Interest and other financial income	1,854	1,808	46	3
Foreign exchange gains	125	285	(160)	(56)
Others	(1,637)	(1,704)	67	(4)
Total	**₱4,082**	**₱3,220**	**₱862**	**27**

The higher share in net earnings of associates and joint ventures was primarily driving by the net income contribution from *MGen*'s operations during the first half of 2025, resulting in total equity in net earnings of ₱8.2 billion – an increase from ₱4.9 billion in the same period last year.

Interest and other financial charges increased by ₱2,130 million, primarily due to additional loan drawdowns during the first half of 2025 compared with the same period in 2024.

For the six months ended June 30, 2025, foreign exchange gains were recognized, driven by dollar price volatility since December 31, 2024.

[2] *Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

	Unaudited					
	For the Six Months Ended June 30					
	2025		**2024**		**Increase/Decrease**	
	Amount	**%**	**Amount**	**%**	Amount	**%**
	(Amounts in millions)					
Power	₱24,013	102	₱22,454	100	₱1,559	7
Other services	448	2	662	3	(214)	(32)
Inter-segment transactions	(826)	(4)	(675)	(3)	(151)	22
Total	**₱23,635**	**100**	**₱22,441**	**100**	**₱1,194**	**5**

Net income attributable to equity holders of the parent increased by ₱1,194 million, primarily due to (a) higher sales volume from the *DU* business, driven by strong performance of commercial and residential segments and recovery of industrial segment; and (b) increased contribution from the power generation segment, reflecting operational stability, asset efficiency, and strategic participation in co-optimized market bidding for both energy and ancillary services in the Visayas grid.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2025 Unaudited	December 31, 2024 Audited	Increase (Decrease) Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱328,155**	₱288,501	₱39,654	14
Investments in associates and interests in joint ventures	**131,408**	47,513	83,895	177
Investment properties	**1,485**	1,487	(2)	–
Intangible assets	**40,821**	41,559	(738)	(2)
Deferred tax assets - net	**27,568**	26,382	1,186	4
Financial and other noncurrent assets	**32,089**	32,900	(811)	(2)
Total Noncurrent Assets	**561,526**	438,342	123,184	28
Current Assets				
Cash and cash equivalents	**91,754**	84,480	7,274	9
Trade and other receivables	**69,011**	64,697	4,314	7
Inventories	**11,439**	11,422	17	–
Financial and other current assets	**20,194**	19,017	1,177	6
Total Current Assets	**192,398**	179,616	12,782	7
Total Assets	**₱753,924**	₱617,958	₱135,966	22
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱153,922**	₱144,599	₱9,323	6
Non-controlling interests	**45,932**	41,283	4,649	11
Total Equity	**199,854**	185,882	13,972	8
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**161,807**	54,797	107,010	195
Customers' deposits - net of current portion	**37,250**	33,274	3,976	12
Long-term employee benefits	**17,864**	16,263	1,601	10
Provisions	**10,150**	9,855	295	3
Refundable service extension costs - net of current portion	**3,564**	3,753	(189)	(5)
Deferred tax liabilities - net	**8,612**	8,769	(157)	(2)
Other noncurrent liabilities	**70,093**	68,991	1,102	2
Total Noncurrent Liabilities	**309,340**	195,702	113,638	58
Current Liabilities				
Notes payable	**33,760**	34,287	(527)	(2)
Trade payables and other current liabilities	**197,099**	191,472	5,627	3
Customers' refund	**2,852**	2,853	(1)	–
Income tax payable	**1,775**	2,070	(295)	(14)
Current portion of interest-bearing long-term financial liabilities	**9,244**	5,692	3,552	62
Total Current Liabilities	**244,730**	236,374	8,356	4
Total Liabilities	**554,070**	432,076	121,994	28
Total Liabilities and Equity	**₱753,924**	₱617,958	₱135,966	22

CHANGES IN FINANCIAL POSITION

Utility Plant, Generation Plant and Others
The ₱39,654 million increase in utility plant, generation plant and others reflects the costs of 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, and development of power plant projects totaling ₱47,906 million. This was offset by depreciation and amortization of ₱7,812 million.

Investments in Associates and Interests in Joint Ventures
Investments in associates and interest in joint ventures increased due to (a) the recognition of ₱79.4 billion investment in *CGHI,* a joint venture between *MGen* (60%) and Therma NatGas, Inc. (40%), which acquired 67% stake in two gas-fired power plants owned by San Miguel Global Power Holdings Corp. and the *LNG* import and regasification terminal owned by Linseed Field Corporation on January 30, 2025 and (b) recognition of equity in net earnings for the period of ₱8,087 million. These increases were offset by dividends declared by associates and joint ventures totalling to ₱4,871 million.

Interest-bearing debt
Consolidated interest-bearing debts totaled ₱204.8 billion, which includes ₱89.4 billion in subsidiary-level borrowings. In January 2025, *MERALCO* utilized its ₱75 billion credit facility with major banks to finance investments and other strategic initiatives. In March 2025, *MTerra Solar* secured project financing amounting to ₱25.2 billion, of which ₱18 billion was allocated for the repayment of a bridge loan.

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

2024 compared with 2023

REVENUES

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

	Unaudited					
	For the Six Months Ended June 30					
	2024		2023		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱230,978	97	₱218,314	97	₱12,664	6
Other services	8,568	4	8,558	4	10	–
Inter-segment transactions	(2,069)	(1)	(2,052)	(1)	(17)	1
Total	**₱237,477**	**100**	**₱224,820**	**100**	**₱12,657**	**6**

Consolidated revenues rose by 6% to ₱237,477 million from ₱224,820 million mainly due to higher volumes distributed by the distribution utility (which includes pass through generation and transmission charges). The increase was mitigated by a) lower pass through average rates resulting from lower *WESM* prices and lesser emergency *PSA*, and b) lower energy fees due to lower coal and fuel prices.

Other services revenue is almost flat from ₱8,568 million to ₱8,558 million. *MIDC* has higher revenues from the increase in completed communication towers during the first half of 2024 and was offset by the lower revenue from engineering, procurement and construction ("*EPC*") and telecommunication projects.

Power

Revenues of power segment represent those from electricity distribution, *RES* and power generation businesses. *MERALCO*, *Clark Electric* and *Shin Clark Power* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, *Vantage* and *MeridianX* supply electricity to their respective contestable customers. Revenues of the power generation companies of *GBPC,* Powersource First Bulacan Solar, Inc. ("*First Bulacan*"), PH Renewables, Inc. ("*PHRI*"), SP Calatagan and SP Tarlac are included in the power segment.

Revenues of the power segment for the six months ended June 30, 2024 was at ₱230,978 million, ₱12,664 million or 6% higher compared with the same period in 2023 due to increase in distribution revenue (including pass through charges) resulting from higher distributed volume, partially offset by lower generation and transmission charges per *kWh*.

Generation charge, which accounted for about 62% of the total retail rate, went down by 12%; while transmission charge, comprising 7% of the retail rate, decreased by 2%. With a combined 11% share in the total, subsidies and taxes climbed by 3% due to higher taxes and universal charges.

Average *WESM* prices in the *MERALCO* franchise area went down to ₱5.81 per *kWh* from an average of ₱7.13 per *kWh* mainly due to the availability of Ilijan Natural Gas Plant, which was on shutdown from June 2022 to May 2023, following the end of its cooperation period with the suppliers of Malampaya gas. Further, the secondary price cap was triggered less frequently at close to 9% of the time compared with 13% in 2023. Meanwhile, peak demand in Luzon reached a record 14,016 *MW*, higher by 1,585 *MW* compared with 12,431 *MW* a year ago due to decidedly warmer temperatures.

MERALCO's average retail rate decreased by less than 4% to ₱10.27 per *kWh* from ₱10.68 per *kWh* mainly due to the completion of the distribution rate true-up ("*DRTU*") refund in May 2023. *MERALCO*'s average distribution charge of ₱1.52 per *kWh*, which accounted for 15% of the retail rate, increased by 2%, as a result of the increased share of residential sales volume.

The following summarizes the customer count of the electricity distribution business as at June 30, 2024 and 2023 and the corresponding electric consumption per customer class for the six months ended June 30, 2024 and 2023:

	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
Customer Class	**2024**	**2023**	**2024**	**2023**	**No. of Customers**	**Electricity Sales**
Residential	7,326	7,125	9,715	8,629	3	13
Commercial	588	575	10,068	9,162	2	10
Industrial	11	11	7,097	6,928	–	2
Streetlights	5	5	74	73	–	1
Total	**7,930**	**7,716**	**26,954**	**24,792**	**3**	**9**

Consolidated distribution utility energy sales volumes in the first half of 2024 rose to 26,954 *GWh* from 24,792 *GWh* in the same period in 2023 as volumes of *MERALCO* and *Clark Electric* increased by 9% and 7%, respectively.

In the second quarter of 2024, the monthly volumes breached the 5,000 *GWh*-level in May, largely driven by the double-digit growth in residential and commercial segments. Demand in the *MERALCO* franchise area peaked at 9,323 *MW* in April, up by 10% from the 8,438 *MW* peak demand experienced in May of 2023.

Commercial segment had the biggest share of 37% in the energy sales mix, while residential and industrial accounted for 36% and 26%, respectively.

Commercial sales volumes climbed 10% to 10,068 *GWh* during the first half of 2024 from 9,162 *GWh* in the same period in 2023, with the real estate sector accounting for majority of the sales, owing to higher office space demand in business districts and increased commercial activities. Retail and restaurants saw a rise in sales from mall expansions and foot traffic, which required increased activities of heating, ventilation, and air conditioning systems to manage the humid conditions. Hotels and leisure and entertainment venues benefitted from the influx of tourists during the dry season, as well as increased demand from newly built establishments post-pandemic.

Residential sales experienced a notable surge of 13%, reaching 9,715 *GWh* during the first half of 2024 from 8,629 *GWh* in the same period in 2023, fueled by warmer temperatures. Consumers also spent more time at home influenced by the shift in the academic calendar, and the transition to hybrid classes as a precaution to extreme heat conditions.

Industrial sales continued to rebound, increasing by 2% to 7,097 *GWh* from 6,928 *GWh* during the first half of 2024. Continued recovery of plastics and cement industries offset the impact of a decline from steel. Meanwhile, strong performance from food and beverage and sustained growth in the semiconductor sector pulled sales up in the second quarter.

Meanwhile, consolidated customer count grew steadily at 3% to 7.9 million by the end of June 2024 from 7.7 million in June 2023. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

Other Services

Non-electric revenues consist mainly of businesses generated from (i) foreign attachments to the *MERALCO* and *Clark Electric* poles; (ii) space rentals; and (iii) revenues of subsidiaries not engaged in the power business, which include businesses generated from third party customers by: (a) *MIESCOR Group* from its *EPC* contracts; operations and maintenance works involving transmission and telecommunications lines; and *MIDC* for leasing of communication towers; (b) *MServ* for the supply and installation of powerhouse, load side equipment, and energy efficiency services; (c) *CIS Group* handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions; (d) *Radius* with its data and internet services; and (e) *Movem* with its sales of e-vehicles to electric vehicles expansion enterprises and e-shuttle services.

Revenues from other services were flat due to lower awarded *EPC* and telecommunications projects of *MIESCOR*, offset by higher revenues of Radius, Bayad and *MIDC.*

COSTS AND EXPENSES

Consolidated costs and expenses for the six months ended June 30, 2024, amounted to ₱212,473 million, higher by ₱5,491 million compared with ₱206,982 million in the same period in 2023. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Six Months Ended June 30					
	2024		2023		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Power[3]	₱207,585	98	₱202,281	98	₱5,304	3
Other services	7,040	3	6,949	3	91	1
Inter-segment transactions	(2,152)	(1)	(2,248)	(1)	96	(4)
Total	**₱212,473**	**100**	**₱206,982**	**100**	**₱5,491**	**3**

Power

Costs and expenses of power segment for the six months ended June 30, 2024 amounted to ₱207,585 million, 3% higher compared with ₱202,281 million in the same period in 2023. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Six Months Ended June 30					
	2024*		2023		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Purchased power	₱174,283	84	₱167,373	83	₱6,910	4
Depreciation and amortization	8,014	4	7,285	4	729	10
Salaries, wages and employee benefits	7,479	4	6,472	3	1,007	16
Coal and fuel	6,311	3	9,084	4	(2,773)	(31)
Contracted services	4,596	2	4,184	2	412	10
Others	6,902	3	7,883	4	(981)	(12)
Total	**₱207,585**	**100**	**₱202,281**	**100**	**₱5,304**	**3**

* Cost and expenses for the six months ended June 30, 2024 included those of *SPNEC* following *MGreen*'s acquisition of a controlling stake in December 2023.

Purchased power cost ("*PPC*") increased by 4% to ₱174,283 million from ₱167,373 million due to higher volume purchased, increase in Malampaya gas prices, and depreciation of the Peso. The average Malampaya natural gas price increased to US$ 9.99 per *GJ* as of end-June 2024, 2% more than US$ 9.78 per *GJ* in the same period in 2023 due to higher oil price indices. Average Wholesale Electricity Spot Market ("*WESM*") prices, on the other hand, went down to ₱5.81 per *kWh* from an average of ₱7.13 per *kWh* mainly due to the availability of Ilijan Natural Gas Plant, which was on shutdown from June 2022 to May 2023, following the end of its cooperation period with the suppliers of Malampaya gas. Further, the secondary price cap was triggered less frequently at close to 9% of the time compared with 13% in 2023. Meanwhile, peak demand in Luzon reached a record 14,016 *MW*, higher by 1,585 *MW* compared with 12,431 *MW* in the same period in 2023, with the higher heat index brought about by the El Niño phenomenon.

Higher depreciation and amortization was due to completed projects during the first half of 2024 and consolidation of *SPNEC* in December 2023.

[3] *Ibid.*

Salaries, wages and employee benefits expense increased due to employee annual merits and higher employee retirement benefit driven by adjustment in discount rate assumption used in determining the defined benefit obligation.

Coal and fuel are costs incurred by the power generation business, mainly *GPBC* and its subsidiaries. Coal and fuel costs decreased by 31% due to lower coal and fuel prices and scheduled outages of certain power plants, while volume generated and sold was flat compared with the same period in 2023.

Other expenses consist of business taxes and permits, 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 six months ended June 30, 2024 amounted to ₱7,040 million, 1% higher compared with ₱6,949 million in the same period in 2023.

	Unaudited					
	For the Six Months Ended June 30					
	2024		2023		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Salaries, wages and employee benefits	₱2,419	34	₱2,314	33	₱105	5
Contracted services	1,407	20	1,437	21	(30)	(2)
Depreciation and amortization	1,185	17	921	13	264	29
Others	2,029	29	2,277	33	(248)	(11)
Total	**₱7,040**	**100**	**₱6,949**	**100**	**₱91**	**1**

Cost and expenses of other business segment is almost flat. Depreciation and amortization expenses for the six months ended June 30, 2024 is higher resulting from acquired/completed *SLB* and *BTS* towers of *MIDC* during the period offset with lower project-related costs of *MIESCOR* resulting from lower *ECP* projects.

OTHER INCOME (EXPENSES)

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

	Unaudited			
	For the Six Months Ended June 30			
			Increase/Decrease	
	2024	2023	Amount	%
	(Amounts in millions)			
Power[4]	₱3,220	₱4,672	(₱1,452)	(31)
Other services	(312)	(292)	(20)	7
Intersegment transactions	732	7	725	10,357
Total	**₱3,640**	**₱4,387**	**(₱747)**	**(17)**

Other income, net of expenses for the six months ended June 30, 2024 decreased by ₱747 million mainly due to lower share in net earnings of associates and joint ventures, and higher interest and other financial charges. The decrease was mitigated by foreign exchange gain recorded with the depreciation of peso against U.S. dollar and higher yield from investments.

[4] *Ibid.*

Power

Other income (expenses) of power segment consists of:

	Unaudited			
	For the Six Months Ended June 30			
			Increase/Decrease	
	2024	2023	Amount	%
	(Amounts in millions)			
Equity in net earnings of associates and joint ventures	₱5,048	₱6,704	(₱1,656)	(25)
Interest and other financial income	1,808	1,440	368	26
Interest and other financial charges	(2,217)	(2,096)	(121)	6
Foreign exchange gains (losses)	285	(50)	335	(670)
Others	(1,704)	(1,326)	(378)	29
Total	**₱3,220**	**₱4,672**	**(₱1,452)**	**(31)**

Lower equity in net earnings of associates and joint ventures for the six months ended June 30, 2024 compared with the same period in 2023 was due to scheduled outages of *SBPL* and *PacificLight.*

Interest and other financial income increased by ₱368 million with higher interest rates of short-term placements compared with the same period in 2023.

The six months ended June 30, 2024 resulted in foreign exchange gain due to the depreciation of Philippine peso against the U.S. dollar since December 31, 2023. The exchange rate of U.S. dollar is ₱58.61 as at June 30, 2024 (₱55.37 as at December 31, 2023) compared with ₱55.20 as at June 30, 2023 (₱55.76 as at December 31, 2022).

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

	Unaudited					
	For the Six Months Ended June 30					
	2024		2023		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱22,454	100	₱17,760	99	₱4,694	26
Other services	662	3	586	3	76	13
Inter-segment transactions	(675)	(3)	(493)	(2)	(182)	37
Total	**₱22,441**	**100**	**₱17,853**	**100**	**₱4,588**	**26**

Net income attributable to equity holders of the parent increased by ₱4,588 million due to higher sales volume of the *DU* business compared with the same period in 2023, owing to strong performance of commercial and residential segments and recovery of industrial segment.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2024 Unaudited	December 31, 2023 Audited	Increase (Decrease) Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱285,644**	₱269,839	₱15,805	6
Investments in associates and interests in joint ventures	**38,966**	38,388	578	2
Investment properties	**1,489**	1,493	(4)	-
Intangible assets	**52,300**	53,351	(1,051)	(2)
Deferred tax assets - net	**25,682**	24,633	1,049	4
Financial and other noncurrent assets	**49,224**	35,579	13,645	38
Total Noncurrent Assets	**453,305**	423,283	30,022	7
Current Assets				
Cash and cash equivalents	**86,614**	82,789	3,825	5
Trade and other receivables	**59,362**	48,395	10,967	23
Inventories	**13,465**	11,180	2,285	20
Financial and other current assets	**18,606**	20,395	(1,789)	(9)
Total Current Assets	**178,047**	162,759	15,288	9
Total Assets	**₱631,352**	₱586,042	₱45,310	8
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱134,777**	₱122,295	₱12,482	10
Non-controlling interests	**46,823**	45,024	1,799	4
Total Equity	**181,600**	167,319	(14,281)	9
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**65,369**	62,272	3,097	5
Customers' deposits - net of current portion	**32,356**	34,128	(1,772)	(5)
Long-term employee benefits	**11,731**	10,263	1,468	14
Provisions	**10,743**	11,350	(607)	(5)
Refundable service extension costs - net of current portion	**3,890**	4,051	(161)	(4)
Deferred tax liabilities - net	**11,134**	8,691	2,443	28
Other noncurrent liabilities	**61,038**	54,695	6,343	12
Total Noncurrent Liabilities	**196,261**	185,450	10,811	6
Current Liabilities				
Notes payable	**27,241**	27,583	(342)	(1)
Trade payables and other current liabilities	**214,767**	191,703	23,064	12
Customers' refund	**2,835**	2,846	(11)	-
Income tax payable	**3,214**	1,550	1,664	107
Current portion of interest-bearing long-term financial liabilities	**5,434**	9,591	(4,157)	(43)
Total Current Liabilities	**253,491**	233,273	20,218	9
Total Liabilities	**449,752**	418,723	31,029	7
Total Liabilities and Equity	**₱631,352**	₱586,042	₱45,310	8

CHANGES IN FINANCIAL POSITION

Utility Plant, Generation Plant and Others
The ₱15,805 million increase in utility plant, generation plant and others reflects the costs of completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, development of power plant projects and construction of tower assets, totaling ₱17,678 million and fair value adjustment of land from the acquisition of controlling interest in *SPNEC* of ₱6,244 million. This was offset by depreciation and amortization of ₱8,197 million.

Financial and Other Noncurrent Assets
The increase in financial and other noncurrent assets is mainly attributed to the additional under recoveries of pass through charges resulting from increasing generation and transmission charges recognized during the first half of 2024.

Trade and Other Receivables
Trade and other receivables increase mainly driven by higher retail rate and sales volume in June 2024 compared with December 2023.

Long-term employee benefits
The increase in this account is due to the long-term employee benefits expense recognized during the first half of 2024.

Other Noncurrent Liabilities
Other noncurrent liabilities pertain to liabilities for customer-funded assets and estimated liabilities for regulatory and tax related matters, among others.

Trade Payables and Other Current Liabilities
The increase in trade payables and other current liabilities was driven by higher purchased power costs in June 2024 compared with December 2023 resulting from higher volume of purchased power and deferral of payments to certain generators arising from orders from *ERC* amounting to ₱13,460 million.

LIQUIDITY AND CAPITAL RESOURCES

The following show the cash flows for the six months ended June 30, 2025 and 2024 as well as the capitalization and other selected consolidated financial data as at June 30, 2025 and December 31, 2024:

	Unaudited	
	For the Six Months Ended June 30	
	2025	2024
	(Amounts in millions)	
Cash Flows		
Net cash provided by operating activities	**₱22,412**	₱21,335
Net cash used in investing activities	**(116,518)**	(1,284)
Net cash provided by (used in) financing activities	**101,183**	(16,096)
Net increase in cash and cash equivalents	**7,077**	3,955
Capital Expenditures	**47,491**	17,418

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Capitalization		
Interest-bearing long-term financial liabilities		
Current	**₱9,244**	₱5,692
Noncurrent	**161,807**	54,797
Notes payable	**33,760**	34,287
Equity attributable to equity holders of the parent	**153,922**	144,599
Other Selected Financial Data		
Total assets	**753,924**	617,598
Utility plant, generation plant and others	**328,155**	288,501
Cash and cash equivalents	**91,754**	84,480

Debt Financing

The details of *MERALCO*'s interest bearing financial liabilities are discussed in Notes 17 and 21 to the consolidated financial statements.

The power plant complex of *PHRI*, generation plant and equipment of *First Bulacan*, *Greenergy* and *GSEI* and the solar power plants of *Solar Philippines Calatagan* and *Solar Philippines Tarlac*, with aggregate carrying value of ₱45,317 million as at June 30, 2025, are pledged as securities for long-term debt contracted.

Under their respective loan agreements, *MERALCO*'s subsidiaries are required to meet certain pre-agreed financial ratios at all times until full payment of the obligations. There are also restrictions in terms of payment of dividends, distributions or other returns to its stockholders, granting additional liens on its assets, disposal of assets, entering into mergers or similar transactions or permitting a transfer of its interest and incurring additional indebtedness, among others. *GBPC* is prohibited from entering into merger or consolidation with other corporation, unless *GBPC* is the surviving entity.

As at June 30, 2025, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Equity Financing

As at June 30, 2025, *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 - 178,608 shares	(13)

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,461 million as at June 30, 2025 and December 31, 2024. Total unclaimed dividends amounted to ₱248 million as at June 30, 2025 and December 31, 2024. Interest is no longer accrued from the time such preferred shares were called for redemption.

Treasury shares represent the 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* purchased.

In September 2024, 6,196 unpaid shares awarded under the Employee Stock Purchase Plan ("*ESPP*") were approved by the *SEC* for conversion to treasury shares. As at June 30, 2025, the total number of treasury shares is 178,608. All of the treasury shares pertain to cancelled shares subscribed under the *ESPP*.

The following are the cash dividends declared on common shares for the for the six months ended June 30, 2025 and 2024:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
February 24, 2025	March 12, 2025	April 4, 2025	₱13.74	₱15,482
February 26, 2024	March 27, 2024	April 24, 2024	10.30	11,603

On July 28, 2025, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.328 a share to all shareholders of record as at August 27, 2025, payable on September 22, 2025.

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

RISK FACTORS

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

- Regulatory decisions affecting the distribution utilities' tariff
- Recovery of development investments, new businesses and significant capital expenditures
- Sales volume and Philippine economic conditions
- Power supply and demand management
- Competition and market

Regulatory Decisions Affecting the Distribution Utilities' Tariff

MERALCO is similarly faced with material regulatory uncertainty in respect of the timing and detail of its next rate rebasing. The major determinants of *MERALCO*'s and *Clark Electric*'s and *Shin Clark Power*'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 purchased power costs based on approved *PSA*s, 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 *RDWR*. Under *PBR*, tariffs are set once every Regulatory Period ("*RP*") based on a rate-setting framework which includes the required operating and capital expenditures as well as regulated return on the regulatory asset base ("*RAB*") of each *DU*, 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"). Each *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year.

On July 10, 2015, the *ERC* provisionally approved an interim average rate ("*IAR*") of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

On July 13, 2022, *MERALCO* received the Decision of the *ERC* dated June 16, 2022 which approved a revised and final *IAR* of ₱1.3522 per *kWh* as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The *ERC* likewise approved the corresponding distribution rate structure based thereon. *MERALCO* was authorized to continue implementing the *ERC*-approved *IAR* of ₱1.3522 per *kWh* until otherwise directed. *MERALCO* implemented the Decision beginning its August 2022 billing. As at July 28, 2025, the Decision is final and executory.

Subsequently, the *ERC* further ordered the refund of all regulatory reset costs approved, authorized and included in the *IAR,* as detailed in the item Regulatory Reset Costs. This resulted, among other things, in the further reduction of the *ERC*-approved *IAR* rate in the amount of ₱0.0023 per *kWh*; thus, the average rate of *MERALCO* now effectively stands at ₱1.3499 per *kWh.*

Distribution Rate True-Up ("DRTU") Applications

The *ERC* has issued Orders for the *DRTU* refunds totalling to ₱48,247 million which were implemented starting 2021 and were fully refunded to the customers in May 2023 billing. This resulted in an excess refund of ₱862 million, which was reported to the *ERC* in June 2023, with a proposed recovery mechanism. As at July 28, 2025, the *ERC* has not responded to *MERALCO*'s letter.

Several intervenors have filed petitions before the Court of Appeals ("*CA*") and the Supreme Court ("*SC*") questioning the decision approving the *DRTU* refund application. As at July 28, 2025, the petitions are pending before the *CA* and *SC*.

In compliance with the Order dated December 17, 2024, *MERALCO* filed an application for the confirmation of the true-up calculation of the *AWAT* for the period July 1, 2022 to December 31, 2024. A separate or supplemental application for the period January 1, 2025 to June 30, 2025 shall be filed once the actual weighted average rates are determined for the said period. The application also included *MERALCO*'s proposal to offset the recovery of the over refund implemented during the previous *DRTU* application. In an Order dated March 5, 2025, a copy of which was received by *MERALCO* on March 14, 2025, the *ERC* directed the refund of ₱19.9 billion, or an equivalent average refund rate of ₱0.1189 per *kWh* for all customer classes but excluded the over-refund from the previous *AWAT* refund implementation as this was still subject to the verification of the *ERC*. As at July 28, 2025, hearings at the *ERC* have been completed and *MERALCO* has filed its Formal Offer of Evidence.

Regulatory Reset Process Application

MERALCO filed its reset application for the new 5*RP* on February 7, 2025. Hearings have been completed for the presentation of *MERALCO*'s evidence and *MERALCO* is awaiting *ERC*'s resolution of pending motions before submission of its Formal Offer of Evidence. On July 3, 2025, *MERALCO* received a copy of the *ERC*'s Order dated May 14, 2025, suspending the proceedings until the *ERC* has complied with the *SC*'s Decision dated October 8, 2019 in the case of *NASECORE* versus *ERC*. As at July 28, 2025, the proceedings remain suspended. Further, the first *RY* of this reset period has lapsed.

Capital Expenditure ("CAPEX")

Absent the final rules governing the lapsed period from *RY* 2016 to *RY* 2025 rate-setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RY*s beginning July 1, 2015 until June 30, 2022. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at July 28, 2025, *MERALCO* is awaiting the final resolution and approval 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*.

PBR Reset for Clark Electric

Clark Electric is among the six (6) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. An *RY* for *Clark Electric* begins on October 1 and ends on September 30 of the following year.

Pending the issuance by the *ERC* of the final rules to govern the rest of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately. As at July 28, 2025, the applications remain pending with the *ERC*.

Recovery of Development Investments, New Businesses and Significant Capital Expenditures

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

- *Greenergy* for the development of a 40 *MWac* solar power plant in Cordon, Isabela
- 3.5-*GWp* solar power plant with a 4,500-*MWhr* battery energy storage system of Terra Solar
- 450 *MWac* solar plant in Bugallon, Pangasinan
- Hydrogen-ready Combined Cycle Gas Turbine facility in Jurong Island, Singapore

MGreen closed an investment agreement with *Vena Energy*, for the development, construction and operation of the 450 *MWac* solar plant in Bugallon, Pangasinan through 3 Barracuda Energy Corporation. The project commenced its construction in the fourth quarter of 2024 and is expected to achieve commercial operation by first quarter of 2026.

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

On January 6, 2025, *PacificLight Power* was awarded the right to build, own and operate a hydrogen-ready Combined Cycle Gas Turbine ("*CCGT*") facility in Jurong Island by the *EMA* of Singapore. The project shall be the largest single H-class *CCGT* plant in Singapore, with the capacity of at least 600 *MW*. The plant is scheduled to begin commercial operations in January 2029.

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 utility energy sales volumes for the six months ended June 30, 2025 rose to 27,091 *GWh* from 26,954 *GWh* in the same period last year.

Commercial segment had the biggest share of 37% in the energy sales mix, while residential and industrial accounted for 36% and 26%, respectively.

Commercial segment recorded 10,102 *GWh* in energy sales from 10,068 *GWh* last year as sustained expansion in malls and wholesale supermarkets and scaling of cafés and quick-service restaurants offset the impact of lower real estate occupancy rates and sluggish tourist hotel arrival.

Residential segment recorded 9,779 *GWh* from 9,715 *GWh* due to the steady growth of newly energized accounts that lifted the otherwise flat demand from organic customers, particularly when compared with the peak months of May and June in 2024.

Industrial segment was at 7,137 *GWh* from 7,097 *GWh* in energy sales in the first half of 2024, driven by robust demand for semiconductors and cement and resurgence in domestic steel production which helped cushion the impact of contracted consumption in the food and beverage manufacturing sector.

Meanwhile, consolidated customer count was at 8.1 million customers as at end of first half of 2025, 3% higher than the 7.9 million customers a year ago.

Power Supply and Demand Management

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

Below is the summary of *MERALCO* and *Clark Electric*'s electricity suppliers and the respective amounts of power purchased for the six months period ended June 30, 2025 and 2024. The details of the relevant *IPP*s and *PSA*s are disclosed and discussed in Note 30 to the unaudited interim consolidated financial statements.

The amounts of purchased power costs including transmission and ancillary charges for the six months ended June 30, 2025 and 2024 follow:

	Unaudited	
	For the Six Months Ended June 30	
	2025	2024
	(Amounts in millions)	
SPPC	**₱30,570**	₱27,092
First Gas Power Corporation ("*FGPC*")	**27,764**	27,810
National Grid Corporation of the Philippines *("NGCP")*	**25,657**	19,979
EERI	**21,787**	–
Independent Electricity Market Operator ("*IEMOP")*	**20,495**	36,736
FGP Corp. ("*FGP*")	**13,284**	12,432
SBPL	**10,022**	9,992
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**9,623**	6,274
Quezon Power (Philippines) Limited Company ("*QPPL")*	**9,219**	10,043
Sual Power Inc. ("*SPI*")	**8,242**	7,045
Limay Power Inc. ("*LPI*")	**2,570**	–
GNPower Dinginin Ltd. Co. ("*GNPD*")	**2,058**	–
Therma Luzon, Inc. ("*TLI*")	**667**	4,391
Southwest Luzon Power Generation Corporation	**322**	1,567
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**318**	332
Solar Philippines Tarlac	**246**	255
AC Energy Philippines, Inc. ("*AC Energy*")	**–**	5,193
First NatGas Power Corp. ("*FNPC*")	**–**	2,459
Energy Development Corporation ("*EDC*")	**–**	1,122
Others	**2,886**	1,695
	₱185,730	₱174,417

The continuing Malampaya gas restriction, increasing fuel indices and plant outages due to delayed preventive maintenance, forced outages, delays in commissioning of new projects are expected to result in overall tightening of the power supply situation in the country.

On April 18, 2022, *SPI* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances ("*CIC")*. Following filing of Joint Motions for Price Adjustment with the *ERC* and public hearings, on October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On November 4, 2022, *SPI* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction ("*WPI*") with the *CA*, assailing the *ERC* Orders dated September 29, 2022. The *CA* issued a *TRO*, then subsequently a *WPI*, for the *SPPC* case. On June 22, 2023, the *ERC* filed with the *SC* a Petition for Certiorari with prayer for *TRO*/*WPI*, assailing the *CA*'s issuance of *WPI* for the *SPPC* case.

On June 27, 2023, the *CA* issued a Joint Decision which, among other things, (a) annulled/set aside the *ERC* Orders that denied the Joint Motions for Price Adjustment and instead granted such motions (for the period of January 2022 to May 2022), without prejudice to any further requests for price adjustments for June 2022 onwards; and (b) made permanent the Preliminary Injunction issued in favor of *SPPC*. On the basis of the *CA* orders and decision, starting on December 7, 2022 and July 24, 2023, respectively, *SPPC* and *SPI* ceased supplying energy under their baseload *PSA*s with *MERALCO*. On February 28, 2024, the *ERC* elevated the matter to the *SC* by filing a Petition for Review on Certiorari. On April 3, 2024, the *SC* issued a Resolution denying the *ERC's* Petition for Certiorari for failure to show that the *CA* committed any reversible error. On July 10, 2024, the *SC* issued a Resolution for both matters (*CA*'s *WPI* issuance and the *CA*'s Joint Decision),

denying the *ERC's* Motions for Reconsideration considering there was no substantial argument to warrant any modification. Hence, the *SC* Resolutions have attained finality.

On October 10, 2024, *SPI* and *SPPC* filed Motions for Issuance of Writ of Execution with the *ERC* ("*ERC Writ of Execution*") praying that the *ERC* issue a writ of execution enforcing the *CA*'s Joint Decision by directing *MERALCO* to implement the adjustments in the Contract Price and pay to *SPI / SPPC* the aggregate amounts indicated in the Joint Motions for Price Adjustment, including allowing/ authorizing *MERALCO* to charge and collect the said amounts from its customers. On February 6, 2025, *SPI* and *SPPC* filed Motions to Resolve (the Motions for Issuance of Writ of Execution) with the *ERC.* As at July 28, 2025, the *ERC* has yet to act on the *ERC Writ of Execution* motions.

On March 11, 2025, *SPI* and *SPPC* filed Motions to Direct the Court of Origin to Issue a Writ of Execution with the CA ("*CA Writ of Execution*") praying that, due to the delay by the *ERC* in issuing a Writ of Execution as the court of origin, it is seeking redress with the *CA* under Section 1, Rule 39 of the Rules of Court in order for the appellate court to issue the writ of execution. On May 2, 2025, *MERALCO* filed its Comment with the *CA* to inform it that the *ERC* Writ of Execution motions are in pending and have yet to be resolved by the *ERC* and emphasized that *MERALCO* merely functions as a pass-through entity, which will only be able to remit payments to the *SPI* / *SPPC* if it is allowed by the regulatory body (i.e., the *ERC*) to collect the corresponding adjusted rates from its consumers. Being pass-through in nature, *MERALCO* should not be made to advance any amount to be recovered by *SPI / SPPC* without prior approval or directive from its regulator. In Resolution of the *CA* dated June 27, 2025, the *CA* partially granted *SPPC*'s and *SPI*'s respective Motions to Direct the Court of Origin to Issue a Writ of Execution, and required the *ERC* to carry out its duty to implement the Court's final judgment by resolving *SPPC*'s and *SPI*'s Motions for Execution and computing the amount to be paid in accordance with the *CA*'s Joint Decision dated June 27, 2023 and the respective Joint Motions for Price Adjustment filed by *MERALCO* and *SPPC* and *MERALCO* and *SPI*. The *ERC* was further directed to submit proof of its compliance with the *CA*'s Resolution within 30 days from notice. As at July 28, 2025, the *ERC* has yet to act on the *CA*'s directive.

Meanwhile, *SPI* and *SPPC* issued to *MERALCO* Notices of *CIC* dated August 23, 2023, claiming additional CIC claim ("*CIC 2*") covering the periods of January 2022 up to July 2023 in the amount of ₱14.6 billion (for *SPI*) and January to December 2022 in the amount of ₱15.9 billion (for *SPPC*). In *MERALCO*'s letters to *SPI* and *SPPC*, both dated January 30, 2024, *MERALCO* advised *SPI* and *SPPC* to avail itself of legal remedies available to it under the law as it found no basis to join *SPI* and *SPPC* in an *ERC* filing since the *PSA*s had already been terminated. On August 30, 2024, *MERALCO* wrote to *SPPC* and *SPI* that it has validated *SPPC* and *SPI*'s computation of *CIC* claim but resulting in a lower amount of ₱13.3 billion (for *SPI*) and ₱15.8 billion (for *SPPC*). On November 20, 2024, *SPI* and *SPPC* filed Motions for Price Adjustment with the *ERC* covering the periods of June 2022 up to July 2023 in the amount of ₱13.3 billion (for *SPI*) and June to December 2022 in the amount of ₱15.8 billion (for *SPPC*). On March 14, 2025, *SPI* and *SPPC* filed Motions to Resolve the (*CIC2* motions) with the *ERC.* As at July 28, 2025, the *ERC* has yet to act on the *CIC2* motions.

On October 11, 2023 and (revised on) February 1, 2024, *AC Energy* issued to *MERALCO* a Notice of *CIC* for the year 2022. Consequently, on February 29, 2024, *AC Energy* (joined by *MERALCO*) filed a Joint Motion for Price Adjustment with the *ERC* for its 2019 baseload *PSA* with *MERALCO*, involving ₱618 million. On May 24, 2024, *AC Energy* issued to *MERALCO* a Supplemental Notice of *CIC* for the year 2023. Thus, on June 21, 2024, *AC Energy* (joined by *MERALCO*) filed an Updated and Supplemental Joint Motion for Price Adjustment with the *ERC* for its 2019 baseload *PSA* with *MERALCO*, involving an additional ₱910 million. On September 2, 2024, *MERALCO* received a Notice of Termination from *AC Energy*. To inform the *ERC* of this Notice of Termination, *MERALCO* filed Manifestations and Urgent Motions to Resolve to the *ERC* on September 4, 2024.

On October 28, 2024, *MERALCO* received *AC Energy*'s second notice of termination, reiterating its earlier intention to terminate the subject *PSA*, specifically informing *MERALCO* that *AC Energy* would cease declaring its bilateral contract quantities ("*BCQ*") under the *PSA* effective November 2, 2024. In response, *MERALCO* urged *AC Energy* through a letter dated October 29, 2024 not to proceed with the termination of the subject *PSA* and to instead await the resolution of the motion for price adjustment pending before the *ERC* for the benefit of the consuming public. Apart from the letter to *AC Energy*, *MERALCO* also filed with the *ERC* Urgent 3rd Motion to Resolve dated October 29, 2024. However, without receiving any action from the *ERC*, on

November 2, 2024, despite *MERALCO*'s nominations to *AC Energy*, the latter ceased declaring *BCQ*s to *MERALCO* under the subject *PSA*s. As at July 28, 2025, the *ERC* has yet to act on the motions filed.

MERALCO's, Clark Electric's and *Shin Clark Power's* operations as *DU*s and the *RES* business may be disrupted if the electricity suppliers are not able to generate and deliver the power needed. The power generation business is likewise affected by the increasing fuel prices particularly for supply contracts which have fixed fuel rate arrangement vis-à-vis pass-through fuel arrangement.

Competition

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

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

The detailed discussions of the rate-making regulations and regulatory policies of the *ERC* which affect both *MERALCO, Clark El*ectric, and *Shin Clark Power* and other significant matters affecting the power industry players are 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 December 27, 2023, *MGreen* acquired 50.5% voting equity interest of *SPNEC* consisting of 15.7 billion common and 19.4 billion redeemable voting preferred shares subscription price.

An agreement was executed by and among *MGreen, SP Holdings* and *SPNEC*, covering *MGreen*'s grant to *SP Holdings* of an option to require *MGreen* to purchase 8.0 million common shares at the price of ₱1.15 per share (the "Put Option Price"), for a total price of up to ₱9.2 billion.

Following *MGreen*'s acquisition of a majority stake in *SPNEC* in December 2023, *MGreen* further raised its stake in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion shares of *SPNEC* in January 2024. *Terra Solar*, a wholly owned subsidiary of *SPNEC*, is developing a 3.5-*GWp* solar power plant facility with a 4,500-*MWh* battery energy storage system. The project with the first phase involving 2,500 *MWdc* is expected to begin commercial operations in the first quarter of 2026 while the balance is due to be completed in 2027.

MGen secured the Department of Energy's ("*DOE*") reaffirmation of the status of its *A1E* 1,200-*MW* ultra supercritical coal-fired power project as a Committed Project, which followed the agency's confirmation that the project remains outside the coverage of the coal moratorium policy.

MGen and Therma NatGas, Inc. ("*TNGP*") have jointly entered into an Investment Agreement with the parties owning 60% and 40% interests in Chromite Gas Holdings, Inc. (*"CGHI"),* respectively.

In January 2025, *CGHI* completed the acquisition of 67% stake in the two gas-fired power plants owned by San Miguel Global Power Holdings Corp. ("*SMGP*"), the 1,200 *MW* Ilijan power plant, and a new 1,275 *MW* combined cycle power facility, and the *LNG* import and regasification terminal owned by Linseed Field Corporation. The transaction was approved by the *PCC* on December 23, 2024. On June 1, 2025, *Linseed* completed the regasification terminal and achieved 2,400-*MW* gas send-out capacity, allowing it to fully service the requirements of *SPPC* and *EERI*.

On March 1, 2024, *MIESCOR* entered into a Multi-Party Share Swap Agreement with Connect Infrastructure (Philippines) Pte. Limited ("*Connect*"), PTCI Holdings Pte. Ltd. ("*PHPL*"), and Pylon Holdings Corp. ("*Pylon*"). Under the agreement, the shareholders of *MIDC* and PhilTower Consortium, Inc. ("*PhilTower*") (collectively referred to as the "*TowerCos*") shall transfer their respective ownerships in the *TowerCos* to *Pylon*. After the swap, *MIESCOR* owns 25.56% of *Pylon* with *Pylon* owning 100% each of *MIDC* and *PhilTower*. As a result, *MIESCOR* lost its power to govern the financial and operating policies of *MIDC* with the reduction in the voting rights at meetings of the Board of Directors. Accordingly, upon approval by the *PCC* and the Securities and Exchange Commission ("*SEC*"), and completion of other conditions of the transaction on September 13, 2024, *MIESCOR* derecognized in its financial statements the related assets, liabilities and non-controlling interests of *MIDC*, and recognized an investment in *Pylon* equivalent to the carrying amount of its investment in *MIDC*. No gain or loss was recognized as a result of the transaction.

(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")*

On November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* beginning January 1, 1995, as required by the Department of Energy ("*DOE*") to address the concerns of the then creditors of *NPC*, following a crippling power supply crisis.

The *CSE,* rates and amounts charged to *MERALCO* were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* also required *MERALCO* to provide market for half of the output of the Camago-Malampaya gas field to allow the Government to generate revenues and foreign exchange savings to the extent of the fuel imports which shall be displaced.

In the first seven (7) years, *MERALCO*'s total purchases from NPC exceeded the contract level. After which, in 1997, the Asian crisis resulted in the curtailment of energy demand.

A dispute ensued with a Settlement Agreement signed between *NPC* and *MERALCO* on July 15, 2003. A series of oppositions, motions for reconsideration, *TRO* and petitions followed with the Office of the Solicitor General acting for and on behalf of *NPC*.

Finally, the *CA* rendered a decision on April 15, 2014 denying the appeal of the *OSG* and affirmed the decision of *RTC* – Pasig declaring the Settlement Agreement valid and binding. The *NPC* filed a Petition for Review with the *SC*. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the *SA*. The *OSG* filed a Motion for Reconsideration. The *SC*, through a resolution dated April 3, 2024 denied the *OSG*'s motion. With this, the Resolution has attained finality and entry of judgment had been issued.

As at July 28, 2025, *MERALCO* is preparing to file the appropriate motion for the revival of the proceedings before the *ERC* for the pass-through of such generation charge.

2. Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line, a two (2)-part 230 kV line in Metro Manila, includes the Araneta to Balintawak and the Sucat to Araneta legs, passing through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, filed a case against *NPC* with the *RTC-Makati* to stop the installation and energization of high voltage cables near their homes due to alleged health risks from the electromagnetic field emitted by said lines. The *RTC- Makati* granted a preliminary injunction on April 3, 2000, which was affirmed by the *SC* on March 23, 2006. *MERALCO* intervened, citing the significant impact of 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* allowed *MERALCO* and *NGCP* to intervene and dissolved the injunction, and required the posting of bonds to cover potential damages.

The case remains pending, and is still at the pre-trial stage, with disputes over expert depositions. As at July 28, 2025, *MERALCO* is awaiting further action from the *SC* on the matter.

3. *RPT* Assessments

On October 22, 2015, the *SC* ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the Local Government Code *("LGC")*. Thereafter, *MERALCO* began the process of settlement with the affected *LGU*s and filed for the recovery of the resulting *RPT* payments with the *ERC*.

Acting on petitions filed by *PEPOA* and *PHILRECA*, the *ERC* issued Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes", approving the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s during the years prior to the Resolution to address tax arrearages; and (ii) *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at July 28, 2025, the Petition is pending with the *ERC*. In the meantime, *MERALCO* proposed to include the recovery of the *RPT* for the period prior to the Resolution as part of its new 5th *RP* application.

4. *LFT* Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code, 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* approved *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. The *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC*.

On December 6, 2006, the *SC* En Banc set aside and reversed the *CA* ruling saying that *COA* audit is not a prerequisite in the determination of a utility's rates. However, the *SC* directed the *ERC* to request *COA* to conduct an audit of the books, records and accounts of *MERALCO*.

On June 21, 2011, the *ERC* maintained its Decision dated March 20, 2003, and stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. On appeal, the CA dismissed the Petition for Review. A motion for reconsideration was filed but 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 *NASECORE* before the *SC*. On November 13, 2019, the SC partially granting the Petition, 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 the *ERC* to determine, within 90 days from finality of the Decision: (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a *DU* shall be passed on wholly or partially to consumers.

MERALCO, other *DU*s and the *ERC* filed their respective motions for reconsideration. In a Resolution dated January 14, 2025, the *SC* denied the motions for reconsideration. On April 4, 2025, *MERALCO* filed a Motion for Leave to File and Admit Attached Motion for Reconsideration (of the Resolution dated January 14, 2025 and Decision dated October 8, 2019). As at July 28, 2025, 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.

There are various outstanding contingent assets and liabilities which are not reflected in the accompanying consolidated financial statements. Refer to Note 29, *Contingencies and Legal Proceedings* and Note 30, *Significant Contracts and Commitments* to the consolidated financial statements for the updates on the Company's financial obligations.

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

1. Retail Competition

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

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

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

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

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

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

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

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017. Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW to* 749 *kW* for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

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

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

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

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

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

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

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

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGC*s") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *MPPCL,* Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SPI* 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) "Sem – Calaca Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "Sem – Calaca 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*, *SPI*, *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 July 28, 2025, *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 July 28, 2025, *MERALCO* is still awaiting further action of the *SC* on the Petition.

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

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SPI* 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 July 28, 2025, the Joint Motion to Dismiss is pending resolution by the *ERC*.

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

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at July 28, 2025, the Petition is pending resolution by the *ERC*.

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

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

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

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted onJanuary 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*, *SPI*, *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 *SPI*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2022, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022.

In a letter dated September 25, 2023, *MERALCO* filed a letter with the *ERC* on its proposed implementation of the recovery of the generation charges pertaining to the December 2013 supply month. On January 4, 2024, *MERALCO, IEMOP* and the *ERC* metto discuss *MERALCO*'s proposed implementation of the Decision. As directed by the *ERC*, *MERALCO* and *IEMOP* have completed the reconciliation of the final amount to be recovered, and have sent a joint letter dated March 12, 2024 to the *ERC*. As at July 28, 2025, the same is pending with the *ERC*.

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

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

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

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

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

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

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

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

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

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO, TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* initially resumed the hearings in this case by calling a conference on March 26, 2021 in order to discuss updates and developments regarding the case. While the pre-trial conference also proceeded on August 27, 2021, the *ERC* suspended proceedings in order to resolve pending motions. As at July 28, 2025, *MERALCO* is awaiting further action by the *ERC* on the matter.

On May 20, 2024, *MERALCO* received a copy of the Resolution dated April 3, 2024, issued by the *SC* requiring respondents *ERC, MERALCO* and *IEMOP* to file a comment on the Petition for Mandamus and Injunction against *ERC, MERALCO* and *IEMOP*. The Petition seeks to, among other things, compel the *ERC* to ban the purchase of electricity by *DU*s, like *MERALCO*, at the *WESM*. On June 10, 2024, *MERALCO* filed its Comment on the Petition. As at July 28, 2025, *MERALCO* awaits further action of the *SC* on the case.

7. Ombudsman Case Against Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. The consumer group 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. As at July 28, 2025, the Ombudsman has not acted on this matter.

On January 5, 2024, *MERALCO* received an Order dated January 2, 2024 from the Office of the Ombudsman directing *MERALCO*'s Chairman and *CEO* to file a counter-affidavit, together with the affidavit/s of supporting witnesses and other supporting documents, on the case filed by a certain consumer group against *ERC* and *MERALCO* seeking (a) indictment of *MERALCO*'s Chairman and *CEO* which alleged that there is a violation of certain provisions of *R.A. 3019* and Presidential Decree ("*PD*") *269*, and (b) a finding that the *ERC* Chairperson is guilty of, among other things, gross misconduct and grave abuse of authority. In said case, the consumer group alleged that there is no basis for *MERALCO* to participate in, and purchase energy at, the *WESM*, given that, among other things, the *WESM* was created to cater to the contestable market. On February 6, 2024, *MERALCO* has filed the relevant counter-affidavit and supporting affidavit to the Office of the Ombudsman. On March 18, 2024, *MERALCO* received the reply-affidavit filed by the consumer group. On July 15, 2024, *MERALCO* filed its Rejoinder-Affidavit. In a Joint Resolution dated April 7, 2025, the Ombusdman dismssed the criminal and administrative complaints.

8. SC Decision on the ₱0.167 per kWh Refund

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

An *ERC*-ordered audit of the *SC* Refund process and balance was performed by an independent firm of accountants in 2021. As at July 28, 2025, there has been no further action from the *ERC*.

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

After several rounds of motions and appeals in the Court of Tax Appeals ("*CTA*"), the *CTA En Banc* on May 22, 2013 denied the motions of the *BIR* and *MERALCO*, and ordered the *CTA* Second Division 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.

The *BIR* appealed the *CTA* en Banc's Amended Decision on July 12, 2012 via a Petition for Review with the *SC*.

On October 2, 2024, the *SC* 2nd Division issued a Resolution granting the *BIR*'s appeal, which reversed and set aside the *CTA En Banc*'s Amended Decision and reinstated the May 8, 2012 Decision of the *CTA En Banc*. On December 20, 2024, *MERALCO* filed an Omnibus Motion with the *SC* for reconsideration of the said Resolution. As at July 28, 2025, the Omnibus Motion is pending resolution by the *SC*.

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

Not applicable.

(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 electricity sold and distributed by *MERALCO* and *Clark Electric* and revenues from power generation business of *MGen* .

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

MERALCO Group sales for the six months ended June 30, 2025 and 2024 are 27,091 *GWh* and 26,954 *GWh*, respectively.

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

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

Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO* Group's liquidity as at June 30, 2025, 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 six months ended June 30, 2025 and 2024.

Financial Highlights and Ratios[5] of Major Subsidiaries
As at and for the six monhs ended June 30, 2025 and 2024
(Amounts in million except for financial ratios and % change)

	Clark Electric			*MGen*			*MIESCOR*			*e-MVI*			*CIS*		
	2025	**2024**	**% change**	**2025**	**2024**	**% change**	**2025**	**2024**	**% change**	**2025**	**2024**	**% change**	**2025**	**2024**	**% change**
Percentage of ownership	65%	65%		100%	100%		100%	100%		100%	100%		100%	100%	
Condensed Statements of Financial Position															
Total assets	₱4,426	₱4,141	7	₱353,645	₱199,125	78	₱17,190	₱36,324	(53)	₱5,664	₱5,752	(2)	₱7,188	₱7,598	(5)
Current assets	2,066	1,649	25	66,705	38,058	75	9,508	12,604	(25)	1,878	997	88	6,993	7,397	(5)
Cash and cash equivalents	1,588	1,258	26	38,779	21,796	78	1,877	1,541	22	1,053	363	190	4,403	2,933	50
Equity	2,778	2,581	8	176,627	80,181	120	10,353	9,702	7	2,083	2,075	–	1,077	1,183	(9)
Total debt[6]	–	–	–	88,343	45,619	94	255	11,662	(98)	595	719	(17)	–	–	–
Current liabilities	645	608	6	43,722	23,154	89	6,408	9,592	(33)	1,728	1,800	(4)	5,935	6,290	(6)
Financial Ratios															
Debt-to-equity ratio	–	–	–	0.50	0.57	(12)	0.02	1.20	(98)	0.29	0.35	(18)	–	–	–
Current ratio	3.20	2.71	18	1.53	1.64	(7)	1.48	1.31	13	1.09	0.55	96	1.18	1.18	–
Condensed Statements of Income															
Revenues	2,177	1,923	13	15,093	16,897	(11)	4,744	4,133	15	1,141	1,232	(7)	1,128	1,097	3
Costs and expenses	1,984	1,742	14	10,747	12,054	(11)	4,175	3,963	5	1,095	1,101	(1)	1,062	1,026	4
Net income (loss)	212	241	(28)	10,475	7,279	44	421	(232)	(281)	24	84	(71)	72	81	(11)
Financial Ratios															
Profit margin	9.7%	12.5%	(37)	69.4%	43.1%	61	8.9%	(5.6%)	(258)	2.1%	6.8%	(69)	6.4%	7.4%	(14)
Return on equity	7.6%	9.3%	(30)	5.9%	9.1%	(35)	4.1%	(2.4%)	(270)	1.2%	4.0%	(72)	6.7%	6.8%	(2)
Asset turnover	0.51	0.47	10	0.05	0.10	(47)	0.18	0.14	30	0.20	0.21	(5)	0.15	0.17	(12)

[5]The manner of computing the financial ratios for subsidiaries is the same with that of *MERALCO's* as presented in *Financial Highlights and Key Performance Indicators*.
[6]Total Debt is composed of notes payable and interest-bearing long-term financial liabilities, current and noncurrent portions.

ANNEX – Aging of Trade and Other Receivables

As at June 30, 2025

(Amounts in millions)

	T o t a l	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables - energy	₱50,171	₱11,795	₱3,974	₱17,276	₱17,126
Other trade receivables - service contracts	12,339	6,907	327	262	4,843
Gross trade receivables	**62,510**	**18,702**	**4,301**	**17,538**	**21,969**
Non-trade receivables	15,716	13,234	1,972	26	484
Total receivables	**78,226**	**31,936**	**6,273**	**17,564**	**22,453**
Allowance for expected credit losses	**(9,011)**	**(141)**	**(415)**	**(900)**	**(7,555)**
Net receivables	**₱69,215**	**₱31,795**	**₱5,858**	**₱16,664**	**₱14,898**

Manila Electric Company and Subsidiaries

Consolidated Financial Statements
as at June 30, 2025 (Unaudited) and December 31, 2024 (Audited)
And

For the Six Months Ended June 30, 2025 and 2024 (Unaudited)

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	**June 30, 2025 (Unaudited)**	**December 31, 2024 (Audited)**
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	*7 and 10*	**₱328,155**	₱288,501
Investments in associates and interests in joint ventures	*8 and 23*	**131,408**	47,513
Investment properties	*9*	**1,485**	1,487
Intangible assets	*7 and 10*	**40,821**	41,559
Deferred tax assets - net	*28*	**27,568**	26,382
Financial and other noncurrent assets	*2, 11, 15, 26, 27 and 30*	**32,089**	32,900
Total Noncurrent Assets		**561,526**	438,342
Current Assets			
Cash and cash equivalents	*12 and 27*	**91,754**	84,480
Trade and other receivables	*13, 24 and 27*	**69,011**	64,697
Inventories	*14*	**11,439**	11,422
Financial and other current assets	*11, 15, 23 and 27*	**20,194**	19,017
Total Current Assets		**192,398**	179,616
Total Assets		**₱753,924**	₱617,958
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent Company			
Common stock	*16*	**₱11,273**	₱11,273
Additional paid-in capital		**4,111**	4,111
Equity reserve	*3*	**5,577**	955
Employee stock purchase plan	*16*	**1,049**	1,049
Hedging reserve	*16 and 27*	**(2,251)**	1,277
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("*FVOCI*")	*11*	**871**	801
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**981**	942
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(28)**	(28)
Share in other comprehensive income and cumulative translation adjustments of associates	*8*	**1,578**	1,575
Cumulative translation adjustments of subsidiaries		**(718)**	(682)
Treasury shares	*16*	**(13)**	(13)
Retained earnings	*16*	**131,492**	123,339
Equity Attributable to Equity Holders of the Parent Company		**153,922**	144,599
Non-controlling Interests	*3 and 16*	**45,932**	41,283
Total Equity		**199,854**	185,882

(Forward)

	Note	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*17 and 27*	**₱161,807**	₱54,797
Customers' deposits - net of current portion	*18, 22 and 27*	**37,250**	33,274
Long-term employee benefits	*26*	**17,864**	16,263
Provisions	*19, 22 and 29*	**10,150**	9,855
Refundable service extension costs - net of current portion	*22 and 27*	**3,564**	3,753
Deferred tax liabilities - net	*28*	**8,612**	8,769
Other noncurrent liabilities	*2, 5, 7, 24 and 29*	**70,093**	68,991
Total Noncurrent Liabilities		**309,340**	195,702
Current Liabilities			
Notes payable	*21 and 27*	**33,760**	34,287
Trade payables and other current liabilities	*2, 16, 22, 23, 27 and 29*	**197,099**	191,472
Customers' refund	*2, 20 and 27*	**2,852**	2,853
Income tax payable		**1,775**	2,070
Current portion of interest-bearing long-term financial liabilities	*17 and 27*	**9,244**	5,692
Total Current Liabilities		**244,730**	236,374
Total Liabilities		**554,070**	432,076
Total Liabilities and Equity		**₱753,924**	₱617,958

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

		Unaudited			
		For the Six Months Ended June 30		For the Three Months Ended June 30	
	Note	**2025**	2024	**2025**	2024
		(Amounts in millions, except per share data)			
REVENUES					
Sale of electricity	*6, 23, 24, 30 and 32*	**₱239,116**	₱230,978	**₱127,363**	₱129,615
Sale of other services	*23*	**6,103**	6,499	**3,345**	3,314
		245,219	237,477	**130,708**	132,929
COSTS AND EXPENSES					
Purchased power	*24 and 30*	**185,730**	174,417	**99,303**	97,890
Salaries, wages and employee benefits	*25 and 26*	**11,347**	9,256	**6,004**	4,970
Depreciation and amortization	*7, 9, 10 and 25*	**8,549**	9,200	**4,574**	4,670
Contracted services		**5,316**	4,610	**2,601**	2,373
Coal and fuel		**4,521**	6,311	**2,343**	3,555
Provision for (reversal of) probable losses and expenses from claims	*2, 19 and 29*	**(1,674)**	2,024	**(1,425)**	2,744
Taxes, fees and permits		**1,280**	1,460	**407**	536
Power plant operations and maintenance cost		**830**	1,003	**388**	419
Provision for expected credit losses ("*ECL*")		**170**	578	**151**	9
Other expenses	*23 and 25*	**3,600**	3,614	**2,263**	1,863
		219,669	212,473	**116,609**	119,029
OTHER INCOME (EXPENSES)					
Equity in net earnings of associates and joint ventures	*8*	**8,087**	5,048	**4,770**	3,339
Interest and other financial charges	*17, 18 and 21*	**(4,395)**	(2,671)	**(2,339)**	(1,346)
Interest and other financial income	*11 and 12*	**1,689**	1,906	**809**	970
Foreign exchange gains (losses)		**111**	302	**(9)**	294
Others	*2, 5, 7, 8, 23, 30 and 32*	**(1,780)**	(945)	**(935)**	(680)
		3,712	3,640	**2,296**	2,577
INCOME BEFORE INCOME TAX		**29,262**	28,644	**16,395**	16,477
PROVISION FOR (BENEFIT FROM) INCOME TAX	*28*				
Current		**6,143**	5,419	**3,321**	3,923
Deferred		**(1,342)**	108	**(440)**	(805)
		4,801	5,527	**2,881**	3,118
NET INCOME		**₱24,461**	₱23,117	**₱13,514**	₱13,359
Attributable To					
Equity holders of the Parent	*31*	**₱23,635**	₱22,441	**₱13,187**	₱12,844
Non-controlling interests		**826**	676	**327**	515
		₱24,461	₱23,117	**₱13,514**	₱13,359
Earnings Per Share Attributable to Equity Holders of the Parent	*31*				
Basic		**₱20.97**	₱19.91	**₱11.70**	₱11.40
Diluted		**20.97**	19.91	**11.70**	11.40

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Unaudited			
		For the Six Months Ended June 30		For the Three Months Ended June 30	
	Note	**2025**	2024	**2025**	2024
		(Amounts in millions)			
NET INCOME		**₱24,461**	₱23,117	**₱13,514**	₱13,359
OTHER COMPREHENSIVE INCOME					
Items that will be reclassified to profit or loss in subsequent periods:					
Unrealized fair value gains on fair value through other comprehensive ("*FVOCI*") financial assets	*11*	**71**	51	**643**	2
Cumulative translation adjustments of associates		**3**	(2)	**3**	(2)
Cumulative translation adjustments of subsidiaries		**(36)**	15	**(8)**	12
Net other comprehensive income that will be reclassified to profit or loss in subsequent periods		**38**	64	**638**	12
Items that will not be reclassified to profit or loss in subsequent periods:					
Change in fair value of cash flow hedges	*16 and 27*	**(3,528)**	1,532	**(2,251)**	1,532
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**53**	(77)	**(23)**	(20)
Income tax effect		**(14)**	20	**5**	6
		39	(57)	**(18)**	(14)
Unrealized fair value gains (losses) on equity securities at *FVOCI*		**(2)**	130	**(13)**	85
Income tax effect		**1**	(13)	**2**	(8)
		(1)	117	**(11)**	77
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**–**	(2)	**–**	–
Net other comprehensive gains (losses) that will not be reclassified to profit or loss in subsequent periods		**(3,490)**	1,590	**(2,280)**	1,595
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**(3,452)**	1,654	**(1,642)**	1,607
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱21,009**	₱24,771	**₱11,872**	₱14,966
Total Comprehensive Income Attributable To					
Equity holders of the Parent		**₱20,183**	₱24,095	**₱11,545**	₱14,451
Non-controlling interests		**826**	676	**327**	515
		₱21,009	₱24,771	**₱11,872**	₱14,966

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2025 AND 2024

	Equity Attributable to Equity Holders of the Parent Company														
	Common Stock (Note 16)	**Additional Paid-in Capital**	**Equity Reserve** (Note 3)	**Employee Stock Purchase Plan** (Note 16)	**Hedging Reserve** (Notes 16 and 27)	**Unrealized Fair Value Gains 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)	**Share in Other Comprehensive Income and 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 Company**	**Non-controlling Interests** (Note 3 and 6)	**Total Equity**
	(Amounts in millions)														
At January 1, 2025	**₱11,273**	**₱4,111**	**₱955**	**₱1,049**	**₱1,277**	**₱801**	**₱942**	**(₱28)**	**₱1,575**	**(₱682)**	**(₱13)**	**₱123,339**	**₱144,599**	**₱41,283**	**₱185,882**
Net income	–	–	–	–	–	–	–	–	–	–	–	**23,635**	**23,635**	**826**	**24,461**
Other comprehensive income (loss)	–	–	–	–	**(3,528)**	**70**	**39**	–	**3**	**(36)**	–	–	**(3,452)**	–	**(3,452)**
Total comprehensive income (loss)	–	–	–	–	**(3,528)**	**70**	**39**	–	**3**	**(36)**	–	**23,635**	**20,183**	**826**	**21,009**
Dividends	–	–	–	–	–	–	–	–	–	–	–	**(15,482)**	**(15,482)**	**(2,145)**	**(17,627)**
Effect of changes in ownership in MERALCO PowerGen Corporation ("*MGen*")	–	–	**4,414**	–	–	–	–	–	–	–	–	–	**4,414**	**6,043**	**10,457**
Effect of changes in ownership in CIS Bayad Center, Inc. ("*Bayad*") and Radius Telecoms, Inc. ("*Radius*")	–	–	**208**	–	–	–	–	–	–	–	–	–	**208**	–	**208**
Others	–	–	–	–	–	–	–	–	–	–	–	–	–	**(75)**	**(75)**
	–	–	**4,622**	–	–	–	–	–	–	–	–	**(15,482)**	**(10,860)**	**3,823**	**(7,037)**
At June 30, 2025	**₱11,273**	**₱4,111**	**₱5,577**	**₱1,049**	**(₱2,251)**	**₱871**	**₱981**	**(₱28)**	**₱1,578**	**(₱718)**	**(₱13)**	**₱131,492**	**₱153,922**	**₱45,932**	**₱199,854**

	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)	Hedging reserve (Notes 3 and 16)	Unrealized Fair Value Gains 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)	Share in Other Comprehensive Income and 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, 2024	₱11,273	₱4,111	(₱111)	₱1,049	₱–	₱490	₱3,418	(₱29)	₱307	₱52	(₱11)	₱101,746	₱122,295	₱45,024	₱167,319
Net income	–	–	–	–	–	–	–	–	–	–	–	22,441	22,441	676	23,117
Other comprehensive income (loss)	–	–	–	–	1,532	168	(57)	(2)	(2)	15	–	–	1,654	–	1,654
Total comprehensive income (loss)	–	–	–	–	1,532	168	(57)	(2)	(2)	15	–	22,441	24,095	676	24,771
Dividends	–	–	–	–	–	–	–	–	–	–	–	(12,663)	(12,663)	(52)	(12,715)
Others	–	–	1,050	–	–	–	–	–	–	–	–	–	1,050	1,175	2,225
	–	–	1,050	–	–	–	–	–	–	–	–	(12,663)	(11,613)	1,123	(10,490)
At June 30, 2024	₱11,273	₱4,111	₱939	₱1,049	₱1,532	₱658	₱3,361	(₱31)	₱305	₱67	(₱11)	₱111,524	₱134,777	₱46,823	₱181,600

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

		Unaudited	
		For the Six Months Ended June 30	
	Note	**2025**	2024
		(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱29,262**	₱28,644
Adjustments for:			
Depreciation and amortization	*7, 9 and 10*	**8,549**	9,200
Equity in net earnings of associates and joint ventures	*8*	**(8,087)**	(5,048)
Provision for probable losses and expenses from claims – net of settlement	*2 and 29*	**3,826**	3,119
Interest and other financial charges	*17, 18 and 21*	**4,395**	2,671
Interest and other financial income	*11 and 12*	**(1,689)**	(1,906)
Provision for *ECL*		**170**	578
Others		**(86)**	4,370
Operating income before working capital changes		**36,340**	41,628
Increase in:			
Trade and other receivables		**(9,164)**	(33,680)
Inventories		**(17)**	(2,336)
Financial and other current assets		**(177)**	(2,425)
Increase (decrease) in:			
Trade payables and other current liabilities		**(8,457)**	18,667
Customers' deposits		**3,994**	(1,540)
Customers' refund		**(1)**	(11)
Long-term employee benefits		**1,635**	4,067
Net cash flows provided by operating activities			24,370
Income tax paid		**(3,090)**	(3,035)
Net cash flows provided by operating activities		**21,063**	21,335
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments in associates and interests in joint ventures		**(71,373)**	(964)
Utility plant and others	*7*	**(47,409)**	(10,000)
Financial assets at *FVOCI*	*11*	**(22,233)**	(9,508)
Short-term investments		**(1,218)**	(1,060)
Intangible assets	*10*	**(81)**	(3,431)
Debt securities at amortized cost	*11*	**(1)**	–
Proceeds from maturity of:			
Financial assets at *FVOCI*		**22,520**	9,814
Debt securities at amortized cost		**708**	4,781
Short-term investments		**–**	1,059
Dividends received from associates and joint ventures		**4,871**	5,565
Dividends paid by subsidiaries attributable to non-controlling interests		**(3,360)**	–
Interest and other financial income received		**1,693**	1,939
Proceeds from cash flow hedge	*16*	**929**	1,532
Increase in minority interests		**752**	1,135
Proceeds from disposal of utility plant and others		**58**	–
Increase in financial and other noncurrent assets		**(1,025)**	(2,146)
Net cash used in investing activities		**(115,169)**	(1,284)

(Forward)

		Unaudited	
		For the Six Months Ended June 30	
	Note	**2025**	2024
		(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Interest-bearing long-term financial liabilities	*17*	**₱116,250**	₱5,020
Notes payable	*21*	**17,613**	542
Payments of:			
Notes payable		**(18,140)**	(974)
Dividends	*16*	**(14,982)**	(13,380)
Interest and other financial charges		**(5,265)**	(2,856)
Interest-bearing long-term financial liabilities	*17*	**(4,034)**	(5,971)
Proceeds from capital infusion of non-controlling interest		**10,000**	–
Increase (decrease) in other noncurrent liabilities		**(259)**	1,523
Net cash provided by (used in) financing activities		**101,183**	(16,096)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**7,077**	3,955
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**84,480**	82,789
NET UNREALIZED FOREIGN EXCHANGE GAINS (LOSSES)		**197**	(130)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*12*	**₱91,754**	₱86,614

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

1. Corporate Information

The businesses of Manila Electric Company ("*MERALCO*") and its subsidiaries (the "*MERALCO Group*") consist of certain unregulated and regulated segments of the energy supply chain; engineering design services; construction and consulting services; payment fulfilment and bills collection services; after-the-meter and energy management services; insurance and reinsurance; electric mobility; and telecommunication and information technology services.

The regulated and unregulated segments of the energy supply chain of the *MERALCO Group* include electricity distribution, power generation, retail electricity supply ("*RES*"), and management of electric distribution facilities.

MERALCO holds a 25-year congressional franchise under Republic Act ("*RA*") No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. The Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity ("*CPCN*") for the operation of electric service within its franchise area, which shall be valid within the franchise period. On April 11, 2025, President Marcos Jr. signed into law *RA* No. 12146, "an Act renewing for another 25 years the franchise granted to the Manila Electric Company under *RA* No. 9209, entitled "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 and municipalities of Metro Manila, Bulacan, Cavite and Rizal, and certain cities, municipalities and barangays in Batangas, Laguna, Quezon and Pampanga", renewing *MERALCO*'s franchise until 2053.

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

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

MERALCO also manages the electric distribution facilities of Pampanga Electric Cooperative II ("*PELCO II*") through Comstech Integration Alliance, Inc. ("*Comstech*") under a 25-year Investment Management Contract ("*IMC*") until August 10, 2034 and that of the Cavite Economic Zone ("*CEZ*") under a 25-year concession agreement with Philippine Economic Zone Authority ("*PEZA*") until May 25, 2039.

MERALCO Group's participation in *RES* is directly through the local *RES* units, *MPower* and *Cogent Energy*, and indirectly through affiliate *RES* entities, Vantage Energy Solutions and Management,

Inc. ("*Vantage*"), MeridianX Inc. ("*MeridianX*"), Phoenix Power Solutions, Inc. ("*Phoenix Power*") and Global Energy Supply Corporation ("*GESC*"). Clarion Energy Management Inc. ("*Clarion*"), a wholly-owned subsidiary of *Clark Electric*, filed its application for a *RES* license with the *ERC* is awaiting issuance of license by the *ERC*.

MERALCO PowerGen Corporation ("*MGen*") is *MERALCO*'s power generation investment vehicle. Global Business Power Corporation ("*GBPC*"), which has a total of 841 *MW* of coal and diesel capacities, is a wholly-owned subsidiary of *MGen*. Through MGen Renewable Energy, Inc. ("*MGreen*"), *MGen* owns, operates and engages in the development, construction and operation of solar-powered generation facilities. As at June 30, 2025, it owns a total of 397.3 *MWac* of operating solar plant facilities. Through 53.7% stake in SP New Energy Corporation ("*SPNEC*"), *MGreen* is developing 3,500 *MW* (gross) solar facilities with a 4,500 *MWh* battery energy storage system. *MGen* also holds a combined 58% interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"), which owns and operates a 2 x 400 *MW* liquefied natural gas ("*LNG*") plant in Jurong Island, Singapore. *PacificLight Power* successfully completed and commissioned a new 100 *MW* of fast-start *LNG* plant on May 14, 2025.

MERALCO is owned directly by two (2) major shareholder groups, Metro Pacific Investments Corporation ("*Metro Pacific*") and JG Summit Holdings, Inc. ("*JG Summit*"). As at June 30, 2025, *Metro Pacific* has combined direct equity interest 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 48% while *JG Summit* has 26% direct ownership interest in *MERALCO*. The remaining 26% common shares are held by institutional investors and the public.

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

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

2. Rate Regulations

As distribution utilities ("*DU*s"), *MERALCO*, *Clark Electric* and *Shin Clark Power* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO*, *Clark Electric* and *Shin Clark Power* 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, as amended", which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss ("*SL*") charge, (d) lifeline and inter-class rate subsidies, and (e) local franchise and business taxes as modified by Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities; and [ii] the "Rules for the Setting of Distribution Wheeling Rates" ("*RDWR*"), as modified, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

The following is a discussion of matters related to rate-setting of *MERALCO* and *Clark Electric*:

Performance-Based Regulations ("*PBR*")

MERALCO

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

Rate-setting under *PBR* is governed by the *RDWR*. Under *PBR*, tariffs are set once every Regulatory Period ("*RP*") based on a rate-setting framework which includes the required operating and capital expenditures as well as regulated return on the regulatory asset base ("*RAB*") of each *DU*, 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"). Each *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year.

Interim Average Rate

On July 10, 2015, the *ERC* provisionally approved an interim average rate ("*IAR*") of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

On July 13, 2022, *MERALCO* received the Decision of the *ERC* dated June 16, 2022 which approved a revised and final *IAR* of ₱1.3522 per *kWh* as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The *ERC* likewise approved the corresponding distribution rate structure based thereon. *MERALCO* was authorized to continue implementing the *ERC*-approved *IAR* of ₱1.3522 per *kWh* until otherwise directed. *MERALCO* implemented the Decision beginning its August 2022 billing. As at July 28, 2025, the Decision is final and executory.

Subsequently, the *ERC* further ordered the refund of all regulatory reset costs in the *IAR*, as detailed in the item Regulatory Reset Costs. This resulted, among other things, in the further reduction of the *ERC*-approved *IAR* rate in the amount of ₱0.0023 per *kWh*; thus, the average rate of *MERALCO* now effectively stands at ₱1.3499 per *kWh*.

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

Regulatory Reset Costs

While *MERALCO* was implementing and billing its customers using the *ERC*-approved *IAR* of ₱1.3522, the *ERC* further ordered the refund of all regulatory reset costs approved, authorized and included in the *IAR*. The total amount of ₱263.9 million covering the *2RP* and *3RP*, or an equivalent of ₱0.0731 per *kWh*, has been fully refunded in July 2019.

On December 17, 2024, in *ERC* Resolution No. 18, Series of 2024, the *ERC* also required *DU*s under *PBR* to refund the collected regulatory reset costs, including interest. In the case of *MERALCO*, it was

directed to refund the amount of ₱987.2 million, subject to further verification by the *ERC*. *MERALCO* implemented a one-time refund of ₱0.226 per *kWh* in its February 2025 billing, as a separate line item in its electricity bill to customers. In addition, *MERALCO* was also directed to no longer collect, as part of its distribution wheeling rate, the amount of ₱0.0023 per *kWh*, representing the regulatory reset expert costs. While *MERALCO* complied with the directives, in a letter dated January 17, 2025, *MERALCO* wrote the *ERC* to ask for the basis for the computations and basis for the refund. As at July 28, 2025, the *ERC* has yet to reply to *MERALCO*'s letter.

See *Note 20 – Customers' Refund.*

Distribution Rate True-Up ("DRTU") Applications

The *ERC* has issued Orders for the *DRTU* refunds totalling to ₱48,247 million which were implemented starting 2021 and were fully refunded to the customers in May 2023 billing. This resulted in an excess refund of ₱862 million, which was reported to the *ERC* in June 2023, with a proposed recovery mechanism. As at July 28, 2025, the *ERC* has not responded to *MERALCO*'s letter.

Several intervenors have filed petitions before the Court of Appeals ("*CA*") and the Supreme Court ("*SC*") questioning the decision approving the *DRTU* refund application. As at July 28, 2025, the petitions are pending before the *CA* and *SC*.

In compliance with the Order dated December 17, 2024, *MERALCO* filed an application for the confirmation of the true-up calculation of the *AWAT* for the period July 1, 2022 to December 31, 2024. A separate or supplemental application for the period January 1, 2025 to June 30, 2025 shall be filed once the actual weighted average rates are determined for the said period. The application also included *MERALCO*'s proposal to offset the recovery of the over refund implemented during the previous *DRTU* application. In an Order dated March 5, 2025, a copy of which was received by *MERALCO* on March 14, 2025, the *ERC* directed the refund of ₱19.9 billion, or an equivalent average refund rate of ₱0.1189 per *kWh* for all customer classes but excluded the over-refund from the previous *AWAT* refund implementation as this was still subject to the verification of the *ERC*. As at July 28, 2025, hearings at the *ERC* have been completed and *MERALCO* has filed its Formal Offer of Evidence.

Capital Expenditure ("CAPEX")

Absent the final rules governing the lapsed period from *RY* 2016 to *RY* 2025 rate-setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RY*s beginning July 1, 2015 until June 30, 2022. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at July 28, 2025, *MERALCO* is awaiting the final resolution and approval 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

MERALCO filed its reset application for the new 5*RP* on February 7, 2025. Hearings have been completed for the presentation of *MERALCO*'s evidence and *MERALCO* is awaiting *ERC*'s resolution

of pending motions before submission of its Formal Offer of Evidence. On July 3, 2025, *MERALCO* received a copy of the *ERC*'s Order dated May 14, 2025, suspending the proceedings until the *ERC* has complied with the *SC*'s Decision dated October 8, 2019 in the case of *NASECORE* versus *ERC*. As at July 28, 2025, the proceedings remain suspended. Further, the first *RY* of this reset period has lapsed.

Clark Electric

Clark Electric is among the six (6) 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.

PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern the reset of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* annually filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately. As at July 28, 2025, the applications remain pending with the *ERC*.

Clark Electric recognized provisions for any resulting over-recoveries. The movements in and the balance of the "Provisions" account in the consolidated statements of financial position include these provisions, consistent with the limited disclosure as allowed in *PFRS* Accounting Standards as it may prejudice the position of *Clark Electric*.

SC Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* approved *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. The *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC*.

On December 6, 2006, the *SC* En Banc set aside and reversed the *CA* ruling saying that *COA* audit is not a prerequisite in the determination of a utility's rates. However, the *SC* directed the *ERC* to request *COA* to conduct an audit of the books, records and accounts of *MERALCO*.

On June 21, 2011, the *ERC* maintained its Decision dated March 20, 2003, and stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. On appeal, the *CA* dismissed the Petition for Review. A motion for reconsideration was filed but 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 *NASECORE* before the *SC*. On November 13, 2019, the *SC* partially granting the Petition, 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 the *ERC* to determine, within 90 days from finality of the Decision: (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a *DU* shall be passed on wholly or partially to consumers.

MERALCO, other *DU*s and the *ERC* filed their respective motions for reconsideration. In a Resolution dated January 14, 2025, the *SC* denied the motions for reconsideration. On April 4, 2025, *MERALCO* filed a Motion for Leave to File and Admit Attached Motion for Reconsideration (of the

Resolution dated January 14, 2025 and Decision dated October 8, 2019). As at July 28, 2025, the case is pending before the *SC*.

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

MERALCO

The *ERC* issued resolutions to govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, senior citizen discounts, local franchise and business taxes, including the timelines for *DU*s to file their respective application and post-verification.

On various dates, the *ERC* provisionally approved *MERALCO*'s applications for net over-recoveries of generation, transmission, net lifeline subsidy, *SL* and net senior citizens discount totalling ₱657.4 million (February 2011 to October 2013) and ₱6,927 million (January 2014 to December 2016). As at July 28, 2025, hearings are still ongoing.

Separately, *MERALCO* also filed for recovery of net under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at July 28, 2025, the *ERC* has not acted on such application.

On June 1, 2023, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱6,413 million, net transmission charge under-recoveries of ₱607 million, net lifeline subsidy over-recoveries of ₱1 million, net *SL* under-recoveries of ₱764 million and net senior citizen discount over-recoveries of ₱3 million from January 2020 to December 2022, and net real property tax ("*RPT*") under-recoveries of ₱229 million and net local franchise tax ("*LFT*") over-recoveries of ₱27 million from January 2021 to December 2022. Initial hearings were conducted.

Relative to said true-up confirmation, in the Decision dated March 8, 2023, received on August 29, 2023, which approved the termination of the Power Supply Agreement ("*PSA*") between *MERALCO* and Panay Energy Development Corporation ("*PEDC*"), *MERALCO* was directed to include *PEDC*'s actual fuel losses due to Change in Circumstances ("*CIC*") from April 2 to September 25, 2022, amounting to ₱884 million as part of *MERALCO*'s true-up confirmation for *ERC*'s evaluation.

In compliance therewith, *MERALCO* filed a Motion for Leave to Admit Attached Supplemental Application with the *ERC* on October 3, 2023. The Supplemental Application prayed that *MERALCO* be allowed to recover the additional amount of ₱884 million pertaining to the recovery of the *CIC* claims of *PEDC*. As at July 28, 2025, the *ERC* has yet to act on *MERALCO*'s motion.

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 *SL* rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with the *ERC* resolutions. After a clarificatory meeting with the *ERC*, *Clark Electric* filed a Manifestation for the implementation of the January 2017 *ERC* Decision starting in its March 2022 billing. The Other Transmission Cost Adjustment ("*OTCA*") and Other Generation Rate Adjustment ("*OGA*") were fully refunded and the Other System Loss Cost Adjustment ("*OSLA*") was fully collected in April 2023.

On May 31, 2023, *Clark Electric* filed its True-up Application covering the years 2020-2022 with the *ERC*. Hearings were conducted on August 24 and 31, 2023. As at July 28, 2025, the application remains pending with 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 July 28, 2025, the *ERC* has not issued its final decision.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The *ERC* suspended the proceedings, pending resolution 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.

In a Decision dated August 3, 2021, the *SC* voided the March 3, 2014 Order of the *ERC* which imposed regulated *WESM* prices for the November and December 2013 supply months. The Decision is now final and executory and entry of judgement has been issued by the *SC*. In a letter dated September 25, 2023, *MERALCO* wrote the *ERC* on its proposed recovery mechanism for the November and December 2013 supply months as a result of the Decision. As directed by the *ERC*, *MERALCO* and the Independent Electricity Market Operator ("*IEMOP*") have completed the reconciliation of the final amount to be recovered, and have sent a joint letter dated March 12, 2024 to the *ERC*. As at July 28, 2025, the same is pending with the *ERC*.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchased power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* did not rule on *MERALCO*'s deferred *PPA* under-

recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at July 28, 2025, 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. Applications for recovery of taxes paid have been filed and pending decision of the *ERC*.

The *ERC* Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes", approved the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded the same among the financial building blocks in the annual revenue requirement of the *PBR*. In compliance therewith, recovery of *LFT* after 2021 is on a pass-through basis.

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 authorizing *MERALCO* to continue 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 for the unclaimed refund. 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* of its action taken with respect to all the unclaimed amounts of the *SC* Refund. 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. *MERALCO* continues to process the refund claims of eligible customers.

An *ERC*-ordered audit of the *SC* Refund process and balance was performed by an independent firm of accountants in 2021. As at July 28, 2025, there has been no further action from the *ERC*.

See Note 20 – Customers' Refund.

3. Statement of Compliance and Basis of Consolidation

Statement of Compliance

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

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:

			2025		2024	
	Place of		Percentage of Ownership			
Subsidiaries	Incorporation	Principal Business Activity	Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. (“*CIS*”)	Philippines	e-Transactions	**100**	**–**	100	–
Bayad [1]	Philippines	Bills payment collection	**5**	**87.75**	5	87.75
Customer Frontline Solutions, Inc. (“*CFSI*”) [1]	Philippines	Tellering services	**–**	**100**	–	100
Meralco Energy, Inc. (“*MServ*”)	Philippines	Energy systems management	**100**	**–**	100	–
Aurora Managed Power Services, Inc. (“*AMPSI*”) [2]	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 [3]	Philippines	Telecommunication services	**–**	**65.1**	–	65.1
MGen	Philippines	Development of power generation plants	**100**	**–**	100	–
Calamba Aero Power Corporation [4]	Philippines	Power generation	**–**	**100**	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	**–**	**100**	–	100
Atimonan One Energy, Inc. (“*A1E*”) [4]	Philippines	Power generation	**–**	**100**	–	100
MPG Mauban LP Corporation	Philippines	Holding company	**–**	**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. [4]	Philippines	Retail electricity supplier	**–**	**100**	–	100
MGreen	Philippines	Renewable energy	**–**	**100**	–	100
LagunaSol Corporation (“*LagunaSol*”) [4]	Philippines	Renewable energy	**–**	**100**	–	100
Greentech Solar Energy, Inc. *(“GSEI”)*	Philippines	Renewable energy	**–**	**100**	–	100
MGreen International Limited (“*MGreen International*”)	British Virgin Islands	Holding company	**–**	**100**	–	100
PacificLight Renewables Pte Ltd (“*PLP Renewables*”)	British Virgin Islands	Investment and holding company	**–**	**58**	–	58
Nortesol III Inc. (“*NorteSol*”) [4]	Philippines	Renewable energy	**–**	**70**	–	70
Powersource First Bulacan Solar, Inc. (“*First Bulacan*”)	Philippines	Renewable energy	**–**	**60**	–	60
CACI Power Corporation	Philippines	Power generation	**–**	**60**	–	60
PH Renewables Inc. (“*PHRI*”)	Philippines	Power generation	**–**	**60**	–	60
Greenergy For Global Inc. (“*Greenergy*”)	Philippines	Renewable energy	**–**	**98.16**	–	98.16
SPNEC	Philippines	Development of power generation plants	**–**	**53.7**	–	53.7
Terra Nueva, Inc. (“*TNI*”)	Philippines	Real estate	**–**	**53.7**	–	53.7

Subsidiaries	Place of Incorporation	Principal Business Activity	**2025** Percentage of Ownership Direct	**2025** Percentage of Ownership Indirect	2024 Percentage of Ownership Direct	2024 Percentage of Ownership Indirect
Solar Philippines Tarlac Corporation (“*Solar Philippines Tarlac*”)	Philippines	Renewable energy	**–**	**53.7**	–	53.7
Terra Solar Philippines, Inc. (“*MTerra Solar*”)	Philippines	Renewable energy	**–**	**53.7**	–	53.7
Solar Philippines Calatagan Corporation (“*Solar Philippines Calatagan*”)	Philippines	Renewable energy	**–**	**33.3**	–	33.3
SP Holdings, Inc.	Philippines	Holding company	**–**	**53.7**	–	53.7
GBPC	Philippines	Holding company	**–**	**100**	–	100
ARB Power Ventures, Inc.	Philippines	Holding company	**–**	**100**	–	100
Toledo Power Company (“*TPC*”)	Philippines	Power generation	**–**	**100**	–	100
Toledo Holdings Corporation	Philippines	Real estate		**100**		100
Global Trade Energy Resources Corp.	Philippines	Trading of coal	**–**	**100**	–	100
GBH Power Resources, Inc.	Philippines	Power generation	**–**	**100**	–	100
GESC	Philippines	Retail electricity supplier	**–**	**100**	–	100
Mindanao Energy Development Corporation	Philippines	Power generation	**–**	**100**	–	100
Global Hydro Power Corporation	Philippines	Power generation	**–**	**100**	–	100
Global Renewable Power Corporation	Philippines	Renewable energy	**–**	**100**	–	100
Panay Power Holdings Corporation	Philippines	Holding company	**–**	**89**	–	89
PEDC	Philippines	Power generation	**–**	**89**	–	89
Panay Power Corporation	Philippines	Power generation	**–**	**89**	–	89
Global Formosa Power Holdings, Inc.	Philippines	Holding company	**–**	**93**	–	93
Cebu Energy Development Corporation (“*CEDC*”)	Philippines	Power generation	**–**	**52**	–	52
Global Luzon Energy Development Corporation (“*GLEDC*”)	Philippines	Power generation	**–**	**57**	–	57
Lunar Power Core, Inc.	Philippines	Holding company	**–**	**57**	–	57
MGen Gas Energy Holdings, Inc. (“*MGas*”)	Philippines	Holding company	**–**	**100**	–	100
MSpectrum, Inc. (“*Spectrum*”)	Philippines	Renewable energy	**100**	**–**	100	–
Vantage	Philippines	Retail electricity supplier	**100**	**–**	100	–
Meralco Financial Services Corporation (“*Finserve*”)	Philippines	Property management and leasing	**100**	**–**	100	–
Lighthouse Overseas Insurance Limited (“*LOIL*”)	Bermuda	Insurance	**100**	**–**	100	–
MRAIL, Inc. (“*MRail*”)	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	100	–
Phoenix Power [4]	Philippines	Retail electricity supplier	**100**	**–**	100	–
Movem Electric, Inc. (“*Movem*”)	Philippines	Maintenance and operation of transport service networks	**100**	**–**	100	–
Meralco Industrial Engineering Services Corporation (“*MIESCOR*”) [5]	Philippines	Engineering, construction and consulting services	**100**	**–**	100	–
Miescor Builders Inc. (“*MBI*”)	Philippines	Electric transmission and distribution operation and maintenance services	**–**	**100**	–	100
Miescor Logistics Inc. (“*MLI*”)	Philippines	General services, manpower/maintenance	**–**	**100**	–	100
Clark Electric	Philippines	Power distribution	**65**	**–**	65	–
Clarion [4]	Philippines	Retail electricity supplier	**–**	**65**	–	65
Comstech	Philippines	Management of power distribution	**60**	**–**	60	–
MeridianX	Philippines	Retail electricity supplier	**–**	**60**	–	60
Greater Pampanga Power Corp. [4]	Philippines	Power distribution	**–**	**60**	–	60
Meridian Power Ventures Limited (“*MPV Limited*”) [4]	Hongkong	Investment holdings	**100**	**–**	100	–

Subsidiaries	Place of Incorporation	Principal Business Activity	**2025**		2024	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Shin Clark	Philippines	Holding company	**60**	**–**	60	–
Shin Clark Power	Philippines	Power distribution	**–**	**54**	–	54

[1] *On July 31, 2024, CIS has agreed to sell 10% of its equity interest in Bayad to Kayana Solutions, Inc [("Kayana"). On December 2, 2024, MERALCO acquired 5% equity interest of Densan System Co., Ltd ("Densan") in Bayad and CFSI.*
[2] *The BOD of AMPSI approved the dissolution and shortening of corporate life until March 31, 2021. As of June 30, 2025, the dissolution and shortening of corporate life of AMPSI is still pending approval by the SEC.*
[3] *On April 30, 2024, PLDT, Inc. ("PLDT") subscribed to 2,491,516 common shares of Radius, representing 34.9% equity interest.*
[4] *Has not started commercial operations.*
[5] *MIESCOR Retirement Fund has less than 1% equity interest in MIESCOR.*

The *MERALCO Group* controls an investee if and only if it has (a) power over the investee; (b) exposure or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

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

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

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

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

Non-controlling interests account 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 company.

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 company in the consolidated statement of financial position.

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) derecognizes the equity reserve attributable to the change in ownership of the subsidiary without loss of control; (e) recognizes the fair value of the consideration received; (f) recognizes the fair value of any investment retained; (g) recognizes any surplus or deficit in profit or loss; and (h) reclassifies *MERALCO*'s share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

Business Combination

On October 12, 2023, *MGreen* executed an Option Agreement together with *SP Holdings*, then parent company of *SPNEC*, and *SPNEC*, to secure a right to subscribe to common and redeemable voting preferred shares of *SPNEC* for a total consideration of ₱15.9 billion.

On the same date, a Put Option Agreement was executed by and among *MGreen*, *SP Holdings* and *SPNEC*, covering *MGreen*'s grant to *SP Holdings* of an option to require *MGreen* to purchase 8.0 million common shares at the price of ₱1.15 per share (the "Put Option Price"), for a total price of up to ₱9.2 billion. The Put Option Agreement also includes additional put option price equivalent to ₱0.10 per share or ₱800.0 million, subject to certain conditions.

On December 27, 2023, *MGreen* acquired 50.5% voting equity interest of *SPNEC* upon full payment of its subscription of common shares and redeemable voting preferred shares under the foregoing agreements.

The purchase consideration included the value of certain entities which may be transferred back to *SP Holdings* at the option of *SPNEC*.

The details of the purchase consideration at acquisition date are as follows:

	Amounts in millions
Cash paid	₱15,894
Liabilities related to Put Option Agreement	12,006
Total purchase consideration	₱27,900

The assets and liabilities of *SPNEC* recognized in the consolidated statements of financial position as at June 30, 2025 and December 31, 2024 included those which were based on their fair values as at the acquisition date.

The fair values of the assets and liabilities of *SPNEC* as at the date of acquisition are as follows:

	Amounts in millions
Generation plant and others	₱22,603
Deposits for land acquisition	3,397
Intangible assets	29,630
Deferred tax assets	5
Other noncurrent assets	531
Cash and cash equivalents	10,041
Trade and other receivables	290
Inventories	25
Other current assets	744
Interest-bearing long-term financial liabilities	(3,097)
Deferred tax liabilities	(4,686)
Other noncurrent liabilities	(480)
Trade and other payables	(483)
Other current liabilities	(238)
Net identifiable assets	58,282
Less: Non-controlling interests	3,034
Net assets	55,248
Equity interest acquired	50.5%
Net assets acquired	₱27,900

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

In January 2024, *MGreen* acquired additional 2.17 billion shares of *SPNEC*, resulting in 53.7% equity interest, consisting of 17.9 million common shares and 19.4 million redeemable voting preferred shares.

On September 3, 2024, *SPNEC* exercised its put option and executed a Deed of Absolute Sale of Shares with *SP Holdings* to sell its shares in certain entities for ₱80.0 million. Consequently, *SPNEC* derecognized in its financial statements the related assets, liabilities, non-controlling interests and equity reserve of these entities with net amount of ₱176.0 million and recognized a loss of ₱96.0 million.

Changes in Ownership

MTerra Solar

In March 2025, Actis Rubyred (Singapore) Pte. Ltd. through its wholly owned subsidiary Actis Rubyred (Philippines) Holdings, Inc. ("*Actis*") completed its subscription of a 40% equity stake in *MTerra Solar*, subject to certain conditions, for a total consideration of approximately US$600 million. As part of this investment deal, *Actis* infused ₱10 billion in cash into *MTerra Solar*. This equity infusion resulted in an excess of ₱3.9 billion over *Actis* share in the net assets of *MTerra Solar*, which was recognized as an equity reserve.

Solar Philippines Tarlac

In June 2025, *Solar Philippines Tarlac* redeemed the preferred shares held by Prime Metro Power Holdings amounting to ₱1,500.0 million and settled dividends amounting to ₱300.0 million. The

difference between the redemption of shares and settlement of dividends and the balance of the non-controlling interest amounting to ₱544.9 million was recognized as an equity reserve.

MIDC

On March 1, 2024, *MIESCOR* entered into a Multi-Party Share Swap Agreement with Connect Infrastructure (Philippines) Pte. Limited ("*Connect*"), PTCI Holdings Pte. Ltd. ("*PHPL*"), and Pylon Holdings Corp. ("*Pylon*"). Under the agreement, the shareholders of *MIDC* and PhilTower Consortium, Inc. ("*PhilTower*") (collectively referred to as the "*TowerCos*") shall transfer their respective ownerships in the *TowerCos* to Pylon. After the swap, *MIESCOR* owns 25.56% of *Pylon* with *Pylon* owning 100% each of *MIDC* and *PhilTower*. As a result, *MIESCOR* lost its power to govern the financial and operating policies of *MIDC* with the reduction in the voting rights at meetings of the Board of Directors. Accordingly, upon approval by the Philippine Competition Commission ("*PCC")* and the Securities and Exchange Commission ("*SEC")*, and completion of other conditions of the transaction on September 13, 2024, *MIESCOR* derecognized in its financial statements the related assets, liabilities and non-controlling interests of *MIDC*, and recognized an investment in *Pylon* equivalent to the carrying amount of its investment in *MIDC*. No gain or loss was recognized as a result of the transaction.

Derecognized assets, liabilities and non-controlling interests of *MIDC* are as follows:

	Amounts in millions
Property and equipment	₱8,088
Intangible assets	15,092
Other noncurrent assets	53
Cash and cash equivalents	465
Trade and other receivables	912
Inventories	974
Other current assets	3,285
Interest-bearing long-term financial liabilities	(9,749)
Trade and other payables	(5,710)
Net identifiable assets	13,410
Less: Non-controlling interests	6,571
Net assets	₱6,839

Radius

On April 30, 2024, *PLDT* subscribed to 2,491,516 common shares of *Radius*, representing 34.9% equity interest for ₱2.1 billion. As a result, *MERALCO* recognized a non-controlling interest and equity reserve of ₱1.0 billion and ₱1.1 billion, respectively, as it retained majority of voting rights in *Radius.*

Bayad

On July 31, 2024, *CIS* sold 10% equity interest in *Bayad* to *Kayana* for ₱320.0 million. *MERALCO* recognized a non-controlling interest and equity reserve of ₱35.8 million and ₱237.6 million, respectively, as it retained majority of voting rights in *Bayad.*

On December 9, 2024, *Densan* sold its 5% equity interest in *Bayad* and *CFSI* for ₱241.5 million to *MERALCO*. Consequently, *MERALCO* recognized a reduction in non-controlling interest and equity reserve of ₱19.9 million and ₱221.6 million, respectively.

4. Material Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial period, except for the adoption of new standards effective in 2025. The *MERALCO Group* has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the *MERALCO Group*.

- *PFRS 17, Insurance Contracts*
- Amendments to *PAS 21, Lack of exchangeability*

The amendments have no material impact on the consolidated financial statements of the *MERALCO Group*.

Pronouncements issued but not yet effective are listed below. The *MERALCO Group* intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the *MERALCO Group*'s consolidated financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2026

- Amendments to *PFRS 9* and *PFRS 7, Classification and Measurement of Financial Instruments*
- Annual Improvements to *PFRS* Accounting Standards - Volume 11
  - Amendments to *PFRS 1, Hedge Accounting by a First-time Adopter*
  - Amendments to *PFRS 7, Gain or Loss on Derecognition*
  - Amendments to *PFRS 9, Lessee Derecognition of Lease Liabilities* and *Transaction Price*
  - Amendments to *PFRS 10, Determination of a 'De Facto Agent'*
  - Amendments to *PAS 7, Cost Method*

Effective beginning on or after January 1, 2027

- *PFRS 18, Presentation and Disclosure in Financial Statements*
- *PFRS 19, Subsidiaries without Public Accountability*

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*

Material 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. Cost includes 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 charged to operating expenses 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
Power plant machinery and equipment	3-25 years
Buildings and improvements	15-40 years
Data transmission cables and communication equipment	5-15 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others [(include right-of-use ("*ROU*") assets]	2-45 years

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

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

Construction in Progress

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

Borrowing Costs

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

undertaken and expenditures and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

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

All other borrowing costs are expensed as incurred.

Investments in Associates and Interests in Joint Ventures

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

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

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

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

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

If its share in 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 or joint venture. If the associate or joint venture subsequently reports profits, it 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 the consolidated statement of income.

Business Combinations and Goodwill

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

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

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

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 the consolidated statement of income. 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 at 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, this is accounted in accordance with the policy stated under utility plant, generation plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or the commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property as at the date of change in use.

Intangible Assets

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

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 30 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the consolidated statement of income.

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

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

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

Fair Value Measurement

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the classes of assets and liabilities are identified 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

At each reporting date, an assessment is done to determine 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*")], may be impaired. If any such indication exists, an estimate of the asset's recoverable amount is made. 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 individual asset's or cash-generating unit's recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial Recognition and Measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the 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 business model for managing financial assets refers to how financial assets are managed 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 recognized at the trade date, i.e., the date that a commitment to purchase or sell the asset is made.

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*. Financial assets are measured at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest rate ("*EIR*") method and are subject to impairment. Gains and losses are recognized in the consolidated statement of income when the asset is derecognized, modified or impaired. The *MERALCO Group*'s financial assets at amortized cost include cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost and advance payments to a supplier.

Financial Assets at FVOCI (Debt Instruments)

Debt instruments are measured at *FVOCI* if both of the following conditions are met:

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

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

Financial Assets Designated at FVOCI (Equity Instruments)

Upon initial recognition, equity investments may be classified irrevocably as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32, Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss.

Dividends are recognized as other income in the consolidated statement of income when the right to receive payment has been established, except when such proceeds are 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 investments 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 derecognized (i.e., removed from the consolidated statement of financial position) when:

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

When the rights to receive cash flows from an asset have been transferred or a pass-through arrangement has been entered, an evaluation of the extent that such risks and rewards of ownership is retained shall be made.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the transferred asset to the extent of *MERALCO Group's* continuing involvement and an associated liability are recognized. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations 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 could be required to repay.

Modification of Financial Assets

A financial asset is derecognized 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 the consolidated statement of income, to the extent that an impairment loss has not already been recorded.

Both qualitative and quantitative factors are considered in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the following factors, among others, are used:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered *SPPI*

A quantitative assessment similar to that being performed for modification of financial liabilities is also done. In performing the quantitative assessment, the new terms of a financial asset are

considered 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 *EIR* 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 gross carrying amount of the financial asset is calculated 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 a modification gain or loss is recognized in the statement of comprehensive income.

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

Impairment of Financial Assets

An allowance for *ECL* is assessed for all debt instruments not held at *FVPL*. *ECL*s are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that are expected to be received, discounted at an approximation of the original *EIR*. The expected cash flows shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.
*ECL*s are measured in a way that reflects the following:

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

*ECL*s are recognized in two (2) 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, *ECL*s are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month *ECL*). For those credit exposures for which there has been a significant increase in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime *ECL*).

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

For trade receivables and contract assets, a simplified approach is applied in calculating *ECL*s. Changes in credit risk are not tracked, instead a loss allowance based on lifetime *ECL*s of each customer segment (e.g., residential, commercial, industrial, etc.) is recognized at each reporting date. A provision matrix that is based on its current credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment has been established and used. In

determining the *ECL*s of trade receivables, the credit loss experience for each contract status of customers for the current period, adjusted for forward-looking factors as well as the economic environment, was considered.

For debt instruments, the low credit risk simplification is applied. At every reporting date, an assessment is made on 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 internal credit rating of the debt instrument is reassessed. There is 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. As a policy, *ECL*s are measured 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 a 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; and
- 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, an assessment is made for any 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, using 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 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 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-month *ECL*.

A financial asset is considered in default when contractual payments are 300 days past due (average days to terminate customer contract). In certain cases, a financial asset is also considered to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. 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, customers' deposits and refunds, refundable service extension costs, notes payable, and trade payables and other current liabilities.

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 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 income. 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 the consolidated statement of income when the liabilities are derecognized as well as through the *EIR* amortization process.

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

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of

the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Exchange or Modification of Financial Liabilities

Both qualitative and quantitative factors are used 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 *EIR*, 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 the consolidated statement of income.

When the exchange or modification of the existing financial liability is not considered as substantial, the gross carrying amount of the financial liability is recalculated based on the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* and a modification gain or loss is recognized in the consolidated statement of income.

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.

Derivatives and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The *MERALCO Group* designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)

- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or

- hedges of a net investment in a foreign operation (net investment hedges).

The *MERALCO Group* documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The *MERALCO Group* also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in *Note 22 Trade Payables and Other Current Liabilities* and *Note 27 Financial Assets and Financial Liabilities*. Movements in the hedging reserve are shown in other comprehensive income that will not be reclassified to profit and loss in the subsequent period.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average 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.

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 there is 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. When a provision, or a portion of such provision is expected 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 for employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 are for defined payment upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

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

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

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

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying

the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

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

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

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

The retirement costs under the defined contribution plan are recorded based on contributions to the defined contribution plan as services are rendered by the employee.

Termination Benefits

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

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

Employee Leave Entitlements

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

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

Long-term Incentive Plan

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

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 in exchange for those goods or services. The revenue arrangements are assessed against specific criteria to determine if the seller is acting as a principal or as an agent. The *MERALCO Group* has concluded that it is acting as a 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 *DU*, 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 any 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 government and local government unitss"), 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 the revenues of the distribution utilities. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

As *RES*, revenues are recognized upon supply of power to the customers, based on the actual energy delivered.

Revenue from Contracts with Customers - Recognized at 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 when the coal is delivered and the legal title is passed to the customer. Coal sales are included in sale of electricity in the consolidated statement of income.

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 presented as part of sale of other services in the consolidated statement of income.

Revenue from Contracts with Customers - Recognized Over Time

MGen and its subsidiaries ("*MGen Group*") has Electric Power Purchase Agreement ("*EPPA*") with customers, Ancillary Services Procurement Agreement ("*ASPA*") with National Grid Corporation of the Philippines ("*NGCP*"), and electricity trading transactions in *WESM*.

Revenue is recognized 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. At contract inception, it is determined whether control of a promised good or service shall be transferred 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 and services.

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

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

Revenue from sale of electricity through ancillary services to *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.

Sale of Services

Revenue from construction contracts of *MIESCOR* and its subsidiaries ("*MIESCOR Group*") and *MServ* is recognized 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 among 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.

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If goods or services are transferred to a customer before the customer settles its obligation, 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 a consideration (or an amount of consideration) is due from the customer. If a customer pays the consideration before the good or services are transferred 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 performance under the contract is satisfied.

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 a distribution utility's distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. The distribution utility 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, such asset is recognized 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 the distribution utility's regulatory asset base until amounts are refunded to the customers.

Cost and Expense Recognition

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

Contract costs relating to satisfied performance obligations are recognized 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 it is expected that such costs will be recovered and the contract term is for more than one (1) year. The project mobilization costs and costs of obtaining a contract are amortized over the expected construction period following the pattern of revenue recognition. Costs incurred prior to obtaining a contract with a customer are not capitalized but are expensed as incurred. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, based on the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single construction contract.

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

Lease Liabilities

At the commencement date of the lease, lease liabilities are 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 and payments of penalties for terminating a lease, if it is likely that the option to terminate under the lease will be exercised. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the incremental borrowing rate at the lease commencement date is used 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

Short-term lease recognition exemption is applied to 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

At contract inception, an assessment is made whether such contract contains a lease. 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, a *ROU* asset and a corresponding lease liability are recognized on the 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, the lease payments are booked 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 would have to be paid 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 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.

ROU assets are depreciated on a straight-line basis using the expected useful life or lease term, whichever is shorter. *ROU* assets are also assessed for impairment when such indicators exist.

Company as Lessor

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

Foreign Currency-Denominated Transactions and Translations

The Philippine peso is primarily the functional and presentation currency of all entities in the *MERALCO Group* except for *LOIL* and *MPG Asia*. It is the currency of the primary economic environment. 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 rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at 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 or derecognition of a subsidiary, the amount of cumulative translation adjustments recognized in *OCI* is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amounts 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 associates and interests in 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 transactions either in profit or loss or directly in equity.

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 as 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 period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

Judgments

In the process of applying the 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 from 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, while that 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*. Significant judgement is applied in identifying uncertainties over the income tax treatments. Based on review and assessment of the income tax computations and filings, in consultation with external tax expert, it is determined that it is not probable that its uncertain tax treatments will be accepted by the taxation authorities. Any effect of each uncertain tax treatment is quantified using the most likely amount which the *MERALCO Group* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

There are several lease arrangements where the entities in the *MERALCO Group* act 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, ownership of the assets is not transferred to the lessees at the end of the lease term and the lessees do not have a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

As Lessee

There are also various operating lease agreements used in operations.

For lease accounted under *PFRS 16, ROU* assets are recognized and lease liabilities are 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 the 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

As assessed, the *PPA*s and *PSA*s do not qualify as leases and are accounted for as ordinary service contracts, since the distribution utilities do not have the right to direct the use, operate and were not involved in the design of the identified assets.

Principal versus Agent

Revenue recognition requires certain judgments on its arrangements with power generation companies such as *PPA*s and *PSA*s to be made. The *MERALCO Group* has concluded that it is acting as a principal in substantially all of its revenue arrangements.

Revenue from sale of electricity requires *MERALCO, Clark Electric* and *Shin Clark Power* 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, as amended*.

Moreover, revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which is satisfied over the period when the services are expected to be provided.

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

MERALCO, through *MGen*, has a 51% interest in San Buenaventura Philippines Ltd. Company ("*SBPL*"). While *MERALCO* has 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* and *PLP Renewables*. *MERALCO's* investments in *PacificLight* and *PLP Renewables* are accounted for as associates since their relevant and significant activities and policies require the majority votes of the *BOD* and *MGen* does not hold the majority of the *BOD*.

Entity in which the MERALCO Group Holds 50% *of the Voting Rights Accounted for as an Associate*

MERALCO, through *MGen*, has 50%-less-one-share stake in Alsons Thermal Energy Corporation ("*ATEC*"). *MERALCO*'s investment in *ATEC* is accounted for as an associate since *MERALCO* has no presumptive control over *ATEC* as it does not represent the majority of the total voting interest, and none of the qualitative factors denoting control exists based on *PFRS 10*.

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

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

Acquisitions

The *MERALCO Group* evaluates each investment under *PFRS 3* to determine whether to treat an acquisition as an asset acquisition or a business combination. For those transactions treated as asset acquisitions, the purchase price is allocated to the assets acquired, with no recognition of goodwill. For those acquisitions that meet the definition of a business combination, the acquisition method of accounting is applied where assets acquired and liabilities assumed are recorded at fair value at the date of each acquisition, and the results of operations are included with our results from the dates of the respective acquisitions. When determining the fair value of tangible assets acquired, the age, condition and the economic useful life of the asset are taken into consideration to determine the estimated cost to replace the asset. When determining the fair value of intangible assets acquired, the applicable discount rate and the timing and amount of future cash flows, including rate and terms of renewal and attrition are considered.

Contingencies

There are 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 3 - Statement of Compliance and Basis of Consolidation, Note - 22 Trade Payables and Other Current Liabilities and 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 period are discussed as follows:

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

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

The total depreciation and amortization expense of utility plant, generation plant and others amounted to ₱7,812 million and ₱8,197 million for the six months ended June 30, 2025 and 2024, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱328,155 million and ₱288,501 million as at June 30, 2025 and December 31, 2024, respectively.

Total depreciation of investment properties amounted to ₱2 million for each of the six months ended June 30, 2025 and 2024. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,485 million and ₱1,487 million as at June 30, 2025 and December 31, 2024, respectively.

Total amortization of intangible assets with finite lives amounted to ₱735 million and ₱1,001 million for the six months ended June 30, 2025 and 2024, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱40,821 million and ₱41,559 million as at June 30, 2025 and December 31, 2024, respectively.

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

Impairment of Nonfinancial Assets

PFRS Accounting Standards require 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 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 other noncurrent assets are impaired. Any resulting impairment loss could have material adverse impact on the consolidated financial position and financial performance.

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

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

Account	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
	(Amounts in millions)	
Utility plant, generation plant and others	**₱328,155**	₱288,501
Investments in associates and interests in joint ventures	**131,408**	47,513
Intangible assets	**40,821**	41,559
Investment properties	**1,485**	1,487
Receivable from the *BIR*	**181**	181

See *Note 7 – Utility Plant, Generation Plant and Others, Note 8 – Investments in Associates and Interests in Joint Ventures, Note 9 – Investment Properties, Note 10 – Intangible Assets and Note 11 – Financial and Other Noncurrent Assets.*

Realizability of Deferred Income Tax Assets

The carrying amounts of deferred income tax assets are reviewed at the end of each reporting period and these may be reduced to the extent that such deferred tax assets are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

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

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

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Recognized deferred income tax assets	**₱35,616**	₱34,224
Unrecognized deferred income tax assets	**6,299**	7,280

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 *ECL* which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

ECL is provided for certain identified trade receivables which have been the subject of disputes from customers. In determining the *ECL*s of trade receivables, the credit loss experience for each contract status of customers for the current period, adjusted for forwarding looking factors, and taking into account the economic environment is considered. The contract assets relate to unbilled receivables and have substantially the same risk characteristics as the trade and other receivables. The *MERALCO Group* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Forward-looking information is incorporated in the assessments for any significant increase in credit risk since the initial recognition and measurement of *ECL*. A range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECL*s are considered.

*ECL*s for trade and other receivables amounted to ₱170 million and ₱578 million for the six months ended June 30, 2025 and 2024, respectively. Trade and other receivables, net of allowance for *ECL*, amounted to ₱69,011 million and ₱64,697 million as at June 30, 2025 and December 31, 2024, 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 ₱11,439 million and ₱11,422 million as at June 30, 2025 and December 31, 2024, 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 ₱994 million and ₱830 million for the six months ended June 30, 2025 and 2024, respectively. Retirement and other post-employment benefit liabilities as at June 30, 2025 and December 31, 2024 amounted to ₱13,952 million and ₱13,389 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

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

In consultation with its external and internal legal counsels, management 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.

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 June 30, 2025 and December 31, 2024, provisions and other noncurrent liabilities are presented net of the effect of the time value of money of ₱5,510 million and ₱8,265 million, respectively.

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

Revenue Recognition

The overall revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

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

Revenues from sale of electricity also account for variable considerations included in the transaction price resulting from historical refunds to customers. The refund liability related to these variable considerations is included as part of "Trade payables and other liabilities" and "Other noncurrent liabities" accounts in the consolidated statement of financial position. As at June 30, 2025 and December 31, 2024, the balance of refund liability amounted to ₱21,781 million and ₱18,822 million, respectively.

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

Revenues and costs from construction contracts of *MIESCOR* and *MServ* 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 power generation units applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Identifying Performance Obligations

The *MGen Group* identifies performance obligations and determines which 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 where the promise to transfer such good or service to the customer is separately identifiable from the other promises in the contract.

An assessment of performance obligations of a series of distinct goods and services, is conducted for those which are substantially the same and have the same pattern of transfer if:

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

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

Determining Method to Estimate Variable Consideration and Assessing the Constraint

Variable considerations are estimated and included 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. Both the likelihood and magnitude of the revenue reversal are considered in evaluating the extent of variable consideration or 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, either the expected value method or the most likely amount method is used depending 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 more appropriate method for estimating the variable consideration given the number of contracts with customers that have similar characteristics and the range of possible outcomes.

Allocation of Variable Consideration

Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under *EPPA*s and *ASPA*, as well as 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 variable amount that is no longer subject to constraint is allocated to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing.

Revenue Recognition

Revenue is recognized 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. At contract inception, an assessment is conducted to determine whether control of a promised good or service is transferred over time. If a performance obligation is not satisfied over time, then such is considered 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.

Identifying Methods for Measuring Progress of Revenue Recognized Over Time

The method of measuring progress is either through input or output method. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

The *MGen* Group determined that the output method is the more appropriate way of measuring progress as actual electricity is supplied to customers.

6. Segment Information

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

For management purposes, 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 of *MERALCO, Clark Electric* and *Shin Clark Power*. Electricity distribution within the *MERALCO* franchise area accounts for approximately 50% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone and the sub-zones and *Shin Clark Power*'s franchise area covers the *NCC*.

  Shin Clark through a Joint Venture Agreement ("*JVA*") with *BCDA*, manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare *NCC* located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac. The franchise to operate the electric distribution system in *NCC* was granted by Congress under Republic Act No. 11420 to *BCDA*, which assigned the same to *Shin Clark Power*, in exchange for 10% equity interest in *Shin Clark Power*. *Shin Clark Power* was incorporated and registered with the *SEC*. *Shin Clark Power* has a *CPCN* issued by the *ERC* to operate as a *DU* for a period of 25 years.

  MERALCO manages the electric distribution facilities of *PELCO II* through *Comstech* under an *IMC*. *MERALCO* also manages the electric distribution facilities in the *CEZ* under a 25-year concession agreement with *PEZA*.

  Power generation – The *MERALCO Group* has a combined group generating capacity of 5,068 *MW* (net) of coal, liquid natural gas, renewable and diesel plants in the Philippines and Singapore. In addition, it is currently developing a total of 3,500 *MWp* of solar capacities.

  MGen has a 51% interest in *SBPL* which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon.

  GBPC owns 841 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. The portfolio also includes the 2 x 108.5 *MW* (net) *CFB* plant in Maasim, Sarangani of Sarangani Energy Corporation ("*Sarangani Energy"*). *GBPC* has a 50% less one share interest in *ATEC*, which holds a 75% interest interest in *Sarangani Energy*.

MGreen is a wholly owned subsidiary of *MGen* engaged in the development, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*, which owns and operates a 80 *MWdc*/50 *MWac* utility scale solar facility located in San Miguel, Bulacan, and has an *ERC*-approved *PSA* with *MERALCO* for a period of 20 years up to April 2041.

Following *MGreen*'s acquisition of a majority stake in *SPNEC* in December 2023, *MGreen* further raised its voting interest in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion *SPNEC* shares in January 2024. *Terra Solar*, a wholly owned subsidiary of *SPNEC*, is developing a 3.5-*GWp* solar power plant facility with a 4,500-*MWh* battery energy storage system. The project with the first phase involving 2,500 *MWdc* is expected to begin commercial operations in the first quarter of 2026 while the balance is due to be completed in 2027.

MGen secured the Department of Energy's ("*DOE*") reaffirmation of the status of its *A1E* 1,200-*MW* ultra supercritical coal-fired power project as a Committed Project, which followed the agency's confirmation that the project remains outside the coverage of the coal moratorium policy.

MGen and Therma NatGas, Inc. ("*TNGP*") have jointly entered into an Investment Agreement with the parties owning 60% and 40% interests in Chromite Gas Holdings, Inc. (*"CGHI"),* respectively.

See *Note 8 – Investments in Associates and Interests in Joint Ventures*.

PHRI, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation, owns and operates a total of 80.1 *MWac* solar plant in Baras, Rizal ("*Baras Solar Plant*").

Also, in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*") and *MGreen*, Nuevo Solar Energy Corporation ("*NSEC*") owns and operates a 68 *MWac* solar plant project in Ilocos Norte.

MGreen closed an investment agreement with *Vena Energy*, for the development, construction and operation of the 450 *MWac* solar plant in Bugallon, Pangasinan through 3 Barracuda Energy Corporation ("*Barracuda Energy*"). The project commenced its construction in the fourth quarter of 2024 and is expected to achieve commercial operation by first quarter of 2026.

MGen also has a combined 58% (direct and indirect interests) in *PacificLight Power*, which owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by *LNG* in Jurong Island, Singapore. On May 14, 2025, a 100 *MW* fast-start *LNG* plant is completed and commissioned to provide ancillary services to the Singapore grid under a 25-year Fast Start contract with the Energy Market Authority ("*EMA*").

On January 6, 2025, *PacificLight Power* was awarded the right to build, own and operate a hydrogen-ready Combined Cycle Gas Turbine ("*CCGT*") facility in Jurong Island by the *EMA* of Singapore. The project shall be the largest single H-class *CCGT* plant in Singapore, with the capacity of at least 600 *MW*. The plant is scheduled to begin commercial operations in January 2029.

See *Note 8 – Investments in Associates and Interests in Joint Ventures.*

RES – This business segment sources and supplies electricity to qualified contestable customers. Being distribution utilities, *MERALCO* and *Clark Electric* are also qualified and act as local retail electricity suppliers within their respective franchise area as 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, or through either *MPower* and *Cogent Energy*.

Vantage and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*; and *GESC*, a wholly owned subsidiary of *GBPC* are affiliate *RES*s. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC* on November 17, 2017. On June 20, 2025, *Clarion* submitted updated documents and other requirements to the *ERC* for the process of re-filing its Application for *RES* license. As at July 28, 2025, the approval of *Clarion*'s *RES* license is still pending with the *ERC*.

- Other Services

  The "Other Services" segment is involved principally in services associated with electricity distribution, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications 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* and *CFSI* (collectively referred to as "*CIS Group*"), *e-MVI*, *Paragon* and *Radius* (collectively referred to as "*e-MVI Group*"), *Comstech*, *LOIL*, *Finserve*, *MServ*, *Spectrum* and *Movem*.

The Management Committee evaluates the performance of the business segments based on (i) net income attributable to equity holders of the parent company, (ii) consolidated net earnings before interest, taxes, and depreciation and amortization ("consolidated *EBITDA*"); and (iii) consolidated core net income ("*CCNI*"). Net income is measured consistent with reported net income in the consolidated statement of income.

Consolidated *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income and provision for income tax.

CCNI for the period is measured as consolidated net income attributable to equity holders of the parent company adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

Billings between operating segments are at an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. The *MERALCO Group* has no revenues from transactions with a single external customer amounting to 10% or more of its revenues from external customers.

		Power		Other Services		Inter-segment Transactions		Total	
		For the Six Months Ended June 30							
	Note	**2025**	2024	**2025**	2024	**2025**	2024	**2025**	2024
		(Amounts in Millions)							
Revenues		**₱239,116**	₱230,978	**₱9,174**	₱8,568	**(₱3,071)**	(₱2,069)	**₱245,219**	₱237,477
Segment results		**₱29,644**	₱32,985	**₱1,112**	₱2,600	**₱–**	₱–	**₱30,756**	₱35,585
Reversal of (provision for) probable losses and expenses from claims		**1,707**	(2,039)	**(33)**	15	**–**	–	**1,674**	(2,024)
Depreciation and amortization	*7, 8 and 10*	**(8,054)**	(8,015)	**(495)**	(1,185)	**–**	–	**(8,549)**	(9,200)
Interest and other financial income		**1,566**	1,808	**123**	98	**–**	–	**1,689**	1,906
Equity in net earnings of associates and joint ventures	*8*	**8,087**	5,048	**–**	–	**–**	–	**8,087**	5,048
Interest and other financial charges		**(4,348)**	(2,216)	**(47)**	(455)	**–**	–	**(4,395)**	(2,671)
Provision for income tax - net	*28*	**(4,589)**	(5,116)	**(212)**	(411)	**–**	–	**(4,801)**	(5,527)
Net income attributable to non-controlling interests		**–**	–	**–**	–	**(826)**	(676)	**(826)**	(676)
Net income attributable to equity holders of the Parent		**₱24,013**	₱22,455	**₱448**	₱662	**(₱826)**	(₱676)	**₱23,635**	₱22,441
CCNI		**₱25,072**	₱22,562	**₱463**	₱645	**₱–**	₱–	**₱25,535**	₱23,207

		Power		Other Services		Inter-segment Transactions		Total	
		For the Three Months Ended June 30							
	Note	**2025**	2024	**2025**	2024	**2025**	2024	**2025**	2024
		(Amounts in Millions)							
Revenues		**₱127,363**	₱129,615	**₱4,730**	₱4,553	**(₱1,385)**	(₱1,239)	**₱130,708**	₱132,929
Segment results		**₱15,751**	₱19,447	**₱553**	₱1,481	**₱–**	₱–	**₱16,304**	₱20,928
Reversal of (provision for) probable losses and expenses from claims		**1,448**	(2,744)	**(23)**	–	**–**	–	**1,425**	(2,744)
Depreciation and amortization	*7, 8 and 10*	**(4,322)**	(4,030)	**(252)**	(640)	**–**	–	**(4,574)**	(4,670)
Interest and other financial income		**740**	919	**69**	51	**–**	–	**809**	970
Equity in net earnings of associates and joint ventures	*8*	**4,770**	3,339	**–**	–	**–**	–	**4,770**	3,339
Interest and other financial charges		**(2,316)**	(1,084)	**(23)**	(262)	**–**	–	**(2,339)**	(1,346)
Provision for income tax - net	*28*	**(2,748)**	(2,898)	**(133)**	(220)	**–**	–	**(2,881)**	(3,118)
Net income attributable to non-controlling interests		**–**	–	**–**	–	**(327)**	(515)	**(327)**	(515)
Net income attributable to equity holders of the Parent		**₱13,323**	₱12,949	**₱191**	₱410	**(₱327)**	(₱515)	**₱13,187**	₱12,844
CCNI		**₱14,167**	₱12,725	**₱196**	₱399	**₱–**	₱–	**₱14,363**	₱13,124

The inter-segment revenues mainly represent revenues of other services segment earned from the power segment.

The following table shows the reconciliation of *EBITDA*, net income and *CCNI*:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
EBITDA	**₱40,450**	₱38,357	**₱22,530**	₱21,255
Add (deduct):				
Depreciation and amortization	**(8,549)**	(9,200)	**(4,574)**	(4,670)
Interest and other financial charges, net of income and foreign exchange gains and losses	**(2,639)**	(513)	**(1,561)**	(108)
Income before income tax	**29,262**	28,644	**16,395**	16,477
Provision for income tax - net	**(4,801)**	(5,527)	**(2,881)**	(3,118)
Net income	**24,461**	23,117	**13,514**	13,359
Net income for the period attributable to non-controlling interests	**(826)**	(676)	**(327)**	(515)
Net income for the period attributable to equity holders of the parent company	**23,635**	22,441	**13,187**	12,844
Add (deduct) non-core items, net of tax:				
Non-core losses - net	**2,116**	1,014	**1,311**	513
Foreign exchange gains	**(216)**	(248)	**(135)**	(233)
CCNI	**₱25,535**	₱23,207	**₱14,363**	₱13,124

7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

		June 30, 2025 (Unaudited)									
	Note	**Land**	**Power Plant Machinery and Equipment**	**Sub-transmission and Distribution**	**Communication Towers, Buildings and Improvements**	**Data Transmission Cables and Communi-cation Equipment**	**Office Furniture, Fixtures and Other Equipment**	**Transportation Equipment**	**Others**	**Construction in Progress**	**Total**
						(Amounts in millions)					
Cost:											
Balance at beginning of period		**₱31,601**	**₱49,979**	**₱254,667**	**₱13,445**	**₱7,666**	**₱6,137**	**₱5,476**	**₱13,526**	**₱49,999**	**₱432,496**
Additions		**3,730**	**2,381**	**1,994**	**48**	**63**	**23**	**193**	**351**	**39,123**	**47,906**
Transfers from construction in progress		**–**	**742**	**8,616**	**160**	**284**	**35**	**–**	**78**	**(9,915)**	**–**
Disposals/retirements		**–**	**(958)**	**(2,023)**	**(107)**	**–**	**–**	**(71)**	**(130)**	**–**	**(3,289)**
Reclassifications and others	*10*	**1**	**(2)**	**(106)**	**3**	**(98)**	**10**	**(1)**	**(40)**	**(267)**	**(500)**
Balance at end of period		**35,332**	**52,142**	**263,148**	**13,549**	**7,915**	**6,205**	**5,597**	**13,785**	**78,940**	**476,613**
Less accumulated depreciation and amortization:											
Balance at beginning of period		**–**	**8,860**	**104,650**	**5,124**	**3,891**	**4,424**	**3,523**	**6,932**	**–**	**137,404**
Depreciation and amortization		**–**	**1,501**	**4,869**	**245**	**352**	**281**	**213**	**351**	**–**	**7,812**
Disposals/retirements		**–**	**(958)**	**(2,022)**	**(103)**	**–**	**–**	**(65)**	**(83)**	**–**	**(3,231)**
Reclassifications and others		**–**	**(122)**	**27**	**(283)**	**278**	**–**	**(9)**	**(9)**	**–**	**(118)**
Balance at end of period		**–**	**9,281**	**107,524**	**4,983**	**4,521**	**4,705**	**3,662**	**7,191**	**–**	**141,867**
Less allowance for impairment losses		**–**	**292**	**–**	**–**	**–**	**–**	**–**	**–**	**6,299**	**6,591**
Net book value		**₱35,332**	**₱42,569**	**₱155,624**	**₱8,566**	**₱3,394**	**₱1,500**	**₱1,935**	**₱6,594**	**₱72,641**	**₱328,155**

		December 31, 2024 (Audited)									
	Note	Land	Power Plant Machinery and Equipment	Sub-transmission and Distribution	Communication Towers, Buildings and Improvements	Data Transmission Cables and Communi-cation Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						(Amounts in millions)					
Cost:											
Balance at beginning of period		₱31,242	₱52,482	₱232,407	₱16,485	₱7,429	₱5,978	₱5,200	₱11,724	₱43,778	₱406,725
Additions		391	1,928	555	1,416	6	207	402	2,520	33,773	41,198
Transfers from construction in progress		–	–	25,183	634	531	144	–	233	(26,725)	–
Disposals/retirements		(32)	(321)	(3,452)	(48)	(325)	(250)	(122)	(26)	–	(4,576)
Effect of deconsolidation of *MIDC*	*3*	–	–	–	(4,565)	(1)	(6)	(4)	(4,381)	(470)	(9,427)
Reclassifications and others	*10*	–	(4,110)	(26)	(477)	26	64	–	3,456	(357)	(1,424)
Balance at end of period		31,601	49,979	254,667	13,445	7,666	6,137	5,476	13,526	49,999	432,496
Less accumulated depreciation and amortization:											
Balance at beginning of period		–	7,753	99,041	4,944	3,288	4,073	3,246	5,231	–	127,576
Depreciation and amortization		–	3,148	9,059	675	737	602	401	920	–	15,542
Disposals/retirements		–	(320)	(3,446)	(35)	(192)	(250)	(115)	(24)	–	(4,382)
Effect of deconsolidation of *MIDC*	*3*	–	–	–	(462)	–	–	(3)	(886)	–	(1,351)
Reclassifications and others		–	(1,721)	(4)	2	58	(1)	(6)	1,691	–	19
Balance at end of period		–	8,860	104,650	5,124	3,891	4,424	3,523	6,932	–	137,404
Less allowance for impairment losses:											
Balance at beginning of period		–	292	–	–	–	–	–	–	6,416	6,708
Reversal for the period		–	–	–	–	–	–	–	–	(117)	(117)
Balance at end of period		–	292	–	–	–	–	–	–	6,299	6,591
Net book value		₱31,601	₱40,827	₱150,017	₱8,321	₱3,775	₱1,713	₱1,953	₱6,594	₱43,700	₱288,501

As at June 30, 2025 and December 31, 2024, the net book values of customer-funded assets included in "Utility plant, generation plant and others" account amounted to ₱6,539 million and ₱6,503 million, respectively. The corresponding liabilities to customers in the same amounts as at June 30, 2025 and December 31, 2024 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

The power plant complex of *PHRI*, generation plant and equipment of *First Bulacan*, *Greenergy* and *GSEI* and the solar power plants of *Solar Philippines Calatagan*, *TNI* and *MTerra Solar*, with aggregate carrying value of ₱45,317 million as at June 30, 2025, are pledged as securities for long-term debt contracted.

See *Note 17 – Interest-bearing Long-term Financial Liabilities.*

As at June 30, 2025 and December 31, 2024, the capitalized site preparation expenses for the development of a power generation plant of *A1E* amounted to ₱12,724 million. Allowance for impairment loss amounted to ₱6,571 million as at June 30, 2025 and December 31, 2024.

Construction in progress pertains to both electric capital projects ("*ECP*s") and non-*ECP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Non-*ECP*s mainly represent construction of *MGen*'s power plant projects and *Radius*' network expansion projects. Total interest capitalized amounted to ₱1,358 million and ₱296 million based on average capitalization rate of 6% and 7% for the six months ended June 30, 2025 and 2024, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

	Place of Incorporation	Principal Activity	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
			Percentage of Ownership	
Associates				
FPM Power Holdings Limited ("*FPM Power*")/*PacificLight Power*	British Virgin Islands/ Singapore	Investment and holding company/ Power generation	**58**	58
ATEC	Philippines	Power generation	**50**	50
Barracuda Energy	Philippines	Renewable energy	**50**	50
Redondo Peninsula Energy Inc. ("*RP Energy*")	Philippines	Power generation	**47**	47
Pacific Medco Solar Energy Pte Ltd. ("*PMSE*")	Singapore	Renewable energy	**37**	37
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
Kayana	Philippines	Electronic payment and reward system	**27.50**	27.50
Terra Renewables Holdings, Inc.	Philippines	Holding company	**26.85**	26.85
Pylon	Philippines	Holding company	**25.56**	25.56
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	**25**	25
AF Payments	Philippines	Electronic payment clearing and settlement system operator	**10**	10
Joint Ventures				
SBPL	Philippines	Power generation	**51**	51
Kalilayan Power, Inc.	Philippines	Holding company	**51**	51
MRail-DESCO Joint Venture ("*MDJV*")	Philippines	Maintenance of mass transit system	**51**	51

	Place of Incorporation	Principal Activity	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
			Percentage of Ownership	
Pure Meridian Hydropower Corporation (“*Pure Meridian*”)	Philippines	Renewable energy	**50**	50
NSEC	Philippines	Power generation	**50**	50
First Balfour-MRail Joint Venture (“*FBMJV*”)	Philippines	Maintenance of mass transit system	**49**	49
MPioneer Insurance Inc. (“*MPioneer*”)	Philippines	Insurance	**35**	35
Rockwell Business Center Joint Venture (“*RBC JV*”)	Philippines	Real estate	**30**	30
CGHI	Philippines	Holding company	**60**	–

The movements in investments in associates and interests in joint ventures are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Acquisition cost:		
Balance at beginning of period	**₱42,378**	₱33,458
Additions	**71,567**	8,324
Hedge accounting adjustment in cost	**(1,717)**	–
Fair value adjustment	**11,017**	–
Reclassification	**(139)**	596
Balance at end of period	**123,106**	42,378
Accumulated equity in net earnings:		
Balance at beginning of period	**3,968**	5,283
Equity in net earnings for the period	**8,087**	10,267
Dividends received	**(4,871)**	(10,253)
Reclassification	**(52)**	(1,329)
Balance at end of period	**7,132**	3,968
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of period	**(28)**	(29)
Share in actuarial gains	**–**	1
Balance at end of period	**(28)**	(28)
Share in cumulative translation adjustments:		
Balance at beginning of period	**1,866**	(22)
Cumulative translation adjustments	**–**	333
Reclassification	**–**	1,555
Balance at end of period	**1,866**	1,866
Share in other comprehensive income:		
Balance at beginning of period	**(291)**	329
Cumulative translation adjustments	**3**	185
Reclassification	**–**	(805)
Balance at end of period	**(288)**	(291)
Allowance for impairment loss:		
Balance at beginning of period	**(380)**	(631)
Reversals – net of provisions	**–**	99
Reclassification	**–**	152
Balance at end of period	**(380)**	(380)
	₱131,408	₱47,513

The carrying values of investments in associates and interests in joint ventures follow:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Associates:			
FPM Power/PacificLight Power		**₱17,991**	₱17,581
ATEC		**10,154**	9,769
Pylon	*3*	**6,316**	6,594
Barracuda Energy	*6*	**2,311**	1,048
Indra Philippines		**343**	416
Kayana		**485**	362
RP Energy		**119**	119
PMSE		**216**	112
Aclara Meters		**137**	98
Joint ventures:			
CGHI		**81,860**	–
SBPL		**9,575**	9,574
RBC JV		**737**	723
NSEC		**605**	604
MPioneer		**501**	455
MDJV		**58**	58
		₱131,408	₱47,513

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 and a newly commissioned a 100 *MW* fast-start *LNG* facility in Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

ATEC

ATEC has the following equity interests: (i) 75% of *Sarangani Energy* which operates a 2 x 118.5 *MW* (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% of San Ramon Power, Inc. which is developing a 120 *MW* baseload coal-fired plant in Zamboanga City; and (iii) 100% of ACES Technical Services Corporation, which provides operations and maintenance services to *ATEC's* power plants.

Pylon

On July 11, 2024, the *PCC* approved the joint venture among *MIESCOR*, *Connect* and *PHPL*. The shareholders of *TowerCos* executed a Multi-party Share Swap Agreement with both shareholders of *MIDC* and *PhilTower* transferring their respective ownerships in *TowerCos* to *Pylon*. After the swap, *MIESCOR* owns 25.56% of *Pylon* (from 51% in *MIDC*) with *Pylon* owning 100% each of *MIDC* and *PhilTower*. The transaction is aimed at improving coverage for the *TowerCos*' mobile network clients and driving investment in digital infrastructure in the Philippines. The *SEC* approved the share swap transaction on August 20, 2024 and the completion of other closing conditions and issuance of shares were completed on September 13, 2024.

The fair values of the identifiable assets and liabilities of *Pylon* as at closing date (September 30, 2024), which were based on a provisional assessment, are as follows:

	Amounts in millions
Property and equipment	₱17,675
Intangible assets	28,259
Other noncurrent assets	68
Cash and cash equivalents	2,368
Trade and other receivables	1,027
Inventories	1,406
Input *VAT*	5,233
Other current assets	1,380
Interest-bearing long-term financial liabilities	(23,952)
Trade and other payables	(10,231)
Net identifiable assets	23,233
Equity interest acquired	25.56%
Net assets acquired	5,938
Goodwill	901
Net assets acquired	₱6,839

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.

Kayana

Kayana is an electronic payment and reward system company that aims to create a platform that integrates services into one primary channel. *Kayana* is owned by *PLDT*, *MERALCO* and *Metro Pacific* with equity interests of 45%, 27.5% and 27.5%, respectively.

RP Energy

RP Energy is a joint venture among *MGen*, Therma Power, Inc. ("*TPI*") and Taiwan Cogeneration International Corporation – Philippine Branch ("*TCIC*") for the construction and operation of a power plant in the Subic Bay Freeport Zone.

PMSE

PLP Renewables is 58%-owned by *MERALCO* through *MGreen International* (a wholly-owned subsidiary of *MGreen). PLP Renewables* has a 37% equity interest in *PMSE*, a Singapore-based entity, in the process of developing a large-scale solar *PV* plant in Bulan Island, Indonesia, the energy of which shall be transmitted via subsea cable to Singapore. This project aims to increase the share of renewal energy in Singapore.

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology LLC. *Aclara Meters* is primarily engaged in the manufacture and assembly of kilowatt-hour meters and meter accessories and import, export, distribute and otherwise deal in or with all kinds of related and other similar products.

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. The concession granted by the Department of Transportation ("*DOTr*") expires on December 16, 2025. *AF Payments* is in the process of finalizing a proposed two (2) year extension of the concession agreement with *DOTr*.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment in prior periods on the carrying amount of its investment in *AF Payments*.

CGHI

On January 30, 2025, *CGHI*, which is a joint venture between *MGen* (60%) and *TNGP* (40%), completed the acquisition of 67% stake in the two gas-fired power plants owned by San Miguel Global Power Holdings Corp. ("*SMGP*"), the 1,200 *MW* Ilijan power plant, and a new 1,275 *MW* combined cycle power facility of Excellent Energy Resources. Inc's ("*EERI*"), and the *LNG* import and regasification terminal owned by Linseed Field Corporation ("*Linseed*"). The transaction was approved by the *PCC* on December 23, 2024.

On April 30, 2025, all three (3) units of *EERI* achieved commercial operation.

On June 1, 2025, *Linseed* completed its regasification terminal and achieved 2,400-*MW* gas send-out capacity allowing it to fully service the requirements of South Premiere Power Corporation ("*SPPC*") and *EERI*.

The details of the purchase consideration in accordance with the Investment Agreement are as follows:

	Amounts in millions
Cash paid	₱69,251
Hedge accounting adjustment	(1,717)
Liabilities	10,270
Total purchase consideration	₱77,804

The fair values of the identifiable assets and liabilities as at the date of acquisition (January 30, 2025), which were based on provisional assessment, are as follows:

	Amounts in millions
Generation plant and others	₱134,971
Intangible assets	106,399
Other noncurrent assets	2,019
Cash and cash equivalents	11,167
Trade and other receivables	29,936
Inventories	4,664
Other current assets	19,203
Interest-bearing long-term financial liabilities	(14,834)
Deferred tax liabilities	(34,861)
Other noncurrent liabilities	(6,221)
Trade and other payables	(58,902)
Net identifiable assets	193,541
Equity interest acquired	40.2%
Net assets acquired	₱77,804

SBPL

SBPL, which is a joint venture between *MGen* (51%) and New Growth B.V. (49%), a 100% subsidiary of Electricity Generating Public Company Limited of Thailand ("*EGCO*"), owns and operates a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon.

SBPL delivers all its plant output to *MERALCO* under a 20-year *PSA* approved by the *ERC*.

RBC JV

RBC JV is a joint venture between Rockwell Land Corporation ("*Rockwell Land*") and *MERALCO* for a pre-agreed cooperation period, whereby *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*.

NSEC

NSEC, a joint venture between *MGreen* and *Vena Energy*, owns and operates a 68 *MWac* solar power plant in Currimao, Ilocos Norte. *NSEC* has a 20- year *PSA* with *MPower*.

MPioneer

MPioneer is 35% owned by *MERALCO* and 65% owned by Pioneer Insurance and Surety Company. It is engaged in non-life insurance business.

MDJV

On June 2, 2014, *MRail* and Desco, Inc. entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways. The project including its warranty period was completed on April 19, 2019. As at June 30, 2025, *MDJV* is still in the process of liquidation.

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. The development of the mini-hydroelectric power projects is suspended. With the suspension of the development of its projects, *MERALCO* recognized impairment on the carrying amount of its investment in *Pure Meridian*.

The condensed statements of financial position of material associates follow:

	June 30, 2025 (Unaudited)	
	ATEC	***FPM Power / PacificLight Power***
	(Amounts in millions)	
Current assets	**₱3,855**	**₱18,718**
Noncurrent assets	**30,963**	**37,783**
Current liabilities	**(8,496)**	**(18,308)**
Noncurrent liabilities	**(6,014)**	**(15,565)**
Net assets	**₱20,308**	**₱22,628**

	December 31, 2024 (Audited)	
	ATEC	*FPM Power / PacificLight Power*
	(Amounts in millions)	
Current assets	₱3,210	₱15,847
Noncurrent assets	32,451	34,340
Current liabilities	(4,688)	(14,420)
Noncurrent liabilities	(7,453)	(13,281)
Non-controlling interests	(3,982)	–
Net assets	₱19,538	₱22,486

The condensed statements of comprehensive income of material associates are as follows:

	For the Six Months Ended June 30 (Unaudited)			
	2025		2024	
	ATEC	***FPM Power / PacificLight Power***	*ATEC*	*FPM Power / PacificLight Power*
	Amounts in millions			
Revenues	**₱4,895**	**₱39,008**	₱5,231	₱46,212
Costs and expenses	**(3,577)**	**(32,169)**	(3,925)	(39,731)
Net income	**1,318**	**6,839**	1,306	6,481
Non-controlling interests	**(118)**	**–**	(311)	–
Net income attributable to equity holders of the parent	**1,200**	**6,839**	995	6,481
Other comprehensive income	**–**	**–**	–	–
Total comprehensive income	**₱1,200**	**₱6,839**	₱995	₱6,481
Dividends received	**₱–**	**₱3,460**	₱425	₱3,787

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:

	June 30, 2025 (Unaudited)	
	ATEC	***FPM Power / PacificLight Power***
	(Amounts in millions, except % of ownership)	
Net assets of associates	**₱20,308**	**₱22,628**
Proportionate ownership in associates (%)	**50**	**58**
	10,154	**13,124**
Fair value and other adjustments	**–**	**4,867**
	₱10,154	**₱17,991**

	December 31, 2024 (Audited	
	ATEC	*FPM Power / PacificLight Power*
	(Amounts in millions, except % of ownership)	
Net assets of associates	₱19,538	₱22,486
Proportionate ownership in associates (%)	50	58
	9,769	13,042
Fair value and other adjustments	–	4,539
	₱9,769	₱17,581

The following is the aggregate information of associates that are considered as not individually material:

	For the Six Months Ended June 30 (Unaudited)	
	2025	2024
	(Amounts in millions)	
Share in net income (loss)	**(₱477)**	₱8
Share in other comprehensive income (loss)	**–**	(1)
Share in total comprehensive income (loss)	**(₱477)**	₱7
Dividends received	**₱100**	₱32

Joint Ventures

The condensed statements of financial position of material joint ventures follow:

	June 30, 2025 (Unaudited)		
	RBC JV	***SBPL***	***CGHI***
		(Amounts in millions)	
Cash and cash equivalents	**₱697**	**₱4,129**	**₱–**
Current assets, excluding cash and cash equivalents	**316**	**5,874**	**–**
Noncurrent assets	**1,866**	**40,051**	**120,932**
Trade payables	**(35)**	**(930)**	**–**
Current liabilities, excluding trade payables	**(387)**	**(4,126)**	**–**
Noncurrent liabilities	**–**	**(26,223)**	**–**
Net assets	**₱2,457**	**₱18,775**	**₱120,932**

	December 31, 2024 (Audited)	
	RBC JV	*SBPL*
	(Amounts in millions)	
Cash and cash equivalents	₱640	₱3,940
Current assets, excluding cash and cash equivalents	316	6,686
Noncurrent assets	1,937	40,875
Trade payables	(23)	(782)
Current liabilities, excluding trade payables	(456)	(4,362)
Noncurrent liabilities	(4)	(27,585)
Net assets	₱2,410	₱18,772

The condensed statements of comprehensive income of material joint ventures are as follows:

	For the Six Months Ended June 30 (Unaudited)				
	2025			2024	
	RBC JV	***SBPL***	***CGHI***	*RBC JV*	*SBPL*
			(Amounts in millions)		
Revenues	**₱441**	**₱9,982**	**₱–**	₱503	₱10,297
Costs and expenses, excluding depreciation	**(85)**	**(5,527)**	**(39)**	(52)	(6,467)
Depreciation	**(108)**	**(767)**	**–**	(107)	(768)
Other income (expenses) – net	**107**	**(1,296)**	**247**	13	(1,271)
Benefit from (provision for) income tax - net	**(32)**	**18**	**–**	(27)	9
Net income	**₱323**	**₱2,410**	**₱208**	₱330	₱1,800
Dividends received	**₱83**	**₱1,228**	**₱–**	₱77	₱1,153

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:

	June 30, 2025 (Unaudited)		
	RBC JV	***SBPL***	***CGHI***
	(Amounts in millions, except % of ownership)		
Net assets of joint ventures	**₱2,457**	**₱18,775**	**₱120,932**
Proportionate ownership in joint ventures (%)	**30**	**51**	**60**
	737	**9,575**	**72,559**
Fair value and other adjustments	**–**	**–**	**9,301**
	₱737	**₱9,575**	**₱81,860**

	December 31, 2024 (Audited)	
	RBC JV	*SBPL*
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	₱2,410	₱18,772
Proportionate ownership in joint ventures (%)	30	51
	₱723	₱9,574

The following is the condensed financial information of joint ventures which are considered immaterial:

	For the Six Months Ended June 30 (Unaudited)	
	2025	2024
	(Amounts in millions)	
Share in net income	**₱39**	₱35
Share in other comprehensive income (loss)	**–**	(1)
Share in total comprehensive income	**₱39**	₱34
Dividends received	**₱–**	₱16

9. Investment Properties

The movements in investment properties are as follows:

	June 30, 2025 (Unaudited)		
	Land	**Buildings and Improvements**	**Total**
	(Amounts in millions)		
Cost	**₱1,428**	**₱209**	**₱1,637**
Less accumulated depreciation:			
Balance at beginning of period	**–**	**150**	**150**
Depreciation	**–**	**2**	**2**
Balance at end of period	**–**	**152**	**152**
	₱1,428	**₱57**	**₱1,485**

	December 31, 2024 (Audited)		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of period	₱1,428	₱211	₱1,639
Others	–	(2)	(2)
Balance at end of period	1,428	209	1,637
Less accumulated depreciation:			
Balance at beginning of period	–	146	146
Depreciation	–	4	4
Balance at end of period	–	150	150
	₱1,428	₱59	₱1,487

Investment properties consist of former substation sites, real properties held for capital appreciation, 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 June 30, 2025 and December 31, 2024 are as follows (amounts in millions):

Land	₱5,589
Buildings and improvements	135

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. As of June 30, 2025 and December 31, 2024, there is no significant change in the fair value of the investment properties.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱170,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Intangible Assets

The movements of intangible assets are as follows:

		June 30, 2025 (Unaudited)				
	Note	**Software**	**Franchise**	**Land and Leasehold Rights**	**Customer Contracts**	**Total**
				(Amounts in millions)		
Cost:						
Balance at beginning of period		**₱8,460**	**₱63**	**₱776**	**₱43,505**	**₱52,804**
Additions		**81**	**–**	**–**	**–**	**81**
Reclassification	*3*	**(11)**	**–**	**(103)**	**–**	**(114)**
Balance at end of period		**8,530**	**63**	**673**	**43,505**	**52,771**
Less accumulated amortization:						
Balance at beginning of period		**6,113**	**–**	**463**	**4,375**	**10,951**
Amortization		**194**	**–**	**15**	**526**	**735**
Reclassification	*3*	**(2)**	**–**	**(28)**	**–**	**(30)**
Balance at end of period		**6,305**	**–**	**450**	**4,901**	**11,656**
Less allowance for impairment loss		**294**	**–**	**–**	**–**	**294**
		₱1,931	**₱63**	**₱223**	**₱38,604**	**₱40,821**

		December 31, 2024 (Audited)						
	Note	Software	Franchise	Land and Leasehold Rights	Customer Contracts	Acquired Network Location	Build-to-suit Contracts	Total
				(Amounts in millions)				
Cost:								
Balance at beginning of period		₱8,047	₱63	₱551	₱43,505	₱8,398	₱2,949	₱63,513
Additions		514	–	225	–	3,310	1,160	5,209
Effect of deconsolidation of *MIDC*	*3*	(15)	–	–	–	(11,707)	(4,110)	(15,832)
Reclassification	*3*	(86)	–	–	–	(1)	1	(86)
Balance at end of period		8,460	63	776	43,505	–	–	52,804
Less accumulated amortization:								
Balance at beginning of period		5,740	–	441	3,327	275	96	9,879
Amortization		472	–	108	1,050	261	92	1,983
Effect of deconsolidation of *MIDC*	*3*	(3)	–	–	–	(550)	(175)	(728)
Reclassification	*3*	(96)	–	(86)	(2)	14	(13)	(183)
Balance at end of period		6,113	–	463	4,375	–	–	10,951
Less allowance for impairment loss:								
Balance at beginning of period		–	–	–	–	–	–	–
Amortization		294	–	–	–	–	–	294
Balance at end of period		294	–	–	–	–	–	294
		₱2,053	₱63	₱313	₱39,130	₱–	₱–	₱41,559

The identified intangible asset from the acquisition of controlling interest in *SPNEC* pertains to the existing customer contract of *Terra Solar* at acquisition date which was recognized at fair value.

Acquired network location intangibles represent the value to *MIDC* of the benefits from leasing the excess capacity on acquired towers to other mobile network operators. The build-to-suit contract

intangibles pertain to the contractual commitment of Globe Telecom, Inc ("*Globe*") to engage *MIDC* to build a committed number of additional towers with *Globe* as tenant.

In September 2024, as a result of the Multi-Party Share Swap Agreement, the balances of the acquired network location and build-to-suit contracts of *MIDC* were deconsolidated.

See *Note 3 – Statement of Compliance and Basis of Consolidation*.

11. Financial and Other Noncurrent Assets

This account consists of:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Financial assets:			
Financial assets at *FVOCI*	*27*	**₱4,110**	₱4,407
Debt securities at amortized cost	*15 and 27*	**1,092**	1,091
Nonfinancial assets:			
Under-recoveries of pass-through charges – net	*2 and 24*	**18,364**	17,666
Rental deposits		**5,363**	6,688
Deferred input *VAT*		**1,007**	82
Finance lease		**943**	875
Construction bonds		**164**	165
Receivable from the *BIR*		**181**	181
Others		**865**	1,745
		₱32,089	₱32,900

Financial Assets at *FVOCI*

The details of financial assets at *FVOCI* are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Investments in debt securities - corporate bonds and others	**₱1,676**	₱2,023
Investments in shares of stock and club shares	**2,434**	2,384
	₱4,110	₱4,407

Interest income from debt and equity securities amounted to ₱251 million and ₱307 million for the six months ended June 30, 2025 and 2024, respectively.

The rollforward of unrealized fair value gains on quoted *FVOCI* financial assets, net of tax, included in the consolidated statements of financial position follow:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Balance at beginning of period	**₱801**	₱490
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	**71**	194
Equity securities	**(1)**	117
Balance at end of period	**₱871**	₱801

Debt Securities at Amortized Cost

The details of debt securities at amortized cost are as follows:

	June 30, 2025 (Unaudited)			December 31, 2024 (Audited)		
	Current Portion (see *Note 15*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 15*)	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱7,905**	**₱1,056**	**₱8,961**	₱8,601	₱1,056	₱9,657
Private debt securities	**213**	**36**	**249**	213	35	248
	₱8,118	**₱1,092**	**₱9,210**	₱8,814	₱1,091	₱9,905

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DU*s, determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes net under-recoveries of generation, transmission and other pass-through charges of current and prior periods, which are the subject of various applications for recovery and approval by the *ERC*.

Allowance for *ECL* for net under -recoveries of pass-through charges amounted to ₱6,639 million as at June 30, 2025 and December 31, 2024.

See *Note 13 – Trade and Other Receivables*.

Deferred Input VAT

The amount represents the balance of input *VAT* incurred up to December 31, 2021, and paid in connection with purchase of capital assets in excess of ₱1 million per month. Such input tax from purchase of capital assets was deferred and offset againt output tax evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter.

Finance Lease

Spectrum entered into several bilateral *PSA*s to lease out solar power generation systems to its customers under a finance lease arrangement for periods ranging from 10 to 28 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 *EIR* method. The lease receivable is reduced by the principal portion of the lease payment made by the lessee.

12. Cash and Cash Equivalents

This account consists of:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Cash on hand and in banks	**₱35,249**	₱30,165
Cash equivalents	**56,505**	54,315
	₱91,754	₱84,480

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 ₱1,343 million and ₱1,537 million for the six months ended June 30, 2025 and 2024, respectively.

As at June 30, 2025 and December 31, 2024, cash and cash equivalents include bank accounts totaling ₱4,799 million and ₱4,669 million, respectively, equivalent to unpaid *SC* refund, meter deposits, *RES* bill deposits and over-recoveries of pass-through charges which *MERALCO* set aside in compliance with regulatory requirements.

13. Trade and Other Receivables

This account consists of:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Trade:			
Electricity sold	*23 and 27*	**₱44,054**	₱43,682
Service contracts		**8,600**	10,533
Energy generated	*27*	**6,117**	6,613
Unbilled receivables	*24*	**3,739**	3,387
Nontrade	*23 and 27*	**15,512**	9,336
		78,022	73,551
Less allowance for expected credit losses		**9,011**	8,854
		₱69,011	₱64,697

Movements in allowance for expected credit losses for trade and other receivables are as follows:

	June 30, 2025 (Unaudited)			
	Balance at Beginning of period	**Provisions**	**Write-offs**	**Balance at End of Period**
		(Amounts in millions)		
Trade:				
Electricity sold	**₱6,349**	**₱142**	**₱–**	**₱6,491**
Energy generated	**1,279**	**13**	**(6)**	**1,286**
Other trade receivables	**787**	**22**	**(21)**	**788**
Nontrade receivables	**439**	**7**	**–**	**446**
	₱8,854	**₱184**	**(₱27)**	**₱9,011**

	December 31, 2024 (Audited)			
	Balance at Beginning of period	Provisions (Reversals)	Write-offs	Balance at End of Period
		(Amounts in millions)		
Trade:				
Electricity sold	₱5,557	₱792	₱–	₱6,349
Energy generated	1,276	54	(51)	1,279
Other trade receivables	916	40	(169)	787
Nontrade receivables	454	(15)	–	439
	₱8,203	₱871	(₱220)	₱8,854

	June 30, 2025 (Unaudited)					December 31, 2024 (Audited)				
	Trade					Trade				
	Electricity Sold	**Energy Generated**	**Other Trade Receivables**	**Nontrade Receivables**	**Total**	Electricity Sold	Energy Generated	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)									
Individually impaired	**₱4,425**	**₱–**	**₱788**	**₱446**	**₱5,659**	₱4,680	₱–	₱787	₱439	₱5,906
Collectively impaired	**2,066**	**1,286**	**–**	**–**	**3,352**	1,669	1,279	–	–	2,948
	₱6,491	**₱1,286**	**₱788**	**₱446**	**₱9,011**	₱6,349	₱1,279	₱787	₱439	₱8,854

Trade Receivables – Electricity Sold

Trade receivables of *MERALCO*, *Clark Electric* and *Shin Clark* include charges for pass-through costs. Pass-through costs of *MERALCO* as a *DU* consist of generation, transmission and *SL* charges, which represent 64%, 8% and 5%, respectively, of the total billed amount in 2025 and 63%, 7% and 5%, respectively, of the total billed amount in 2024. Billed receivables are due 10 days after bill date. *MERALCO*'s, *Clark Electric*'s and *Shin Clark*'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 generated and sold and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the *WESM* by power generation subsidiaries. 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*, *eMVI 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

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Materials and supplies:		
At cost	**₱12,458**	₱12,427
At net realizable value ("*NRV*")	**11,439**	11,422
Materials and supplies at lower of cost and *NRV*	**₱11,439**	₱11,422

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱1,019 million and ₱1,005 million as at June 30, 2025 and December 31, 2024, respectively. No item of inventory has been written off for the six months ended June 30, 2025 and 2024.

Movements in allowance for inventory obsolescence are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Balance at beginning of period	**₱1,005**	₱1,013
Provision for (reversal of) allowance for inventory obsolescence	**14**	(8)
Balance at end of period	**₱1,019**	₱1,005

See *Note 25 – Expenses and Income.*

15. Financial and Other Current Assets

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*11*	**₱8,118**	₱8,814
Short-term investments		**1,229**	12
Current portion of advance payments to a supplier		**–**	206
Nonfinancial assets:			
Input *VAT*		**5,228**	2,734
Advance payments to suppliers		**3,118**	2,229
Prepayments		**993**	2,241
Prepaid tax		**840**	953
Creditable withholding taxes		**621**	1,286
Others		**47**	542
		₱20,194	₱19,017

16. **Equity**

Common Stock

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(In millions, except par value)	
Authorized number of shares - ₱10 par value per share	**1,250**	1,250
Issued and outstanding – number of shares	**1,127**	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 40,228 and 40,476 common shareholders as at June 30, 2025 and December 31, 2024, 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 ₱100,452 million and ₱92,861 million as at June 30, 2025 and December 31, 2024, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting period.

The following are the cash dividends declared on common shares for the for the six months ended June 30, 2025 and 2024:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
February 24, 2025	March 12, 2025	April 4, 2025	₱13.74	₱15,482
February 26, 2024	March 27, 2024	April 24, 2024	10.30	11,603

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

Hedging Reserve

In 2024, *MERALCO* entered into various foreign exchange forwards to "lock-in" investment cost payable in foreign currency. The foreign exchange forwards were accounted for as cashflow hedge. The changes in the fair value of the foreign exchange forwards were recorded as hedging reserve account in the consolidated statement of changes in equity and accounted for in the investment balance as of closing date.

In January 2025, the forecasted investment in *CGHI* was realized and *MERALCO* infused $1.187 billion into *MGen* as settlement for its share in the investment in *CGHI*. The hedging reserve was reclassified from *OCI* to investment account at ₱1,717 million.

Treasury Shares

Treasury shares represent the 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* purchased.

In September 2024, 6,196 unpaid shares awarded under the Employee Stock Purchase Plan ("*ESPP*") were approved by the *SEC* for conversion to treasury shares. As at June 30, 2025, the total number of treasury shares is 178,608. All of the treasury shares pertain to cancelled shares subscribed under the *ESPP*.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities – long-term debt	**₱161,807**	₱54,797
Current portion of interest-bearing financial liabilities:		
Long-term debt	**7,783**	4,231
Redeemable preferred stock	**1,461**	1,461
	9,244	5,692
	₱171,051	₱60,489

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 ₱248 million as at June 30, 2025 and December 31, 2024. 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:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
MERALCO		
₱75.0 Billion Term Loan	**₱75,000**	₱–
₱10.0 Billion Term Loan	**9,800**	9,900
12-year Puttable Bonds	**2,868**	2,868
MGen Group		
₱41.3 Billion Term Loan	**41,250**	–
₱18.0 Billion Term Loan	**15,660**	16,020
₱11.6 Billion Term Loan	**8,685**	9,168
₱5.8 Billion Term Loan	**3,480**	3,770
₱4.5 Billion Term Loan	**3,003**	3,188
₱3.0 Billion Term Loan	**2,628**	2,690
₱2.7 Billion Term Loan	**2,576**	2,650
₱2.0 Billion Term Loan	**2,034**	2,034
₱3.5 Billion Term Loan	**1,721**	2,045
₱3.4 Billion Term Loan	**871**	980

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
₱791 Million Term Loan	**₱791**	₱791
₱1.5 Billion Term Loan	**76**	152
₱2.2 Billion Term Loan	**–**	1,780
Radius		
₱700 Million Term Loan	**595**	665
₱42.4 Million Term Loan	**–**	4
MServ		
₱600 Million Term Loan	**240**	330
MIESCOR		
₱375 Million Term Loan	**161**	187
Total long-term debt	**171,439**	59,222
Less unamortized debt issue costs	**2,027**	403
	169,412	58,819
Redeemable preferred stock	**1,461**	1,461
Fair value adjustment in relation to the purchase of *GBPC*	**178**	209
	171,051	60,489
Less current portion	**9,244**	5,692
Long-term portion of interest-bearing financial liabilities	**₱161,807**	₱54,797

The scheduled maturities of the outstanding long-term debt at nominal values as at June 30, 2025 are as follows:

	Amount in millions
Less than one (1) year	₱8,083
One (1) year up to two (2) years	5,766
More than two (2) years up to three (3) years	6,463
More than three (3) years up to four (4) years	6,517
More than four (4) years up to five (5) years	7,073
More than five (5) years	137,537
	₱171,439

MERALCO

₱75.0 Billion Term Loan

MERALCO has a ₱75,000 million, 12-year floating rate loan due in January 2037. The related interest is payable quarterly. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

₱10.0 Billion Term Loan

MERALCO has a ₱10,000 million, 10-year floating rate loan due in December 2032. The related interest is payable quarterly. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

12-year Puttable Bonds

The 12-year Puttable Bonds represent the remaining balance of the total ₱18,000 million issued in December 2013, with a put option exercisable in the 10th year. On December 13, 2023, *MERALCO* redeemed ₱4,132 million of these bonds.

MGen Group

₱41.3 Billion Term Loan

Terra Solar has a ₱41,250 million, 15-year term loan due in March 2040. Interest rate is subject to repricing on March 2030. The principal is payable quarterly until maturity.

₱18.0 Billion Term Loan

GBPC has a ₱18,000 million, 15-year term loan due in May 2036. Interest rate is subject to repricing on May 2026. The principal is payable semi- annually until maturity.

₱11.6 Billion Term Loan

On April 28, 2022, *PEDC* obtained a ₱11,580 million, 12-year term loan due in April 2034. The principal and related interest are payable quarterly.

₱5.8 Billion Term Loan

CEDC's ₱5.8 Billion Term Loan represents a restructured loan from the original project financing obligation. This restructured loan is payable over 10 years until June 2031.

₱4.5 Billion Term Loan

This bilateral term loan with a consortium of banks was used to finance the acquisition of a 50% less one share in *ATEC*. The loan is a fixed rate 12-year facility with quarterly principal repayment commencing on November 2020.

₱3.0 Billion Term Loan

First Bulacan has a ₱3,039 million, 15-year term loan with interest repricing on November 2029 and the principal amount payable until November 2034.

₱2.7 Billion Term Loan

PHRI has a ₱2,650 million term loan due in September 2037. The principal and related interest are payable semi-annually.

₱2.0 Billion Term Loan

On May 17, 2024, *Greenergy* secured a 15-year term project financing facility to fund the ongoing construction of its 49 *Mwac* solar project in Cordon, Isabela. The principal and related interest are payable semi-annually until May 2039.

₱3.5 Billion Term Loan

TPC has a ₱3,500 million, 5-year term loan due in July 2027. The principal and related interest are payable quarterly.

₱3.4 Billion Term Loan

Solar Philippines Calatagan has a ₱3,400 million, 12-year term loan due in April 2029. The principal and related interest are payable semi-annually.

₱791 Million Term Loan

On May 17, 2024, *GSEI* secured a 15-year term project financing facility to develop its 18.75 *Mwac* solar plant in Bongabon, Nueva Ecija. The principal and related interest are payable semi-annually until May 2039.

₱1.5 Billion Term Loan

The ₱1,500 million loan of *CEDC* was used for general financing and other corporate requirements. The principal and related interest are payable semi-annually until December 2025.

₱2.2 Billion Term Loan

Solar Philippines Tarlac has a ₱2,225 million, 12-year term loan due in July 2031. The principal and related interest are payable semi-annually. In June 2025, the loan was refinanced through a new bridge loan facility.

Radius

₱700 Million Term Loan

The ₱700 million loan of *Radius* was used to finance the expansion of the residential and Micro, Small and Medium Enterprise ("*MSME*") segment of its broadband business. The principal and interest are payable quarterly until August 2029.

₱42.4 Million Term Loan

Radius' ₱42.4 million loan was used to finance various information technology equipment and related peripherals for projects. The principal is payable quarterly. On April 2025, the loan was paid in full.

MServ

₱600 Million Term Loan

MServ's ₱600 million 10-year fixed rate term loan is payable based on pre-agreed amortization until 2027 while interest is payable semi-annually.

MIESCOR

₱375 Million Term Loan

MIESCOR has a ₱375 million, fixed rate term loan, payable semi-annually until June 2028.

The annual interest rates of the interest-bearing financial liabilities range from 4.70% to 8.29% and 4.70% to 8.70% as at June 30, 2025 and December 31, 2024, respectively.

Debt Covenants

The terms of the *MERALCO* loans include 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.

MERALCO's subsidiaries loan agreements require compliance with certain financial ratios at all times until full payment of the obligations. The restrictions also cover payment of dividends, distributions or other returns to its stockholders, additional liens on its assets, disposal of assets, incurrence of additional indebtedness, among others. *GBPC* is prohibited from entering into merger or consolidation with other corporation, unless *GBPC* is the surviving entity.

As at June 30, 2025 and December 31, 2024, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on the foregoing long-term financial liabilities amounted to ₱3,462 million and ₱1,556 million for the six months ended June 30, 2025 and 2024, respectively.

Unamortized Debt Issue Costs

The following presents the changes to the unamortized debt issue costs:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Balance at beginning of period		**₱403**	₱808
Additions		**1,701**	34
Amortization charged to interest and other financial charges	*24*	**(77)**	(86)
Effect of deconsolidation of *MIDC*	*3*	**–**	(353)
Balance at end of period		**₱2,027**	₱403

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
Balance at beginning of period	**146,108,911**	146,510,496
Redemptions	**(37,308)**	(401,585)
Balance at end of period	**146,071,603**	146,108,911

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required every service 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:

	June 30, 2025 (Unaudited)			December 31, 2024 (Audited)		
	Current Portion (see *Note 22*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 22*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,490**	**₱37,250**	**₱39,740**	₱2,493	₱33,274	₱35,767
Meter deposits	**317**	**–**	**317**	317	–	317
	₱2,807	**₱37,250**	**₱40,057**	₱2,810	₱33,274	₱36,084

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*, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation by the *ERC*.

As provided for under *ERC* Resolution No. 1, Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

On January 24, 2025, *MERALCO* received an *SC* Decision dated October 8, 2024 dismissing a Petition, which prayed to declare the provisions for bill deposits in the Magna Carta, as illegal and void and that *MERALCO* and other *DU*s be permanently prohibited from imposing and collecting bill deposit from captive customers

The following are the movements of the bill deposits account:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Balance at beginning of period		**₱35,767**	₱36,591
Additions		**6,412**	8,311
Refunds		**(2,439)**	(9,135)
Balance at end of period		**39,740**	35,767
Less portion maturing within one year	*22*	**2,490**	2,493
Noncurrent portion of bill deposits and related interests		**₱37,250**	₱33,274

Interest expense on bill deposits amounted to ₱11 million and ₱12 million for the six months ended June 30, 2025 and 2024, respectively.

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

Following the effectivity of the *Magna Carta* (for residential customers) and *DSOAR* (for non-residential customers), all customers are exempt from payment of meter deposits.

MERALCO deposited the amount equivalent to the unclaimed meter deposits in a single savings account in compliance with the *ERC* order in 2016.

19. Provisions

Provisions consist of amounts related to certain proceedings and claims against *MERALCO Group*, among others. The movements follow:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Balance at beginning of period		**₱65,493**	₱71,669
Provisions for the period – net		**4,034**	8,470
Settlements		**(1,954)**	(309)
Reclassifications	*22*	**–**	(14,337)
Balance at end of period		**67,573**	65,493
Less current portion	*22*	**57,423**	55,638
Noncurrent portion of provisions		**₱10,150**	₱9,855

The balance of provisions represents estimated amount of losses, over-recoveries and 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* Accounting Standards.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by qualified claimants. The unclaimed amount is deposited in a separate interest-bearing bank account.

MERALCO implemented the *SC* ruling which ordered the refund of ₱0.167 per *kWh* for billings made from February 1994 to April 2003 in four (4) phases. Even while the refund period ended, *MERALCO* continues to process refunds as the eligible customers present their required supporting documents. The refund shall continue until the *ERC* orders otherwise.

See *Note 2 – Rate Regulations*.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks and which are due within one (1) year. Annual interest rates were up to 6.27% and 6.94% as at June 30, 2025 and December 31, 2024, respectively.

Interest expense on notes payable amounted to ₱769 million and ₱589 million for the six months ended June 30, 2025 and 2024, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Trade accounts payable	*23 and 24*	**₱69,998**	₱69,177
Accrued expenses:			
Services		**3,365**	4,331
Employee benefits		**3,786**	3,627
Interest	*17*	**1,604**	903
Others		**2,235**	2,096
Current portions of:			
Provisions	*2, 19 and 29*	**57,423**	55,638
Bill deposits and related interests	*18*	**2,490**	2,493
Deferred income		**1,390**	632
Meter deposits and related interests	*18*	**317**	317
Refundable service extension costs		**1,081**	1,457
Dividends payable on:			
Common stock	*16*	**3,022**	3,662
Redeemable preferred stock	*17*	**248**	248
Taxes		**10,473**	13,047

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Payable to customers		**₱10,630**	₱10,636
Liabilities related to Put Option and Investment Agreement	*3 and 8*	**19,723**	9,506
Universal charges payable	*32*	**3,418**	3,048
Derivative liability	*16 and 27*	**1,451**	961
FiT-All payable	*32*	**970**	683
Payroll related remittances		**614**	669
Regulatory fees payable		**476**	394
Lease liability		**110**	102
Other current liabilities		**2,275**	7,845
		₱197,099	₱191,472

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, *NGCP* and *IEMOP* for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, coal, materials and supplies, and contracted services, among others.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions, Note 24 – Revenue and Purchased Power* and *Note 30 – Significant Contracts and Commitments.*

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.

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 June 30, 2025 and December 31, 2024, the noncurrent portion of refundable service extension costs of ₱3,564 million and ₱3,753 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 *PSALM* through the *DU*s. These are charges imposed to recover stranded debts, stranded contract costs of National Power Corporation ("*NPC*"), stranded contract costs of eligible contracts of *DU*s, missionary electrification and environment charges. *DU*s remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers account includes amounts credited to customers's bills or payments made by customers in advance, which are being applied to their current consumption.

23. Related Party Transactions

The *MERALCO Group* has approval process and limits with respect to the amounts 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

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 as captive customers are the same *ERC*-mandated rates applicable to all captive customers within the franchise area. The rates charged by *RES* to related parties as contestable customers are offered based on the same rate model for other contestable customers.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. for its fixed and wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Lease Agreement with Robinsons Land Corporation ("RLC")

MERALCO has various lease agreements with *RLC* for its temporary office premises until January 2024.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSAs

As discussed in Note 30, *MERALCO* has long-term *PSAs* with *SPPC, EERI, SBPL, NSEC, First Bulacan, Solar Tanauan Corporation* ("*Solar Tanauan*") and *Solar Philippines Tarlac*.

Following is a summary of related party transactions for the six months ended June 30, 2025 and 2024 and the outstanding balances as at June 30, 2025 and December 31, 2024:

	Amount of Transactions		Outstanding Receivable (Liability)			
	For the Six Months Ended June 30					
Category	**2025**	2024	**June 30, 2025**	December 31, 2024	Terms	Conditions
		(Amounts in millions)				
Sale of electricity:						
JG Summit Group	**₱2,441**	₱2,099	**₱793**	₱951	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**410**	569	**60**	49	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**290**	285	**42**	45	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**551**	504	**(162)**	(282)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – *Aclara Meters*	**213**	86	**(12)**	(2)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - *Colinas Verdes Hospital Managers*	**154**	119	**(9)**	(1)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**370**	346	**70**	14	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	**56**	63	**(14)**	(15)	30-day; noninterest-bearing	Unsecured
Lease of office premises - *RLC*	**–**	14	**–**	–	30-day; noninterest-bearing	Unsecured
Puchases of insurance premium - *MPioneer*	**334**	345	**(49)**	(14)	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	**44**	52	**–**	–	None	None
Purchases of power:						
*SPPC**	**30,570**	–	**(7,077)**	–	30-day; noninterest-bearing	Unsecured

	Amount of Transactions		Outstanding Receivable (Liability)			
	For the Six Months Ended June 30					
Category	**2025**	2024	**June 30, 2025**	December 31, 2024	Terms	Conditions
		(Amounts in millions)				
*EERI**	**₱21,787**	₱–	**(₱9,160)**	₱–	30-day; noninterest-bearing	Unsecured
SBPL	**10,022**	9,992	**(1,699)**	(1,223)	30-day; noninterest-bearing	Unsecured
Solar Philippines Tarlac	**246**	–	**(39)**	(69)	30-day; noninterest-bearing	Unsecured
NSEC	**241**	192	**(19)**	(35)	30-day; noninterest-bearing	Unsecured

**SPPC and EERI became related parties following CGHI acquisition of 67% stake in both companies in January 2025.*

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 June 30, 2025 and December 31, 2024, the fair value of the total assets being managed by the *Fund* amounted to ₱30.0 billion and ₱30.3 billion, respectively.

See *Note 26 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
		(Amounts in millions)		
Short-term employee benefits	**₱666**	₱459	**₱287**	₱163
Long-term employee incentives and retirement benefits	**256**	184	**128**	92
Total compensation to key management personnel	**₱922**	₱643	**₱415**	₱255

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 period.

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. On May 27, 2025, the *MERALCO*'s stockholders approved a revised per diem rate applicable to each director for every board and board committee meeting attended. Effective June 1, 2025, each of the directors is entitled to a per diem of ₱200,000 for every *BOD* meeting attended and 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 ₱50,000 for every committee meeting attended.

As at June 30, 2025, 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:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Contract assets:			
Unbilled receivables	*13*	**₱3,739**	₱3,387
Under-recoveries of pass-through charges - net	*11*	**18,364**	17,666
Contract liabilities:			
Non-refundable liability related to asset funded by customers		**963**	949
Over-recoveries from transmission, lifeline subsidy and *SL* charges - net		**188**	375

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱82 million and ₱76 million for the six months ended June 30, 2025 and 2024, respectively.

Purchased Power

The details of purchased power are as follows:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Generation costs	**₱160,098**	₱154,460	**₱86,717**	₱88,463
Transmission costs	**25,632**	19,957	**12,586**	9,427
	₱185,730	₱174,417	**₱99,303**	₱97,890

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO, Clark Electric* and *Shin Clark Power*, as *DU*s.

Generation costs include any line rentals, market fees and must-run unit charges billed by *IEMOP*.

The details of purchased power follow:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
SPPC	**₱30,570**	₱27,092	**₱17,375**	₱14,511
First Gas Power Corporation (“*FGPC*”)	**27,764**	27,810	**14,141**	15,634
NGCP	**25,657**	19,979	**12,598**	9,437
EERI	**21,787**	–	**13,088**	–
IEMOP	**20,495**	36,736	**11,018**	26,777
FGP Corp. (“*FGP*”)	**13,284**	12,432	**6,879**	7,047
SBPL	**10,022**	9,992	**4,993**	5,685
Masinloc Power Partners Co. Ltd. (“*MPPCL*”)	**9,623**	6,274	**5,372**	3,767
QPPL	**9,219**	10,043	**4,420**	5,404
Sual Power Inc. (“*SPI*”)	**8,242**	7,045	**4,538**	4,212
Limay Power Inc. (“*LPI*”)	**2,570**	–	**–**	–
GNPower Dinginin Ltd. Co. (“*GNPD*”)	**2,058**	–	**2,058**	–
Therma Luzon, Inc. (“*TLI*”)	**667**	4,391	**321**	312
Southwest Luzon Power Generation Corporation	**322**	1,567	**261**	1,030
Sem-Calaca Power Corporation (“*Sem-Calaca*”)	**318**	332	**161**	156
Solar Philippines Tarlac	**246**	255	**134**	140
AC Energy Philippines, Inc. (“*AC Energy*”)	**–**	5,193	**–**	2,864
First NatGas Power Corp. (“*FNPC*”)	**–**	2,459	**–**	–
Energy Development Corporation (“*EDC*”)	**–**	1,122	**–**	626
Others	**2,886**	1,695	**1,946**	288
	₱185,730	₱174,417	**₱99,303**	₱97,890

Generation and transmission costs are net of company use amounting to ₱282 million and ₱254 million for the six months ended June 30, 2025 and 2024, 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, 2024, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱216 million.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**Unaudited**			
		For the Six Months Ended June 30		**For the Three Months Ended June 30**	
		2025	2024	**2025**	2024
		(Amounts in millions)			
Salaries, wages and related employee benefits		**₱10,353**	₱8,426	**₱5,503**	₱4,558
Retirement benefits	*26*	**916**	771	**462**	382
Other long-term post-employment benefits	*26*	**78**	59	**39**	30
		₱11,347	₱9,256	**₱6,004**	₱4,970

Depreciation and Amortization

	Note	**Unaudited**			
		For the Six Months Ended June 30		**For the Three Months Ended June 30**	
		2025	2024	**2025**	2024
		(Amounts in millions)			
Utility plant, generation plant and others	*7*	**₱7,812**	₱8,197	**₱4,204**	₱4,167
Intangible assets	*10*	**735**	1,001	**369**	502
Investment properties	*9*	**2**	2	**1**	1
		₱8,549	₱9,200	**₱4,574**	₱4,670

Other Expenses

	Note	Unaudited			
		For the Six Months Ended June 30		**For the Three Months Ended June 30**	
		2025	2024	**2025**	2024
		(Amounts in millions)			
Materials used	*14*	**₱1,165**	₱1,202	**₱629**	₱604
Rent and utilities		**730**	907	**383**	479
Insurance		**264**	303	**118**	131
Transportation and travel		**234**	310	**114**	182
Advertising		**214**	134	**98**	51
Communication	*23*	**101**	108	**53**	54
Others		**892**	650	**868**	362
		₱3,600	₱3,614	**₱2,263**	₱1,863

26. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Retirement benefits liability	**₱11,673**	₱11,134
Long-term incentives	**3,912**	2,874
Other post-employment benefits	**2,279**	2,255
	₱17,864	₱16,263

Defined Benefit Retirement Plans

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Material Accounting Policies, Changes and Improvements.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Current service costs	**₱532**	₱511	**₱270**	₱254
Net interest costs	**339**	220	**169**	109
Net retirement benefits expense	**₱871**	₱731	**₱439**	₱363

Retirement Benefits Liability

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Defined benefit obligation	**₱41,654**	₱41,420
Fair value of plan assets	**(29,981)**	(30,286)
Net retirement benefits liability	**₱11,673**	₱11,134

Changes in the net retirement benefits liability are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Retirement benefits liability at beginning of period	**₱11,134**	₱7,177
Net retirement benefits expense	**871**	1,476
Amounts recognized in *OCI*	**(53)**	2,707
Contributions by employer	**(279)**	(226)
Net retirement benefits liability at end of period	**₱11,673**	₱11,134

Changes in the present value of the defined benefits obligation are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Defined benefit obligation at beginning of period	**₱41,420**	₱38,029
Interest costs	**1,195**	2,112
Current service costs	**532**	1,039
Benefits paid	**(1,440)**	(2,827)
Actuarial losses (gains) due to:		
Changes in financial assumptions	**(53)**	(145)
Experience adjustments	**–**	3,212
Defined benefit obligation at end of period	**₱41,654**	₱41,420

Changes in the fair value of plan assets are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Fair value of plan assets at beginning of period	**₱30,286**	₱30,852
Interest income	**856**	1,675
Contributions by employer	**279**	226
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**–**	360
Benefits paid	**(1,440)**	(2,827)
Fair value of plan assets at end of period	**₱29,981**	₱30,286

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* 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:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amount in millions)	
Investments quoted in active markets:		
Government securities	**₱10,194**	₱10,478
Bonds and commercial notes	**7,731**	8,066
Marketable equity securities	**7,530**	7,626
Real property	**1,927**	1,927
Receivables	**2,150**	1,744
Cash and cash equivalents	**449**	445
Fair value of plan assets	**₱29,981**	₱30,286

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Interest costs	**₱69**	₱50	**₱35**	₱25
Current service costs	**9**	9	**4**	5
	₱78	₱59	**₱39**	₱30

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Balance at beginning of period	**₱2,255**	₱1,646
Interest costs	**69**	100
Current service costs	**9**	16
Benefits paid	**(54)**	(101)
Actuarial losses due to change in assumptions	**–**	594
Balance at end of period	**₱2,279**	₱2,255

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
Annual discount rate	**6.09%-6.11%**	6.09%-6.11%
Future range of annual salary increases	**4.00%-11.00%**	4.00%-11.00%

Funding

MERALCO contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

Less than one (1) year	₱5,323
One (1) year up to five (5) years	17,695
More than five (5) years up to 10 years	16,078
More than 10 years up to 15 years	17,100
More than 15 years up to 20 years	17,304
More than 20 years	39,874

Risk

The *Retirement Fund* is exposed to the following risks:

Credit Risk
The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.

Share Price Risk
The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The share price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a supplemental retirement benefit for employees hired beginning 2004, the participation of which is

voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱45 million and ₱40 million for the six months ended June 30, 2025 and 2024, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Expense recognized for defined benefit plans	**₱871**	₱731	**₱439**	₱363
Expense recognized for defined contribution plan	**45**	40	**23**	19
Retirement benefits expense	**₱916**	₱771	**₱462**	₱382

Long-term Incentive Plan ("*LTIP*")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO Group*'s achievement of specified metrics 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 – Material 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 June 30, 2025				
Noncurrent				
Financial and other noncurrent assets	**₱1,092**	**₱4,110**	**₱–**	**₱5,202**
Current				
Cash and cash equivalents	**91,754**	–	–	**91,754**
Trade and other receivables	**65,300**	–	–	**65,300**
Financial and other current assets	**9,347**	–	–	**9,347**
Total Financial Assets	**₱167,493**	**₱4,110**	**₱–**	**₱171,603**

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Liabilities as at June 30, 2025				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱161,807**	**₱161,807**
Customers' deposits - net of current portion	**–**	**–**	**37,250**	**37,250**
Refundable service extension costs - net of current portion	**–**	**–**	**3,564**	**3,564**
Current				
Notes payable	**–**	**–**	**33,760**	**33,760**
Trade payables and other current liabilities	**–**	**–**	**95,352**	**95,352**
Customers' refund	**–**	**–**	**2,852**	**2,852**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**9,244**	**9,244**
Total Financial Liabilities	**₱–**	**₱–**	**₱343,829**	**₱343,829**

	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, 2024				
Noncurrent				
Financial and other noncurrent assets	₱1,091	₱4,407	₱–	₱5,498
Current				
Cash and cash equivalents	84,480	–	–	84,480
Trade and other receivables	61,335	–	–	61,335
Financial and other current assets	9,032	–	–	9,032
Total Financial Assets	₱155,938	₱4,407	₱–	₱160,345
Liabilities as at December 31, 2024				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱54,797	₱54,797
Customers' deposits - net of current portion	–	–	33,274	33,274
Refundable service extension costs - net of current portion	–	–	3,753	3,753
Current				
Notes payable	–	–	34,287	34,287
Trade payables and other current liabilities	–	–	97,477	97,477
Customers' refund	–	–	2,853	2,853
Current portion of interest-bearing long-term financial liabilities	–	–	5,692	5,692
Total Financial Liabilities	₱–	₱–	₱232,133	₱232,133

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:

	June 30, 2025 (Unaudited)		December 31, 2024 (Audited)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Debt securities at amortized cost	**₱9,210**	**₱9,168**	₱9,905	₱9,520
Financial assets at *FVOCI*	**4,110**	**4,110**	4,407	4,407
Financial assets at amortized cost - Advance payments to a supplier	**–**	**–**	206	206
	₱13,320	**₱13,278**	₱14,518	₱14,133
Financial liabilities				
Financial liabilities carried at amortized cost - Interest-bearing-long-term financial liabilities	**₱169,590**	**₱173,464**	₱59,028	₱60,348

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.

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 5.50% to 6.32% and 5.80% to 6.03% as at June 30, 2025 and December 31, 2024, 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:

	June 30, 2025 (Unaudited)				December 31, 2024 (Audited)			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Debt securities at amortized cost	**₱9,168**	**₱–**	**₱–**	**₱9,168**	₱9,520	₱–	₱–	₱9,520
Financial assets at *FVOCI*	**4,110**	**–**	**–**	**4,110**	4,407	–	–	4,407
Advance payments to a supplier	**–**	**–**	**–**	**–**	–	206	–	206
	₱13,278	**₱–**	**₱–**	**₱13,278**	₱13,927	₱206	₱–	₱14,133
Financial liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱173,464**	**₱–**	**₱173,464**	₱–	₱60,348	₱–	₱60,348

For the six months ended June 30, 2025 and 2024, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group'*s exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost.

The exposure of *MERALCO* and its subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *MERALCO* and its subsidiaries' loans which bear fixed interest rates are subject to repricing after a minimum of quarterly for *PEDC*, one (1) year for *MERALCO* and *Radius*, three (3) years for *PHRI*, *GSEI* and *Greenergy*, five (5) years for *GBPC*, *MTerra Solar* and *Solar Philippines Calatagan*, seven (7) years for *CEDC* and ten (10) years for *First Bulacan*.

The following table sets out the maturity profile of the financial instruments that are exposed to interest rate risk (exclusive of debt issuance costs):

	Within 1 Year	**Over 1–2 Years**	**Over 2–3 Years**	**Over 3–4 Years**	**Over 4–5 Years**	**More than 5 Years**	**Total**
				(Amounts in millions)			
June 30, 2025 (Unaudited)	**₱2,823**	**₱3,291**	**₱3,291**	**₱3,291**	**₱3,186**	**₱96,673**	**₱112,555**
December 31, 2024 (Audited)	₱1,205	₱1,205	₱1,205	₱1,205	₱1,170	₱13,743	₱19,733

Floating interest rate of bank loans is repriced at intervals of less than one year. The other financial liabilities of the *MERALCO Group* that are not included in the foregoing have fixed interest rate and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the six months ended June 30, 2025 and 2024 through the impact on floating rate borrowings. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statement of income.

	Unaudited			
	For the Six Months Ended June 30			
	2025		2024	
	Increase (Decrease) in Basis Points	**Effect on Income before Income Tax**	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
		(Amounts in millions)		
Floating rate loans from various banks	**+75**	**(₱422)**	+75	(₱114)
	(75)	**422**	(75)	114

Interest expense of floating rate loans for the period is computed by taking into account actual principal movements, based on management's best estimate of a +/-75 basis points change in interest rates. There has been no change in the methods and assumptions used by management in the above analysis.

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 June 30, 2025 and December 31, 2024, translated to Philippine peso at ₱56.33 and ₱57.85 to US$1, respectively.

	June 30, 2025 (Unaudited)		December 31, 2024 (Audited)	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$206**	**₱11,584**	$144	₱8,345
Financial assets at *FVOCI*	**20**	**1,154**	26	1,506
Short-term investments	**24**	**1,365**	25	1,451
Advance payments to a supplier	**–**	**–**	4	206
	250	**14,103**	199	11,508
Financial liabilities:				
Trade payables and other liabilities	**(20)**	**(1,133)**	(11)	(655)
	$230	**₱12,970**	$188	₱10,853

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.

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.

	Unaudited			
	For the Six Months Ended June 30			
	2025		2024	
	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	**+5**	**₱324**	+5	₱229
assets and financial liabilities	**–5**	**(324)**	–5	(229)

Foreign exchange gain or loss for the period is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances as at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Derivative Financial Instruments and Hedging Activities

MERALCO uses derivative financial instruments to manage exposure to foreign currency risk arising from forecasted investment denominated and payable in *U.S.* dollar. The objective of the hedge is to reduce volatility in cash flows associated with foreign exchange fluctuations.

To achieve this objective, *MERALCO* has designated forward foreign exchange contracts as cash flow hedges for its forecasted foreign currency denominated investments over the next 12 months. The hedging relationships are expected to be highly effective in offsetting changes in cash flows attributable to currency fluctuations.

In 2024, *MERALCO* entered into forward contracts to hedge 100% of its forecasted *U.S.* dollar investment payable upon closing of such forecasted transaction. The total notional value of these hedging instruments amounted to $1.03 billion, with maturities dated January 21 to 24, 2025.

The foreign exchange risk arising from these transactions was designated as the hedged risk.

Hedge effectiveness was assessed using the dollar-offset method. The hedge was highly effective, with no significant hedge ineffectiveness recognized.

When the forecasted transactions occured, the related hedge reserve amounts were reclassified from *OCI* to investment.

Prior to the closing of the investment transaction in *CGHI* in 2025, *MERALCO*'s outstanding hedging instruments amounted to **$**1.187 billion. In January 2025, the forecasted investment was realized and *MERALCO* infused **$**1.187 billion into *MGen* as settlement for its share in the investment in *CGHI*. The hedging reserve was reclassified from *OCI* account to investment account at ₱1,717 million.

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 captive customers. On the other hand, *RES* and power generation business segments face risk due to fuel price fluctuations.

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 grouped according to contract status (e.g. active, terminated, etc.). 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* customer segment's historical observed default rates. Each business segment of the *MERALCO Group* calibrates the matrix to adjust the historical credit loss experience with forward-looking information.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, and forecast of economic conditions to *MERALCO Group* customers and *ECL*s involved significant estimation. The amount of *ECL*s is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

GBPC and its subsidiaries applied the simplified approach under *PFRS 9*, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and its subsidiaries have identified the gross domestic product ("*GDP*") and consumer price index ("*CPI*") to be the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of *GBPC* and its subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

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 ₱1,000,000 per depositor, per bank.

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.

MERALCO, Clark Electric and *Shin Clark*, as *DU*s, requires their captive customers to pay bill deposit equivalent to their estimated monthly bill. Such deposit is updated annually based on the historical 12-month average bill. The bill deposits serve to guarantee payment of bills by a customer.

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	
	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱34,789**	₱29,838
Cash equivalents	**56,505**	54,315
Trade and other receivables:		
Electricity sold	**37,563**	37,333
Energy generated	**4,831**	5,334
Service contracts	**7,840**	9,771
Nontrade receivables	**15,066**	8,897
Other current financial assets:		
Debt securities at amortized cost	**8,118**	8,814
Short-term investments	**1,229**	12
Current portion of advance payments to a supplier	**–**	206
Other noncurrent financial assets:		
Financial assets at *FVOCI*	**4,110**	4,407
Debt securities at amortized cost	**1,092**	1,091
	₱171,143	₱160,018

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:

	June 30, 2025 (Unaudited)					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱91,294**	**₱–**	**₱–**	**₱–**	**₱–**	**₱91,294**
Trade and other receivables:						
Electricity sold	**6,965**	**3,974**	**17,276**	**9,348**	**6,491**	**44,054**
Service contracts	**4,686**	**–**	**–**	**3,154**	**760**	**8,600**
Energy generated	**4,830**	**–**	**–**	**1**	**1,286**	**6,117**
Nontrade receivables	**15,028**	**–**	**–**	**38**	**446**	**15,512**
Financial and other current assets:						
Debt securities at amortized cost	**8,118**	**–**	**–**	**–**	**–**	**8,118**
Short-term investments	**1,229**	**–**	**–**	**–**	**–**	**1,229**
Financial and other noncurrent assets:						
Debt securities at amortized cost	**1,092**	**–**	**–**	**–**	**–**	**1,092**
Financial assets at *FVOCI*	**4,110**	**–**	**–**	**–**	**–**	**4,110**
	₱137,352	**₱3,974**	**₱17,276**	**₱12,541**	**₱8,983**	**₱180,126**

	December 31, 2024 (Audited)					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱84,153	₱–	₱–	₱–	₱–	₱84,153
Trade and other receivables:						
Electricity sold	8,226	3,548	15,638	9,921	6,349	43,682
Service contracts	6,678	–	–	3,093	762	10,533
Energy generated	5,333	–	–	1	1,279	6,613
Nontrade receivables	7,833	–	–	1,064	439	9,336
Financial and other current assets:						
Debt securities at amortized cost	8,814	–	–	–	–	8,814
Current portion of advance payments to a supplier	206	–	–	–	–	206
Short-term investments	12	–	–	–	–	12
Financial and other noncurrent assets:						
Debt securities at amortized cost	1,091	–	–	–	–	1,091
Financial assets at *FVOCI*	4,407	–	–	–	–	4,407
	₱126,753	₱3,548	₱15,638	₱14,079	₱8,829	₱168,847

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:

	June 30, 2025 (Unaudited)				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
		(Amounts in millions)			
Notes payable	**₱7,294**	**₱27,373**	**₱–**	**₱–**	**₱34,667**
Trade payables and other current liabilities	**91,464**	**–**	**–**	**–**	**91,464**
Customers' refund	**2,852**	**–**	**–**	**–**	**2,852**
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	**493**	**5,338**	**13,472**	**40,288**	**59,591**
Floating rate borrowings	**513**	**2,899**	**15,567**	**37,402**	**56,381**
Redeemable preferred stock	**1,461**	**–**	**–**	**–**	**1,461**
Customers' deposits	**445**	**2,362**	**8,088**	**29,162**	**40,057**
Refundable service extension costs	**345**	**736**	**3,299**	**265**	**4,645**
Non-refundable liability related to asset funded by customers	**127**	**127**	**127**	**582**	**963**
Total undiscounted financial liabilities	**₱104,994**	**₱38,835**	**₱40,553**	**₱107,699**	**₱292,081**

	June 30, 2025 (Unaudited)				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
	(Amounts in millions)				
	December 31, 2024 (Audited)				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱7,721	₱28,111	₱–	₱–	₱35,832
Trade payables and other current liabilities	93,210	–	–	–	93,210
Customers' refund	2,853	–	–	–	2,853
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	947	10,485	15,757	18,570	45,759
Floating rate borrowings	159	1,408	7,304	15,412	24,283
Redeemable preferred stock	1,461	–	–	–	1,461
Customers' deposits	379	2,431	7,263	26,011	36,084
Refundable service extension costs	345	1,112	3,304	449	5,210
Non-refundable liability related to asset funded by customers	127	127	127	568	949
Total undiscounted financial liabilities	₱107,202	₱43,674	₱33,755	₱61,010	₱245,641

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 ₱2,490 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 June 30, 2025.

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 capital expenditure 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 equity holders of the parent company. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions, except debt to equity ratio)	
Long-term debt	**₱169,590**	₱59,028
Notes payable	**33,760**	34,287
Redeemable preferred stock	**1,461**	1,461
Debt (a)	**₱204,811**	₱94,776

Equity attributable to equity holders of the parent company (b)	**₱153,922**	₱144,599
Debt to equity ratio(a)/(b)	**1.33**	0.66

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	**June 30, 2025 (Unaudited)**	December 31, 2024 (Audited)
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*19 and 22*	**₱27,899**	₱27,078
Unfunded retirement benefits cost and unamortized past service cost	*26*	**3,121**	2,948
Allowance for expected credit losses	*13*	**1,617**	1,582
Accrued employee benefits	*26*	**1,405**	1,207
Decommissioning liability		**93**	93
Others		**1,481**	1,316
		35,616	34,224
Deferred income tax liabilities:			
Fair value of net assets from acquisitions	*3*	**6,468**	6,628
Revaluation increment in utility plant and others	*7,9 and 16*	**8,064**	8,092
Actuarial gains	*26*	**312**	193
Capitalized interest		**984**	938
Capitalized duties and taxes deducted in advance		**314**	331
Others		**518**	429
		16,660	16,611
		₱18,956	₱17,613

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Deferred income tax assets – net	**₱27,568**	₱26,382
Deferred income tax liabilities – net	**(8,612)**	(8,769)
	₱18,956	₱17,613

Provision for (benefit from) income tax consists of:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Current	**₱6,143**	₱5,419	**₱3,321**	₱3,923
Deferred	**(1,342)**	108	**(440)**	(805)
	₱4,801	₱5,527	**₱2,881**	₱3,118

Deferred income tax charged directly to *OCI* amounted to ₱13 million and ₱504 million for the six months ended June 30, 2025 and 2024, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, for the six months ended June 30, 2025 and 2024, and provision for income tax as shown in the consolidated statements of income is as follows:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Income tax computed at statutory tax rate	**₱7,316**	₱7,161	**₱4,099**	₱4,119
Income tax effects of:				
Interest income subjected to lower final tax rate	**(401)**	(462)	**(24)**	(235)
Nondeductible interest expense	**100**	116	**6**	59
Nontaxable income	**(72)**	(568)	**(52)**	(446)
Equity in net earnings of associates and joint ventures	**(2,022)**	(1,262)	**(1,193)**	(835)
Difference in calculation of tax deductible costs and expenses	**(60)**	–	**26**	–
Unrecognized deferred tax assets	**981**	574	**(185)**	700
Others	**(1,090)**	(32)	**204**	(244)
	₱4,801	₱5,527	**₱2,881**	₱3,118

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

MERALCO's net deferred tax assets which were not recognized as at June 30, 2025 and December 31, 2024 and 2023 are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	(Amounts in millions)	
Deferred tax assets:		
Allowance for impairment losses	**₱4,083**	₱4,004
Net operating loss carryover ("*NOLCO*")	**1,613**	1,913
Provisions for various claims	**289**	1,035
Unfunded retirement benefits cost and unamortized past service cost	**154**	147
Decommisioning liability	**109**	103
Others	**51**	78
	₱6,299	₱7,280

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of *NOLCO* of *MGen* amounting to ₱10,543 million and ₱7,657 million as at June 30, 2025 and December 31, 2024, respectively. These are not recognized because *MGen* does not expect to utilize such deferred tax assets against sufficient taxable profit in the future.

NOLCO totaling to ₱10,543 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2020	December 31, 2025	₱854
December 31, 2021	December 31, 2026	2,050
December 31, 2022	December 31, 2025	2,403
December 31, 2023	December 31, 2026	1,859
December 31, 2024	December 31, 2027	2,003
June 30, 2025	June 30, 2028	1,374
		₱10,543

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 may 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.

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 generation, transmission, distribution services and related *SL* 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 *LFT*, including the filing of applications for recovery.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

After several rounds of motions and appeals in the Court of Tax Appeals ("*CTA*"), the *CTA En Banc* on May 22, 2013 denied the motions of the *BIR* and *MERALCO*, and ordered the *CTA* Second Division 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.

The *BIR* appealed the *CTA* en Banc's Amended Decision on July 12, 2012 via a Petition for Review with the *SC*.

On October 2, 2024, the *SC* 2nd Division issued a Resolution granting the *BIR*'s appeal, which reversed and set aside the *CTA En Banc*'s Amended Decision and reinstated the May 8, 2012 Decision of the *CTA En Banc*. On December 20, 2024, *MERALCO* filed an Omnibus Motion with the *SC* for reconsideration of the said Resolution. As at July 28, 2025, the Omnibus Motion is pending resolution by the *SC*.

LFT Assessments of Municipalities

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

RPT Assessments

On October 22, 2015, the *SC* ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the *LGC*. Thereafter, *MERALCO* began the process of settlement with the affected *LGU*s and filed for the recovery of the resulting *RPT* payments with the *ERC*.

Acting on petitions filed by *PEPOA* and *PHILRECA*, the *ERC* issued Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes", approving the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s during the years prior to the Resolution to address tax arrearages; and (ii) *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at July 28, 2025, the Petition is pending with the *ERC*. In the meantime, *MERALCO* proposed to include the recovery of the *RPT* for the period prior to the Resolution as part of its new 5th *RP* application.

See Note 19 – Provisions.

Mediation with NPC

On November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* beginning January 1, 1995, as required by the *DOE* to address the concerns of the then creditors of *NPC*, following a crippling power supply crisis.

The *CSE*, rates and amounts charged to *MERALCO* were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* also required *MERALCO* to provide market for half of the output of the Camago-Malampaya gas field to allow the Government to generate revenues and foreign exchange savings to the extent of the fuel imports which shall be displaced.

In the first seven (7) years, *MERALCO*'s total purchases from NPC exceeded the contract level. After which, in 1997, the Asian crisis resulted in the curtailment of energy demand.

A dispute ensued with a Settlement Agreement signed between *NPC* and *MERALCO* on July 15, 2003. A series of oppositions, motions for reconsideration, *TRO* and petitions followed with the Office of the Solicitor General acting for and on behalf of *NPC*.

Finally, the *CA* rendered a decision on April 15, 2014 denying the appeal of the *OSG* and affirmed the decision of *RTC* – Pasig declaring the Settlement Agreement valid and binding. The *NPC* filed a Petition for Review with the *SC*. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the *SA*. The *OSG* filed a Motion for Reconsideration. The *SC*, through a resolution dated April 3, 2024 denied the *OSG*'s motion. With this, the Resolution has attained finality and entry of judgment had been issued.

As at July 28, 2025, *MERALCO* is preparing to file the appropriate motion for the revival of the proceedings before the *ERC* for the pass-through of such generation charge.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line, a two (2)-part 230 kV line in Metro Manila, includes the Araneta to Balintawak and the Sucat to Araneta legs, passing through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, filed a case against *NPC* with the *RTC-Makati* to stop the installation and energization of high voltage cables near their homes due to alleged health risks from the electromagnetic field emitted by said lines. The *RTC-Makati* granted a preliminary injunction on April 3, 2000, which was affirmed by the *SC* on March 23, 2006. *MERALCO* intervened, citing the significant impact of 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* allowed *MERALCO* and *NGCP* to intervene and dissolved the injunction, and required the posting of bonds to cover potential damages.

The case remains pending, and is still at the pre-trial stage, with disputes over expert depositions. As at July 28, 2025, *MERALCO* is awaiting further action from the *SC* on the matter.

Petition for Dispute Resolution against Philippine Electricity Market Corporation ("*PEMC*"), *TransCo*, *NPC* and *PSALM*

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

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

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

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

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGC*s") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SPI* 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*, *SPI*, *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 July 28, 2025, *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 July 28, 2025, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SPI and Sem-Calaca

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SPI* 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 July 28, 2025, the Joint Motion to Dismiss is pending resolution by the *ERC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at July 28, 2025, 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 Electricity Power Industry Reform Act ("*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 also challenging 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*, *SPI*, *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 *SPI*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2022, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022.

In a letter dated September 25, 2023, *MERALCO* filed a letter with the *ERC* on its proposed implementation of the recovery of the generation charges pertaining to the December 2013 supply month. On January 4, 2024, *MERALCO*, *IEMOP* and the *ERC* met to discuss *MERALCO*'s proposed implementation of the Decision. As directed by the *ERC*, *MERALCO* and *IEMOP* have completed the reconciliation of the final amount to be recovered, and have sent a joint letter dated March 12, 2024 to the *ERC*. As at July 28, 2025, the same is pending with the *ERC*.

ERC IU Complaint

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

An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and Therma Mobile, Inc. ("*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-competiion 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 *PCC* which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

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

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

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* initially resumed the hearings in this case by calling a conference on March 26, 2021 in order to discuss updates and developments regarding the case. While the pre-trial conference also proceeded on August 27, 2021, the *ERC* suspended proceedings in order to resolve pending motions. As at July 28, 2025, *MERALCO* is awaiting further action by the *ERC* on the matter.

SC Petition on WESM Sales

On May 20, 2024, *MERALCO* received a copy of the Resolution dated April 3, 2024, issued by the *SC* requiring respondents *ERC*, *MERALCO* and *IEMOP* to file a comment on the Petition for Mandamus and Injunction against *ERC*, *MERALCO* and *IEMOP*. The Petition seeks to, among other things, compel the *ERC* to ban the purchase of electricity by *DU*s, like *MERALCO*, at the *WESM*. On June 10, 2024, *MERALCO* filed its Comment on the Petition. As at July 28, 2025, *MERALCO* awaits further action of the *SC* on the case.

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. The consumer group 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. As at July 28, 2025, the Ombudsman has not acted on this matter.

On January 5, 2024, *MERALCO* received an Order dated January 2, 2024 from the Office of the Ombudsman directing *MERALCO*'s Chairman and *CEO* to file a counter-affidavit, together with the affidavit/s of supporting witnesses and other supporting documents, on the case filed by a certain consumer group against *ERC* and *MERALCO* seeking (a) indictment of *MERALCO*'s Chairman and *CEO* which alleged that there is a violation of certain provisions of *R.A. 3019* and Presidential Decree ("*PD*") *269*, and (b) a finding that the *ERC* Chairperson is guilty of, among other things, gross misconduct and grave abuse of authority. In said case, the consumer group alleged that there is no basis for *MERALCO* to participate in, and purchase energy at, the *WESM*, given that, among other things, the *WESM* was created to cater to the contestable market. On February 6, 2024, *MERALCO* has filed the relevant counter-affidavit and supporting affidavit to the Office of the Ombudsman. On March 18, 2024, *MERALCO* received the reply-affidavit filed by the consumer group. On July 15, 2024, *MERALCO* filed its Rejoinder-Affidavit. In a Joint Resolution dated April 7, 2025, the Ombusdman dismssed the criminal and administrative complaints.

Others

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO'*s financial position and results of operations.

30. Significant Contracts and Commitments

MERALCO

Independent Power Producers ("IPPs")

FGPC and *FGP*

MERALCO entered into separate 25-year *PPA*s with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum 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 amended terms under the respective *PPA*s of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Following information from *FGPC* and *FGP* on use of *LNG* as an alternative reliable fuel upon expiration of the Gas Sale and Purchase Agreements ("*GSPA*s") and to ensure safe, adequate, and reliable supply of fuel throughout the terms of the *PPA*s, *MERALCO* sought confirmation from the *ERC* that the use and recovery from customers of attendant costs of *LNG* are allowed. On

March 26, 2024, *MERALCO* received an order from the *ERC* (a) allowing use of *LNG* only in case of fuel supply event of force majeure, subject to payment of and recovery from customers, based only landed fuel cost, and (b) directing filing of separate application for approval (i) of costs other than the landed fuel cost, and (ii) if *LNG* will be used as primary fuel. The *ERC* likewise stated in its Order that pending the filing and the necessary approval by the *ERC*, the charges provided in the new *GSPA*, cannot be charged to the customers and, as such, the rates under the Old *GSPA* shall be applied. In response, *FGPC* and *FGP* filed a Motion for Clarification.

Following several pleadings and clarificatory hearings by parties with *ERC*, on December 26, 2024, *MERALCO* received the Order dated August 13, 2024 of the *ERC* authorizing *MERALCO* to (a) reflect in the billing to its customers the adjusted rates in the new *GSPA* from the October customer billing period, and (b) collect from its customers, the difference between the previously approved pass-through costs, as contained in the *ERC*'s Order dated March 14, 2024, and the costs resulting from its Order dated August 13, 2024 over a period of twelve (12) months commencing from the October 2024 customer billing period of *MERALCO*.

QPPL

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

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement ("*TLA*") and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. In January 2018, *QPPL* began repayment of the amount advanced by *MERALCO*. As at June 30, 2025, the amount was fully collected. This arrangement did not have any impact on the rates 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* and *FGP* 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)*
2026	4,027	₱6,691
2027	3,354	5,462

PSAs with Privatized Plants and *IPPAs*

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 said *PSA* with *TLI*. As at July 28, 2025, the contract term has expired but the application for its approval is still pending with the *ERC*. *MERALCO* had a *PSA* with *MPPCL* which was approved by the *ERC* on December 17, 2012, for a period from December 26, 2012 to December 25, 2019. On December 19, 2019, *MERALCO* and *MPPCL* entered into an agreement to extend the *PSA* for an additional period of one (1) year reckoned from the date of *ERC* approval thereof. 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 amend the December 19, 2019, agreement, 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 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 July 28, 2025, the *ERC* has yet to act on the parties' motion.

SBPL

MERALCO and *SBPL* have an *ERC*-approved *PSA* for a period of 20 years from the start of commercial operations up to September 25, 2039.

PEDC

To address the *SC* Decision that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the 2016 20-year *PSA* between *MERALCO* and *PEDC*, a *CSP* was conducted in 2021 to cover the 70 *MW* required contract capacity of *MERALCO* for contract period ending January 25, 2037. The same capacity was won by *PEDC* under the new 15-year *PSA* with *MERALCO* ("*2021 PEDC PSA*"). Through a "Notice of Resolution" dated February 23, 2022, the *ERC* granted provisional authority to implement the *2021 PEDC PSA*, and on April 1, 2022, the *2021 PEDC PSA* was implemented by *MERALCO* and *PEDC*.

On March 18, 2022, *PEDC* issued to *MERALCO* a Notice of *CIC* pursuant to the *2021 PEDC PSA*. Consequently, on April 13, 2022, *PEDC* (joined by *MERALCO*) filed an *Urgent Motion for Contract Price Adjustment* with the *ERC*. On December 4, 2022, *PEDC* sent *MERALCO* a Notice of End of Supply, which formally informed *MERALCO* of *PEDC*'s decision to cease supply of energy beginning midnight of December 5, 2022, because without the *ERC*'s action on the Urgent Motion for Contract Price Adjustment, *PEDC* was already in severe financial stress and in danger of breaching its financial covenants. On August 29, 2023, *MERALCO* received the *ERC*'s Decision dated March 8, 2023 granting the Urgent Motion for Contract Price Adjustment.

Relative to the foregoing, on October 3, 2023, *MERALCO* filed a Motion for Leave to Admit Attached Supplemental Application with the *ERC* in its application for confirmation of over/under of pass-through charges. The Supplemental Application prayed that *MERALCO* be allowed to recover the additional amount of ₱884 million pertaining to the recovery of the *CIC* claims of *PEDC*.

On January 16, 2024, *PEDC* filed a Motion for Clarification asking the *ERC* to issue an order declaring that the dispositive portion of the Decision dated March 8, 2023 includes a reference to

losses from April 2, 2022 to December 4, 2022 in the amount of ₱1.2 billion. On June 19, 2024, *PEDC* filed a Supplemental Motion for the Recovery of Additional Fuel Losses due to *CIC* (covering the period 26 September 2022 to 04 December 2022, as Acknowledged by the [*ERC*] in its Decision dated March 8, 2023). The Supplemental Motion asks the *ERC* to issue an Order allowing *PEDC* to recover actual fuel costs in the amount of ₱380 million, representing the unrecovered losses from September 26, 2022 to December 4, 2022.

As at July 28, 2025, the *ERC* has yet to act on *MERALCO's* Supplemental Application and *PEDC*'s separate motions.

First Bulacan

MERALCO and *First Bulacan* have an *ERC*-approved *PSA* for a period of 20 years from the start of commercial operations until 2031.

Solar Tanauan

MERALCO has an *ERC*-approved 20-year *PSA* with *Solar Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas.

Solar Philippines Tarlac Phase 1

MERALCO has 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 until July 2038. 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. 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*. As at July 28, 2025, the parties are awaiting *ERC's* final decision on the Joint Application.

Solar Philippines Tarlac Phase 2

MERALCO has 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 and the hearings were concluded on September 2019. Unfortunately, after five (5) years lapsed without the *ERC* resolving the application for approval of the said *PSA*, *Solar Philippines Tarlac* cited the expiration of the *PSA*'s Longstop Date provision as basis for its Notice of Termination (dated October 16, 2024) of the *PSA* effective upon receipt (or on November 15, 2024). On November 21, 2024, *MERALCO* filed an Urgent Manifestation with the *ERC* to inform it of the power supplier's decision to exercise its right under the *PSA* to terminate the *PSA*. On December 3, 2024, *Solar Philippines Tarlac* filed a Motion to Withdraw Application praying that the *ERC* immediately grant the withdrawal of the application for approval of the *PSA*. On March 19, 2025, *MERALCO* filed its Comment with the *ERC* and explained the basis of the *PSA*'s Longstop Date provision and recognizes that five (5) years had already lapsed since the parties filed their Formal Offer of Evidence and the application has yet to be resolved. On March 26, 2025, *Solar Philippines Tarlac* filed an Urgent Motion for Resolution (in relation to [its] Motion to Withdraw Application). As at July 28, 2025, the Motion to Withdraw Application is pending decision by the *ERC*.

SPI, AC Energy and SPPC – Baseload PSAs

MERALCO signed three (3) *PSA*s for baseload capacity with *AC Energy* for 200 *MW*, *SPI* for 330 *MW*, and *SPPC* for 670 *MW*. In its letters to *MERALCO*, all dated December 23, 2019, the *ERC* granted provisional authority to implement these three (3) *PSA*s for baseload capacity. 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*.

On April 18, 2022, *SPI* and *SPPC* issued to *MERALCO* Notices of *CIC*. Following filing of Joint Motions for Price Adjustment with the *ERC* and public hearings, on September 29, 2022, the *ERC* issued its Orders denying the Joint Motions for Price Adjustment. On November 4, 2022, *SPI* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction ("*WPI*") with the *CA*, assailing the said *ERC* Orders. The *CA* issued a *TRO*, then subsequently a *WPI*, for the *SPPC* case. On June 22, 2023, the *ERC* filed with the *SC* a Petition for Certiorari with prayer for *TRO*/*WPI*, assailing the *CA*'s issuance of *WPI* for the *SPPC* case.

On June 27, 2023, the *CA* issued a Joint Decision which, among other things, (a) annulled/set aside the *ERC* Orders that denied the Joint Motions for Price Adjustment and instead granted such motions (for the period of January 2022 to May 2022), without prejudice to any further requests for price adjustments for June 2022 onwards; and (b) made permanent the Preliminary Injunction issued in favor of *SPPC*. On the basis of the *CA* orders and decision, starting on December 7, 2022 and July 24, 2023, respectively, *SPPC* and *SPI* ceased supplying energy under their baseload *PSA*s with *MERALCO*. On February 28, 2024, the *ERC* elevated the matter to the *SC* by filing a Petition for Review on Certiorari. On April 3, 2024, the *SC* issued a Resolution denying the *ERC's* Petition for Certiorari for failure to show that the *CA* committed any reversible error. On July 10, 2024, the *SC* issued a Resolution for both matters (*CA*'s *WPI* issuance and the *CA*'s Joint Decision), denying the *ERC's* Motions for Reconsideration considering there was no substantial argument to warrant any modification. Hence, the *SC* Resolutions have attained finality.

On October 10, 2024, *SPI* and *SPPC* filed Motions for Issuance of Writ of Execution with the *ERC* ("*ERC Writ of Execution*") praying that the *ERC* issue a writ of execution enforcing the *CA*'s Joint Decision by directing *MERALCO* to implement the adjustments in the Contract Price and pay to *SPI / SPPC* the aggregate amounts indicated in the Joint Motions for Price Adjustment, including allowing/ authorizing *MERALCO* to charge and collect the said amounts from its customers. On February 6, 2025, *SPI* and *SPPC* filed Motions to Resolve (the Motions for Issuance of Writ of Execution) with the *ERC*. As at July 28, 2025, the *ERC* has yet to act on the *ERC Writ of Execution* motions.

On March 11, 2025, *SPI* and *SPPC* filed Motions to Direct the Court of Origin to Issue a Writ of Execution with the CA ("*CA Writ of Execution*") praying that, due to the delay by the *ERC* in issuing a Writ of Execution as the court of origin, it is seeking redress with the *CA* under Section 1, Rule 39 of the Rules of Court in order for the appellate court to issue the writ of execution. On May 2, 2025, *MERALCO* filed its Comment with the *CA* to inform it that the *ERC* Writ of Execution motions are in pending and have yet to be resolved by the *ERC* and emphasized that *MERALCO* merely functions as a pass-through entity, which will only be able to remit payments to the *SPI* / *SPPC* if it is allowed by the regulatory body (i.e., the *ERC*) to collect the corresponding adjusted rates from its consumers. Being pass-through in nature, *MERALCO* should not be ade to advance any amount to be recovered by *SPI / SPPC* without prior approval or directive from its regulator. In Resolution of the *CA* dated June 27, 2025, the *CA* partially granted *SPPC*'s and *SPI*'s respective Motions to Direct the Court of Origin to Issue a Writ of Execution, and required the *ERC* to carry out its duty to implement the Court's final judgment by resolving *SPPC*'s and *SPI*'s Motions for Execution and computing the

amount to be paid in accordance with the *CA*'s Joint Decision dated June 27, 2023 and the respective Joint Motions for Price Adjustment filed by *MERALCO* and *SPPC* and *MERALCO* and *SPI*. The *ERC* was further directed to submit proof of its compliance with the *CA*'s Resolution within 30 days from notice. As at July 28, 2025, the *ERC* has yet to act on the *CA*'s directive.

Meanwhile, *SPI* and *SPPC* issued to *MERALCO* Notices of *CIC* dated August 23, 2023, claiming additional CIC claim ("*CIC 2*") covering the periods of January 2022 up to July 2023 in the amount of ₱14.6 billion (for *SPI*) and January to December 2022 in the amount of ₱15.9 billion (for *SPPC*). In *MERALCO*'s letters to *SPI* and *SPPC*, both dated January 30, 2024, *MERALCO* advised *SPI* and *SPPC* to avail itself of legal remedies available to it under the law as it found no basis to join *SPI* and *SPPC* in an *ERC* filing since the *PSA*s had already been terminated. After an exchange of *SPPC*'s and *SPI*'s request for validation of the *CIC 2* amounts. On August 30, 2024, *MERALCO* wrote to *SPPC* and *SPI* that it has validated *SPPC* and *SPI*'s computation of *CIC* claim but resulting in a lower amount of ₱13.3 billion (for *SPI*) and ₱15.8 billion (for *SPPC*). On November 20, 2024, *SPI* and *SPPC* filed Motions for Price Adjustment with the *ERC* covering the periods of June 2022 up to July 2023 in the amount of ₱13.3 billion (for *SPI*) and June to December 2022 in the amount of ₱15.8 billion (for *SPPC*). On March 14, 2025, and *SPPC* filed Motions to Resolve the (*CIC2* motions) with the *ERC*. As at July 28, 2025, the *ERC* has yet to act on the *CIC 2* motions.

On October 11, 2023 and (revised on) February 1, 2024, *AC Energy* issued to *MERALCO* a Notice of *CIC* for the year 2022. Consequently, on February 29, 2024, *AC Energy* (joined by *MERALCO*) filed a Joint Motion for Price Adjustment with the *ERC* for its 2019 baseload *PSA* with *MERALCO*, involving ₱618 million. On May 24, 2024, *AC Energy* issued to *MERALCO* a Supplemental Notice of *CIC* for the year 2023. Thus, on June 21, 2024, *AC Energy* (joined by *MERALCO*) filed an Updated and Supplemental Joint Motion for Price Adjustment with the *ERC* for its 2019 baseload *PSA* with *MERALCO*, involving an additional ₱910 million. On September 2, 2024, *MERALCO* received a Notice of Termination from *AC Energy*. To inform the *ERC* of this Notice of Termination, *MERALCO* filed Manifestations and Urgent Motions to Resolve to the *ERC* on September 4, 2024.

On October 28, 2024, *MERALCO* received *AC Energy*'s second notice of termination, reiterating its earlier intention to terminate the subject *PSA*, specifically informing *MERALCO* that *AC Energy* would cease declaring its bilateral contract quantities ("*BCQ*") under the *PSA* effective November 2, 2024. In response, *MERALCO* urged *AC Energy* through a letter dated October 29, 2024 not to proceed with the termination of the subject *PSA* and to instead await the resolution of the motion for price adjustment pending before the *ERC* for the benefit of the consuming public. Apart from the letter to *AC Energy*, *MERALCO* also filed with the *ERC* Urgent 3rd Motion to Resolve dated October 29, 2024. However, without receiving any action from the *ERC*, on November 2, 2024, despite *MERALCO*'s nominations to *AC Energy*, the latter ceased declaring *BCQ*s to *MERALCO* under the subject *PSA*s. As at July 28, 2025, the *ERC* has yet to act on the motions filed.

First Gen Hydro Power Corporation ("FGHPC"), AC Energy and SPPC – Mid-merit PSAs

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 January 30, 2020 and March 16, 2020, *MERALCO* received *ERC* orders granting provisional authority to implement *MERALCO*'s *PSA*s for mid-merit capacity with *AC Energy*, and *FGHPC* and *SPPC*, respectively. 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 July 28, 2025, the three (3) *PSA* applications are pending final decision by the *ERC*.

On October 11, 2023 and (revised on) February 1, 2024, *AC Energy* issued to *MERALCO* a Notice of *CIC* for the year 2022. Consequently, on February 29, 2024, *AC Energy* (joined by *MERALCO*) filed

a Joint Motion for Price Adjustment amounting to ₱87 million with the *ERC* for its 2019 mid-merit *PSA* with *MERALCO*. On May 24, 2024, *AC Energy* issued to *MERALCO* a Supplemental Notice of *CIC* for the year 2023. Thus, on June 21, 2024, *AC Energy* (joined by *MERALCO*) filed an Updated and Supplemental Joint Motion for Price Adjustment for an additional ₱132 million with the *ERC* for its 2019 mid-merit *PSA* with *MERALCO*. On September 2, 2024, *MERALCO* received a Notice of Termination from *AC Energy*. To inform the *ERC* of this Notice of Termination, *MERALCO* filed Manifestations and Urgent Motions to Resolve to the *ERC* on September 4, 2024. On October 28, 2024, *MERALCO* received *AC Energy*'s second notice of termination, reiterating its earlier intention to terminate the subject *PSA*, specifically informing *MERALCO* that *AC Energy* would cease declaring its *BCQ* under the *PSA* effective November 2, 2024. In response, *MERALCO* urged *AC Energy* through a letter dated October 29, 2024 not to proceed with the termination of the subject *PSA* and to instead await the resolution of the motion for price adjustment pending before the *ERC* for the benefit of the consuming public. Apart from the letter to *AC Energy*, *MERALCO* also filed with the *ERC* Urgent 3rd Motion to Resolve dated October 29, 2024. However, without receiving any action from the *ERC*, on November 2, 2024, despite *MERALCO*'s nominations to *AC Energy*, the latter ceased declaring *BCQ*s to *MERALCO* under the subject *PSA*s. Had the said *PSA* continued, the contract term's expiration is about a month later, on December 25, 2024. As at July 28, 2025, the *ERC* has yet to act on the motions.

MTerra Solar

MERALCO has a *PSA* with *MTerra Solar* for 850 *MW* renewable energy mid-merit capacity with commercial operations dates in February 2026 for 600 *MW* and February 2027 for an additional 250 *MW*. On December 12, 2023, *MERALCO* received a copy of *ERC*'s formal Decision dated August 8, 2023. In its letter dated December 22, 2023, *MTerra Solar* notified *MERALCO* of its acceptance of the formal Decision.

EERI, GNPD and Mariveles Power Generation Corporation ("MPGC") – 2024 Baseload PSAs

MERALCO has three (3) *PSA*s with a) *EERI* with commercial operations date in December 2024 for 1,200 *MW*, b) *GNPD* with commercial operations date in May 2025 for 300 *MW*, and c) *MPGC* with commercial operations date in May 2025 for 300 *MW*. The joint applications for approval of *MERALCO*'s *PSA*s with *EERI*, *GNPD* and *MPGC* were filed with the *ERC* on March 1, 2024, February 22, 2024, and February 29, 2024, respectively. On July 26, 2024, *MERALCO* and the power suppliers filed with the *ERC* a Joint Motion to Resolve the applications for approval of the *PSA*s. The *ERC*, in a Notice of Resolution dated November 26, 2024 (for the *PSA* with *GNPD*); Notice of Resolution dated December 10, 2024 (for the *PSA* with *EERI*) and final Decision dated November 26, 2024 (but received by *MERALCO* on May 30, 2025) (for the *PSA* with *MPGC*) has approved the *PSA*s with *EERI*, *GNPD* and *MPGC*. On December 26, 2024 and April 26, 2025, *EERI* and *GNPD*, respectively, commenced supply to *MERALCO*. On June 2, 2025, *MPGC* commenced supply to *MERALCO*. As at July 28, 2025, the formal/complete final decisions approving the said *PSA*s have already been issued by the *ERC*.

SPPC – 2024 Baseload PSA

On February 5, 2022, *MERALCO* signed a *PSA* for baseload capacity with *SPPC* for 1,200 *MW*. On June 11, 2024, the *ERC* released an Order (dated May 9, 2024) granting provisional authority to implement the *PSA* under several conditions, which includes implementation covering only 910 *MW* capacity, pending *ERC* resolution of the Joint Manifestation dated February 23, 2024 in *ERC* Case No. 2019-080RC on assignment of the 290 *MW* capacity thereat from *SPPC* to *SPI*. *MERALCO* and *SPPC* proceeded to implement the 2024 1,200 *MW PSA* following the *ERC*'s provisional authority Order. On June 26, 2024, *MERALCO* and *SPPC* filed a Joint Motion for Partial Reconsideration

which questioned the *ERC*'s provisional authority Order. In a Notice of Resolution dated March 19, 2025, the *ERC* granted the Joint Motion for Partial Reconsideration and the *ERC*'s provisional authority Order dated May 9, 2024 was amended to cover the entire contract capacity of 1,200 *MW*. As at July 28, 2025, the formal/complete order of the said Notice of Resolution dated March 19, 2025 is pending release by the *ERC*.

San Roque Hydropower Inc. ("SRHI"), Gigasol3, Inc. ("Gigasol3") and Santa Cruz Solar Energy Inc. ("SCSEI") – Renewable Energy (RE) Mid-merit PSAs

Following conduct of *CSP*, *MERALCO* has three (3) renewable energy mid-merit supply *PSA*s with a) *SRHI* with operations effective date in March 2025 for 340 *MW*, b) *Gigasol3* with operations effective date in March 2025 for 139 *MW*, and c) *SCSEI* with commercial operations date in March 2026 for 21 *MW*. The joint applications for approval of *MERALCO*'s *PSA*s with *SRHI*, *Gigasol3* and *SCSEI* were filed with the *ERC* on September 23, 2024, September 23, 2024, and September 27, 2024, respectively. The *ERC*, in a Notice of Commission Action dated December 3, 2024 (for *PSA*s with *SRHI* and *Gigasol3*) has approved the *PSA*s but the applicable rate was fixed at a lower rate than what was offered by the power suppliers during the *CSP*. On December 13, 2024 and January 30, 2025, *SRHI* and *Gigasol3*, respectively, filed a Ex-Parte Manifestation and Motion (for *SRHI*) and Motion for Urgent Re-Evaluation of the Provisionally Approved Rate (for *Gigasol3*) praying that the *ERC* immediately released the formal order granting provisional authority to implement that *PSAs* so that the parties can study the reasons given by the *ERC* in reducing the rate of the *PSA*. On April 25, 2025 and May 2, 2025, the *ERC* released the formal order for *Gigasol3* and *SRHI*, respectively. On May 13, 2025 and May 16, 2025, *Gigasol3* and *SRHI* filed their respective Motions for Reconsideration assailing the *ERC*'s resolution to reduce the rate of the *PSA* and to limit the source of the contract capacity to Eligible Renewable Energy ("*RE*") Facilities only despite them guaranteeing the surrender of Renewable Energy Certificates ("*RECs*") to *MERALCO* under the *PSA*s. As at July 28, 2025, the motions are pending action by the *ERC*.

GNPD and Masinloc Power Co. Ltd. ("MPCL") – Baseload PSAs

Following conduct of *CSP*, *MERALCO* has two (2) baseload supply *PSA*s with *MPCL* for 500 *MW* and with *GNPD* for 100 *MW*, both with operations effective date in September 2025. The joint applications for approval of *MERALCO*'s *PSA*s with *GNPD and MPCL* were filed with the *ERC* on October 2, 2024. The *ERC*, in a Notice of Commission Action dated December 12, 2024 (for *PSA* with *MPCL* only) has denied the parties' prayer for issuance of provisional authority or interim relief considering the *PSA*'s operations effective date is still on August 26, 2026. On March 25, 2025, *MPCL* filed a Motion for Reconsideration with the *ERC*. On March 31, 2025, *GNPD* filed an Urgent Motion to Resolve with the *ERC*. On June 5, 2025 and June 23, 2025, *MERALCO* filed a First and Second Urgent Motions to Resolve, respectively. As at July 28, 2025, the motions are pending action by the *ERC* and the parties are awaiting *ERC's* final decision on the applications.

GNPD – Mid-merit PSA

Following conduct of *CSP*, *MERALCO* has executed a mid-merit supply *PSA* with *GNPD* for 400 *MW* with operations effective date in September 2025. The joint application for approval of *MERALCO*'s *PSA* with *GNPD* was filed with the *ERC* on December 6, 2024. On June 5, 2025 and June 23, 2025, *MERALCO* filed a First and Second Urgent Motions to Resolve. As at July 28, 2025, the parties are awaiting *ERC*'s final decision on the applications.

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. 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* for the extended term and praying that the same be duly considered and approved accordingly. As at July 28, 2025, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On April 15, 2019, in consideration of the *NGCP* forecast of voltage situations and Luzon peak demand, *MERALCO* signed two (2) separate *IPSA*s with: (i) Millenium Energy Inc. ("*MEI*") for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI's* Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*'s 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSA*s, *MERALCO* also received the *DOE'*s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSA*s were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSA*s, with the filing of the joint applications and *DOE'*s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with *FOE* on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the *Luzon* Grid by *NGCP*, *MERALCO* and *MEI* agreed to extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP*. The *PSA*s with *MEI* and *TMO* expired on April 25, 2020. As at July 28, 2025, 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 July 28, 2025, the contract term has expired and the case is pending decision by the *ERC*.

On February 4, 2022, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. The *PSA* was not implemented pending *ERC* approval and the contract term expired on July 25, 2022. As at July 28, 2025, the *ERC* has not issued its final decision on this *PSA*.

On December 14, 2022, in connection with the sudden and unforeseen suspension of *MERALCO*'s baseload *PSA* with *SPPC* for 670 *MW* and after receiving from the *DOE* a Certificate of Exemption from the conduct of a competitive selection process ("*COE-CSP*") pursuant to the *DOE* Circular No. DC2021-09-0030 ("*2021 Revised CSP Circular*"), *MERALCO* signed a one (1)-month *PSA* with *GNPD*. The *GNPD* emergency power supply agreement ("*EPSA*") ("*1st GNPD EPSA*") was implemented on December 15, 2022 and filed with the *ERC* on April 5, 2023. Following

MERALCO's request for extension of the *1st GNPD EPSA*, given continued unavailability of contract capacity and non-delivery of associated energy under the *SPPC PSA* (since the *CA* granted a writ of preliminary injunction to replace the *TRO*), the parties executed another *EPSA* with *GNPD* dated February 3, 2023 ("*2nd GNPD EPSA*"), with term until February 25, 2023. The *2nd GNPD EPSA* was implemented on February 3, 2023 and filed with the *ERC* on April 13, 2023. As at July 28, 2025, the contract terms of the *1st and 2nd GNPD EPSA*s have expired and the cases remain pending with the *ERC*.

On April 29, 2023, *MERALCO* received via electronic mail, a copy of the *ERC* Order dated April 11, 2023 (the "*Show Cause Order*") alleging *MERALCO*'s purported violation of Sec. 2.2.1.2 of the *2021 Revised CSP Circular*. The purported violation is predicated on *ERC*'s unilateral finding that the generation rate under the *1st GNPD EPSA* and *2nd GNPD EPSA* is not equivalent to or lower than the latest *ERC*-approved generation tariff for the same or similar technology in comparable areas considering that *GNPD*'s *EPSA* rate is higher than the latest *ERC*-approved generation tariff for similar technology (coal) in *MERALCO*'s area. The *ERC* compared the said rate with the provisionally approved rate of the *2021 PEDC PSA* with *MERALCO* in *ERC* Case No. 2022-001RC. On May 15, 2023, *MERALCO* filed its Verified Explanation ("*Verified Explanation*") in compliance with the *ERC*'s Show Cause Order. *MERALCO* explained that: (i) The *COE-CSP* issued by the *DOE* not only exempted *MERALCO* from conducting a *CSP* for the *EPSA*s, but essentially certifies that the *DU* was able to meet the requisites for its issuance, thus, authorizing the *EPSA*s' immediate implementation; (ii) the immediate implementation of the *1st GNPD EPSA* and *2nd GNPD EPSA* is consistent with Section 2.2.1.2 of the *2021 Revised CSP Rules* considering that: (a) both the *EPSA*s' cooperation periods are within the one (1) year period limitation; (b) the *EPSA*s were contracted to address an emergency situation; and (c) the *EPSA*s are equivalent to or lower than the latest *ERC*-approved generation tariff for same plant offered for the *EPSA*, which is actually the practice being observed by the *ERC* in approving *PSA*s as shown in previous Orders issued for other *PSA*s; (iii) the *ERC*'s use of the *2021 PEDC PSA* rate, which was released on the *ERC*'s online Database of Generation Rates after the Show Cause Order was issued and after the expiration of the terms of the *EPSA*s, is not comparable to the *EPSA* rates given the stark differences in circumstances.

On March 24, 2023 and April 11, 2023, in light of the injunction issued by the *CA* which suspended implementation of *MERALCO*'s *PSA* with *SPPC* for 670 *MW* contract capacity, and after receiving from the *DOE* a *COE-CSP* pursuant to the *2021 Revised CSP Circular*, *MERALCO* signed an *EPSA* with *SPPC* for 480 *MW* capacity and *TLI* for 370 *MW* capacity, respectively. The applications for approval of the *EPSA*s with *SPPC* and *TLI* were both filed on July 27, 2023. As at July 28, 2025, the hearings have been concluded and the case is pending decision by the *ERC*.

In light of the *CA*'s Joint Decision, and the cessation of the *SPI PSA* on July 24, 2023, *MERALCO*'s bilateral power supply contracts portfolio was reduced by 330 *MW* starting July 24, 2023. Prior to this, starting on July 17, 2023, *MERALCO* sent out requests for proposals to various power suppliers in order to address the 330 *MW* bilateral contract capacity deficit. On July 20, 2023, the only offer received was from *SPPC*. On August 7, 2023, *MERALCO* and *SPPC* executed an *EPSA*. The application for approval of the *EPSA* with *SPPC* was filed on September 25, 2023. As at July 28, 2025, hearings have been concluded and the case is pending decision by the *ERC*.

On March 20, 2024, *MERALCO* signed an interim one (1)-year *PSA* with *LPI* for 400 *MW* contract capacity and up to February 25, 2025. As at July 28, 2025, the hearings have been concluded and the case is pending decision by the *ERC*. On February 26, 2025, this interim *PSA* with *LPI* expired.

On May 24, 2024, pursuant to *MERALCO*'s Distribution Development Plan ("*DDP*") and Power Supply Procurement Plan ("*PSPP*"), *MERALCO* signed a Contract for Supply of Electric Energy

("*CSEE*") with *PSALM* for the supply of 90 *MW* for the period of six (6) months from May 26, 2024 to November 25, 2024. Pursuant to the *DOE*'s *2023 CSP Circular*'s and the *ERC*'s *CSP Guidelines'* exemption from the requirement for *CSP* for supply of electricity from *PSALM*, the parties began implementation of the *CSEE* on May 27, 2024. The application for approval of the *CSEE* with *PSALM* was filed on July 16, 2024. As at July 28, 2025, the hearings have been concluded and the case is pending decision by the *ERC*.

In light of the *ERC*'s non-issuance of a provisional authority or interim relief to implement *SPPC*'s 2024 baseload *PSA* with *MERALCO* before March 25, 2024 - which is the expiration date of *MERALCO*'s *EPSA*s with *SPPC* for 480 *MW* capacity, *TLI* for 370 *MW* and *SPPC* for *330 MW*, on March 25, 2024, *MERALCO* was constrained to procure supply through a negotiated *EPSA* with *SPPC* for 1,200 *MW*. The *EPSA* includes a pre-termination clause, such that its term is for one (1) year, from March 26, 2024 until March 25, 2025, and shall be subject to pre-termination upon implementation of *SPPC*'s 2024 baseload *PSA* with *MERALCO*. On April 25, 2024, the joint application for approval of the *EPSA* was filed before the *ERC*. On June 11, 2024, the *ERC* released an Order (dated May 9, 2024) granting provisional authority to implement *SPPC*'s 2024 baseload *PSA* with *MERALCO* (albeit only for a partial contract capacity if 910 *MW*), thus, on June 19, 2024, the *EPSA* was deemed terminated by the parties following its pre-termination clause. As at July 28, 2025, the hearings have been concluded and the case is pending decision by the *ERC*.

On January 27, 2025, in connection with the sudden and unforeseen cessation by *AC Energy* of declaring *BQC* for its baseload *PSA* with *MERALCO* for 200 *MW*, pursuant to prevailing *DOE CSP* Policy and *ERC CSP* Guidelines, *MERALCO*, following proposals from various power suppliers for an *EPSA* and finding offer from *SPI* to be the most reasonable and lowest among offers received, signed a one (1)-year *EPSA* with *SPI*. The *SPI EPSA* was implemented on January 28, 2025 and filed with the *ERC* on February 25, 2025. As at July 28, 2025, the hearings with the *ERC* have been concluded and the case is pending decision by the *ERC*.

MERALCO has the following *PSA*s with expired contract terms, and has applications for approval or modifications of these terms pending with the *ERC*:

Power Supplier	**Contract expiry date**
Philippine Power and Development Company	May 15, 2020
Bacavalley Energy Inc.	March 16, 2015
Pangea Green Energy Philippines Inc.	October 10, 2015
TMO	June 26, 2018
FNPC	February 23, 2024

Clark Electric

Sem-Calaca

Clark Electric has a *PSA* with *Sem-Calaca*, the power generation company which owns, operates and maintains the 600 *MW* Batangas Coal-Fired Thermal Power Plant located in Calaca, Batangas for the supply of 20 *MW* of baseload power supply for a contract term of ten (10) years commencing on December 26, 2020.

On March 1, 2021, the *ERC* granted the provisional authority to implement the *PSA* between *Clark Electric* and *Sem-Calaca*.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

SPDC

Clark Electric has a *PSA* with *SPDC* for the supply of 25 *MW* contract capacity and associated energy beginning December 26, 2020. The provisional authority to implement the *PSA* was granted by the *ERC* through its Order which was promulgated on June 11, 2021.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

TransCo/NGCP

Clark Electric has a Transmission Service Agreement with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2023. This was renewed for another five years until December 25, 2028.

Shin Clark

Temporary Power Supply Agreement ("TPSA") and Sale for Resale Agreement ("SRA")

On October 8, 2021, *BCDA* signed a 2-year *TPSA* with Tarlac II Electric Cooperative, Inc. ("*TARELCO II*") for the purchase of power supply for the whole *NCC* development area, which was extended for a period of six (6) months until April 8, 2024. Since the *ERC* has granted the *CPCN* of *Shin Clark Power* on July 5, 2023, *Shin Clark Power* operates and maintains the Electric Power Distribution System in *NCC*. Also, *TARELCO II* started billing *Shin Clark Power* for the power supplied to its customers in *NCC* beginning October 2023. The *TPSA* expired in May 2024. On March 22, 2024, *Shin Clark Power* and *Clark Electric* entered into a *SRA* in order to serve the power supply requirements of its customers in *NCC*. On May 7, 2024, *Clark Electric* and *Shin Clark Power* filed their Application seeking the *ERC*'s approval of their *SRA* with prayer for issuance of provisional authority. In a Notice of Resolution dated September 30, 2024, the *ERC* granted interim relief to the parties to implement the *SRA* but excluded the recovery of the Overhead Line Recovery Charge and Administrative Charge. *Shin Clark Power* filed a Motion for Partial Reconsideration which is pending before the *ERC*. As at July 28, 2025, the motion is pending before the *ERC*.

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. As *PPC* has not utilized the contracted quantity, agreement was renewed until the contracted quantity is fully utilized. Under the new agreement, pricing is subject to semi-annual review. As at July 28, 2025, the termination of the contract is ongoing discussion.

Long-term Coal Supply Agreements ("CSA")

In order to ensure that there is an adequate supply of coal to operate the power plants, the following operating plants entered into several long-term contracts with local and foreign coal suppliers:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Sakti Nusantara Bakti	Indonesia	2022 - 2026	ICI4	275,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	385,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2025	GNEWC	275,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	55,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	55,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT

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

On July 23, 2019, *MERALCO* inaugurated the pilot 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* 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. On September 22, 2022, *MERALCO* filed a motion to withdraw application. As at July 28, 2025, *MERALCO* is awaiting further action by the *ERC*.

Lease Agreement with CDC

Clark Electric has a lease agreement with *CDC* covering land and structures until 2032.

On March 7, 2022, *Clark Electric* and *CDC* signed two (2) supplemental lease agreements for an allocated space in *CDC*-owned Dolores Substation 2 and Clark-Mabalacat-Angeles Road Substation.

In accordance with the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.12 per *kWh* sold by *Clark Electric*.

Estimated future minimum guarantee fees to be remitted to *CDC* are as follows:

	June 30, 2025 (Unaudited)	December 31, 2024 (Audited)
	In millions	
Within one (1) year	**₱93**	₱87
After one (1) year but not more than five years	**540**	513
	₱633	₱600

IMC with PELCO II

Comstech has an *IMC* with *PELCO II* for a period of 20 years until 2034. *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 until May 2039, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ*.

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*.

On September 7, 2023, *PEZA* issued a Board Resolution No. 23-227 that implements the policy guidelines for all *PEZA*'s distribution utilities /concessionaire /service provider ("*DU/C/SP*") and power suppliers in the procurement of power supply in the economic zones through a competitive selection process ("*PEZA CSP Policy*"). The *PEZA CSP* Policy mandates the *DU/C/SP* to submit annually to *PEZA* its *PEZA* Distribution Development Plan and Power Supply Procurement Plan, as well as the establishment of a *CSP* Bids and Awards Committee, wherein two (2) out of the five (5) members shall come from the nominees of the *DU/C/SP*. The *PEZA CSP Policy* also provides for an exemption from *CSP* and a transition power supply agreement.

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. On December 19, 2023, *PEZA* issued a Notice of Award to *TLI* for the 24 *MW* baseload supply of *CEZ* for a period of one (1) year from December 26, 2023 to December 25, 2024 ("Additional Term"). The terms of the award will be documented through a Transition Power Supply Agreement. The tripartite agreement is likewise extended until December 25, 2024. On November 22, 2024, *PEZA* and *TLI* extended the Transition Power Supply Agreement for another six (6) months, or until June 25, 2025. After sending out request for proposals, on June 17, 2025, *PEZA* issued a notice of award *FNPC* for 77 *MW* power supply agreement and on June 26, 2025, *FNPC* already commenced delivery of supply for *PEZA*, pending execution of the power supply agreement and a new tripartite agreement amont *MERALCO*, *PEZA* and *FNPC*.

Joint Venture Agreement with NCC

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 *NCC*.

Shin Clark completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of *Shin Clark Power*, the joint venture company, which was approved by the *SEC* on May 10, 2022. On March 22, 2023, *Shin Clark Power* was granted a *CPCN* by the *ERC* to operate as a *DU* until September 2044.

31. Earnings Per Share Attributable to Equity Holders of the Parent Company

Basic and diluted earnings per share are calculated as follows:

	Unaudited			
	For the Six Months Ended June 30		**For the Three Months Ended June 30**	
	2025	2024	**2025**	2024
	(Amounts in millions)			
Net income attributable to equity holders of the Parent (a)	**₱23,635**	₱22,441	**₱13,187**	₱12,844
Weighted average common shares outstanding (b)	**1,127**	1,127	**1,127**	1,127
Per Share Amounts:				
Basic and diluted earnings per share (a/b)	**₱20.97**	₱19.91	**₱11.70**	₱11.40

Basic and diluted earnings per share amounts are calculated by dividing net income for the period attributable to common shareholders of the parent company by the weighted average number of common shares outstanding during the period. There are no potential dilutive common shares in 2025 and 2024.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

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

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

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

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

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

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

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

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

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

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

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

Retail Aggregation

On June 16, 2022, the *ERC* issued Resolution No. 04, Series of 2022 entitled "*A Resolution Adopting the Rules for the Electric Retail Aggregation Program."* Under said Resolution, the aggregation of the electricity requirements of end-users, whose total monthly average peak demand is at least 500 *kW*, is allowed to accommodate a wider consumer base availing of the benefits of *RCOA* to further promote competition in the Competitive Retail Electricity Market. Implementation of such aggregation became effective by December 26, 2022.

The *ERC* promulgated *ERC* Resolution No. 13, Series of 2024 entitled "A Resolution Adopting the Omnibus Rules for Customer Choice Programs in the Retail Market", which consolidated the relevant regulations of the *ERC* on the different Customer Choice Programs, i.e., *RCOA* (now *CREM*), *GEOP* and Aggregation. The Omnibus Rules became effective on September 6, 2024.

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 July 28, 2025, 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.

On October 17, 2023, the *PIPPA* filed a Petition, dated October 16, 2023, to initiate a rule-making petition for the suspension of *ERC* Resolution No. 7, Series of 2021 and the adoption of *PIPPA*'s proposed rules on the imposition of secondary price cap. As at July 28, 2025, *ERC* has yet to promulgate the amended rules.

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.

MERALCO, *PEZA* and *PEPOA* submitted their Tripartite Agreement 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*. In a Decision dated May 29, 2024, the

SC granted *NGCP*'s Petition and reinstated the original *CA* Decision. As at July 28, 2025, *MERALCO* filed a Motion for Reconsideration which is pending before the *SC*.

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

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

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

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

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

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

TransCo applied for *FiT-All* rates with the *ERC*, the *ERC* approval and status of applications are indicated in the table below:

Year	Applied Rate per *kWh*	Approved Rate per *kWh*	Date Approved / Status
2019	₱0.2780	₱0.0495	October 28, 2019
2020	₱0.2278	₱0.0983	November 23, 2020
2021	₱0.1881	₱0.0983	August 17, 2022
2022	₱0.3320 or ₱0.3165 (alternative rate in consideration of *Covid-19*)	₱0.0364	August 30, 2022
2023	₱0.2382	₱0.0838	March 20, 2024
2024	₱0.0867	₱0.1189	February 19, 2025
2025	₱0.1006	-	Pending final decision

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. In a Decision dated August 13, 2024, the *SC* denied the Petition.

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 July 28, 2025, 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. As at July 28, 2025, the said petition is ongoing and remains pending with the *ERC*.

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the *CPI* and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River ("*ROR*") Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

On November 16, 2022, the *ERC* issued Resolution No. 12, Series of 2022, "*A Resolution Adopting the Suspension of the Collection of Feed-in-Tariff Allowance (FiT-All)*", approving the temporary suspension in the collection of the *FiT-All* for a period of three (3) months, starting the December 2022 until the February 2023 billing months. According to the *ERC*, the *FiT-All* balance as of November 7, 2022, inclusive of the Cost Recovery Revenue ("*CRR*") collections in November 2022, shows a healthy fund balance that can sufficiently cover the *FiT-All* payment requirements for three (3) months, assuming the same average *CRR* collection. On different dates in 2023, the *ERC* issued resolutions extending the temporary suspension in the collection of the *FiT-All*. Finally, on January 16, 2024, *ERC* issued Resolution No. 1, Series of 2024, "*A Resolution Adopting*

the Lifting of Suspension of the Collection of FiT-All", resolving to lift the suspension on the collection of the *FiT-All*, and to resume the collection of *FiT-All* starting the billing month of February 2024.

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. In compliance with the *RPS* Rules, *MERALCO* has been submitting its *RPS* form to the *DOE* on an annual basis. The *RPS* form contains *MERALCO*'s computation of its requirements, as well as plans to comply with the requirements.

On March 10, 2021, *MERALCO*'s registration in the Renewable Energy Market ("*REM*") as a Mandated Participant was approved by *PEMC*. On December 6, 2024, the *DOE* issued Department Circular No. 2024-12-0031, entitled "Declaration of the Full Commercial Operations of the Renewable Energy Market", stating the *REM* shall begin Full Commercial Operations effective December 26, 2024.

On May 23, 2022, the *DOE* issued Department Circular No. 2023-05-0015 "Prescribing the Amendments to Department Circular No. 2017-12-0015 or the Renewable Portfolio Standards (*RPS*)", increasing the minimum annual *RE* increment (*Km*) from one percent (1%) to 2.52% starting 2023 compliance year to meet the aspirational targets of increasing the *RE* share in the power generation mix. *MERALCO* fully complies with its *RPS* obligations while minimizing the rate impact to its customers.

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 August 19, 2021, the *ERC* issued Resolution No. 08, Series of 2021 "A Resolution Adopting the Rules for the Green Energy Option Program (*GEOP*)". The rules became effective on September 3, 2021. As at June 30, 2025, *MERALCO* has already processed the switching of 535 customers to *GEOP*.

Recovery of NPC Stranded Contract Costs

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

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for

January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote the *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another refund 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.

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 June 30, 2025, *MERALCO* has already installed 17,031 meters and energized 17,004 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 June 30, 2025, there are 110 companies with a total committed de-loading capacity of 538.35 *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. *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 July 28, 2025, 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. *MERALCO* has filed a Motion to Withdraw the Application to align with the changes brought about by the amended Public Service Act. As at July 28, 2025, *MERALCO* is awaiting the resolution of the *ERC* of its motion.

CSP Requirement for PSAs

On July 19, 2023, the *DOE*'s new *CSP* policy under Department Circular No. DC2023-06-0021 ("*2023 CSP Circular*") took effect. The *2023 CSP Circular* requires issuance by *DOE* of a Certificate of Conformity prior to commencement of a CSP. It is also provided that *CSP*s shall be consistent with the latest and duly accepted *DDP* and posted *PSPP*.

On October 23, 2023, the *ERC* promulgated its *Resolution No. 16, Series of 2023 ("ERC CSP Guidelines").* The *ERC CSP Guidelines* provided for a maximum term of *PSA*s of ten (10) years for financial *PSA*s, fifteen (15) years for physical *PSA*s and twenty (20 years) for physical *PSA*s where the nominated plants are renewable energy power plants. *PSA* templates, containing minimum terms and conditions, for financial and physical *PSA*s were also provided in the *ERC CSP Guidelines. DU*s may include additional contractual terms and conditions in their *PSA*s consistent with their terms of

reference and the *ERC CSP Guidelines.* Under the *ERC CSP Guidelines*, the entire process of the *CSP*, including the award of contract, shall be completed within one hundred eighty (180) calendar days from the first publication of the Invitation to Bid.

Under the *ERC CSP Guidelines*, direct negotiation is allowed after at least two (2) failed *CSP*s.

Termination of the *PSA*, other than due to expiration of the term, requires approval by the *ERC* under the *ERC CSP Guidelines.*

EPSAs are allowed to be immediately executed and implemented under the *ERC CSP Guidelines* provided certain conditions are present.

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*. As at July 28, 2025, the Petition remains pending before the *SC*.

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

On June 20, 2017, the *ERC* issued a consolidated Decision in *ERC* Case Nos 2011-115 RC, 2012-067 RC, 2013-092 RC, 2014-098 RC and 2015-124 RC, 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 10, 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. In February 2023, the amount was fully refunded. As at July 28, 2025, the *ERC* has yet to act on the Motion.

Clean Air Act

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

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)

prospectively from the date of effectivity of *ER 1-94*. Such amount accrued shall be remitted to the trust account of the host *LGU*s and *DU*s, subject to audit by the *DOE*.

33. Event After the Financial Reporting Date

On July 28, 2025, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.328 a share to all shareholders of record as at August 27, 2025, payable on September 22, 2025.