



SECURITIES AND EXCHANGE COMMISSION

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Receipt Date and Time: May 15, 2026 04:53:02 PM

Company Information

SEC Registration No.: PW00000102

Company Name: MANILA ELECTRIC CO.

Industry Classification: E40100

Company Type: Stock Corporation

Document Information

Document ID: OST105152026811386505

Document Type: Quarterly Report

Document Code: SEC_Form_17-Q

Period Covered: March 31, 2026

Submission Type: Original Filing

Remarks: None

Acceptance of this document is subject to review of forms and contents

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:** March 31, 2026
- 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

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

Yes No

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

Philippine Stock Exchange / 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 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 3M 2026 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 3M 2026 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: May 15, 2026

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

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company (“*MERALCO*”) and its subsidiaries, collectively referred to as the “*MERALCO Group*” should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2026 and December 31, 2025 and for the three months ended March 31, 2026 and 2025. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (“*PFRS*”) Accounting Standards.

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* Accounting Standards. 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 ₱60.75, the closing rate as at March 31, 2026 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

(amounts in million, except earnings per share, and operational data)

	March 31,	December 31,	Increase (Decrease)	
	2026 (Unaudited)	2025 (Audited)	Amount	%
Condensed Statements of Financial Position				
Total assets	₱829,790	₱823,879	₱5,911	1
Current assets	212,060	213,224	(1,164)	(1)
Cash and cash equivalents	112,896	109,317	3,579	3
Equity attributable to equity holders of the parent	166,345	173,137	(6,792)	(4)
Total debt	238,140	230,046	8,094	4
Current liabilities	248,242	252,050	(3,808)	(2)
Total liabilities	612,919	600,355	12,564	2

	Unaudited			
	Three Months Ended March 31		Increase (Decrease)	
	2026	2025	Amount	%
Condensed Statements of Income				
Revenues	₱120,779	₱114,511	₱6,268	5
Costs and expenses	110,496	103,060	7,436	7
Other income, net of expenses	2,760	1,416	1,344	95
Income before income tax	13,043	12,867	176	1
Net income	11,165	10,947	218	2
Net income attributable to equity holders of the parent	10,833	10,448	385	4
Earnings per share (“EPS”), attributable to equity holders of the parent	9.61	9.27	0.34	4

Condensed Statements of Cash Flows				
Net cash provided by operating activities	3,474	9,721	(6,247)	(64)
Net cash used in investing activities	(8,890)	(94,135)	85,245	(91)
Net cash provided by financing activities	9,037	103,114	(94,077)	(91)

Operational Data

Number of customers (in thousands):				
Residential	7,635	7,469	166	2
Commercial	609	598	11	2
Industrial	11	11	–	–
Streetlight	5	5	–	–
Electricity sales volume (in <i>GWh</i>)	12,273	12,493	(220)	(2)
System loss (in percentage) :				
<i>MERALCO</i>	5.72	6.04	(0.32)	(5)
Clark Electric Distribution Corporation (“Clark Electric”)	1.83	2.08	(0.25)	(12)

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

Financial KPI	Definition	March 31,	December 31,
		2026 (Unaudited)	2025 (Audited)
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	1.43	1.33
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.85	0.85
		Unaudited	
		Three Months Ended March 31	
		2026	2025
Core EBITDA	<i>CCNI</i> excluding depreciation and amortization, interest and other financial charges, interest and other financial income, and provision for income tax	₱25,399	₱9,435
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	9%	9%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	7%	7%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	15%	17%

OVERVIEW

The businesses of *MERALCO* and its subsidiaries (the “*MERALCO Group*”) consist of certain unregulated and regulated segments of the energy supply chain. The regulated business segment covers the electricity distribution business of *MERALCO*, Clark Electric Distribution Corporation (“*Clark Electric*”), and Shin Clark Power Corporation (“*Shin Clark Power*”). On the other hand, the unregulated businesses consist of power generation; retail electricity supply (“*RES*”); engineering design, construction and consultancy, payment fulfilment, bills collection and fintech, after-the-meter and energy management, insurance and reinsurance; electric mobility; and telecommunication and information technology services.

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. The franchise of *MERALCO* has been renewed for another 25 years through 2053 under *RA* No. 12146, “An Act Renewing for another twenty-five (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/Municipalities of Metro Manila, Bulacan, Cavite and Rizal, and certain Cities/Municipalities/Barangays in Batangas, Laguna, Quezon and Pampanga”.

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 principally covers the distribution of electricity and the supply of power on a pass-through basis to captive customers within the franchise areas of *MERALCO*, Clark Electric Distribution Corporation (“*Clark Electric*”) and Shin Clark Power Corporation (“*Shin Clark Power*”). Electricity distribution within *MERALCO* franchise area accounts for approximately 50% of the country’s total power requirements. *Clark Electric*’s franchise area covers the Clark Special Economic Zone and its sub-zones, while *Shin Clark Power*’s franchise covers the New Clark City (“*NCC*”).

Shin Clark Power Holdings, Inc. (“*Shin Clark*”) pursuant to 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 to *BCDA* under Republic Act No. 11420, and was subsequently assigned to *Shin Clark Power* in exchange for a 10% equity interest. *Shin Clark Power* is incorporated and registered with the Securities and Exchange Commission (“*SEC*”), and has a Certificate of Public Convenience and Necessity issued by the Energy Regulatory Commission (“*ERC*”) to operate as a distribution utility (“*DU*”) for a period of 25 years.

MERALCO also manages the electric distribution facilities of Pampanga Electric Cooperative II (“*PELCO IP*”) 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 the Philippine Economic Zone Authority (“*PEZA*”).

Power generation – The *MERALCO Group* has a combined net generating capacity of 5,069.7 *MW* of coal, liquid natural gas, renewable energy, and diesel-fired power plants located in the Philippines and Singapore. In addition, it is developing a total of 3,950 *MWp* of solar capacity.

This portfolio includes the 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon operated by San Buenaventura Philippines Ltd. Company (“*SBPL*”), of which Meralco PowerGen Corporation (“*MGen*”) has a 51% interest.

Global Business Power Corporation (“*GBPC*”) owns 831 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. This includes the 2 x 108.5 *MW* (net) Circulating Fluidized Bed (“*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 100% interest in *Sarangani Energy*.

MGen Renewable Energy, Inc. (“*MGreen*”), a wholly owned subsidiary of *MGen*, is engaged in the development, construction and operation of solar power facilities. *MGreen* holds a 60% equity interest in Powersource First Bulacan Solar, Inc. (“*First Bulacan*”), which owns and operates a 55 *MWac* utility-scale solar facility in San Miguel, Bulacan, under an *ERC*-approved *PSA* with *MERALCO* for a period of 20 years until April 2041.

In 2025, *MGreen* inaugurated the 52.7 *MWac* solar power plant of Greenergy For Global Inc. (“*Greenergy*”) and the 19.8 *MWac* solar power plant of Greentech Solar Energy, Inc.’s (“*GSEP*”).

SP New Energy Corporation (“*SPNEC*”), through its subsidiaries Terra Solar Philippines, Inc. (“*MTerra Solar*”) (60%) and Terra Nueva, Inc. (“*TNP*”) (100%), are 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 2026 while the balance is due to be completed in 2027. *SPNEC* is 69.25% owned by *MGreen*.

MGen also secured confirmation from the Department of Energy’s (“*DOE*”) that the 1,200-*MW* ultra supercritical coal-fired power project of Atimonan One Energy, Inc.’s (“*AIE*”) remains a Committed Project and is outside the coverage of the coal moratorium policy.

PH Renewables Inc. (“*PHRI*”), in partnership with Mitsui & Co.’s local unit Mit-Renewables Philippine Corporation, owns and operates the 80.1 *MWac* solar plant in Baras, Rizal (“*Baras Solar Plant*”). Separately, Nuevo Solar Energy Corporation (“*NSEC*”), a joint venture between *MGreen* and Vena Energy Solar PH B.V. (“*Vena Energy*”), owns and operates a 68.7 *MWac* solar plant project in Ilocos Norte.

MGreen also entered into 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*”). On March 18, 2026, *NGCP* issued a Provisional Certificate of Approval to Connect (“*PCATC*”) for *Barracuda Energy*’s 450 *MWac* solar power plant.

In addition, *MGen* and Therma NatGas, Inc. (“*TNGP*”) entered into an Investment Agreement with the parties owning 60% and 40% interests in Chromite Gas Holdings, Inc. (“*Chromite Holdings*”), respectively.

Outside the Philippines, *MGen* holds a combined 58% (direct and indirect) interests in PacificLight Power Pte Ltd. (“*PacificLight Power*”), which owns and operates a 2 x 400 *MW* *LNG*-fueled combined cycle turbine power plant on Jurong Island, Singapore. In May 2025, *PacificLight Power* completed and commissioned a 100 *MW* fast-start *LNG* facility to provide ancillary services under a 25-year contract with Singapore’s Energy Market Authority (“*EMA*”). In January 2025, *PacificLight Power* was awarded the right to develop a hydrogen-ready Combined Cycle Gas Turbine (“*CCGT*”) facility with a capacity of at least 600 *MW*, scheduled to commence commercial operations in January 2029.

RES – This business segment sources and supplies electricity to qualified contestable customers. As distribution utilities, *MERALCO* and *Clark Electric* are also licensed to operate as local retail electricity suppliers within their respective franchise areas through their separate business units, *MPower* and *Cogent Energy*. Under the Retail Competition and Open Access (“*RCOA*”) framework, qualified contestable customers may procure electricity from any licensed retail electricity supplier, including *MPower* and *Cogent Energy*.

Affiliate *RES* entities include 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 *MGen Retail Electricity Supplier Corporation* (“*MGen RES*”), formerly 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, was issued its *RES* license by the *ERC* on December 12, 2025, following the re-filing of its application and submission of updated requirements.

- 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*”), Miescor Logistics, Inc. (“*MLI*”) and Customer Frontline Solutions, Inc. (“*CFSP*”) (collectively known as “*MIESCOR Group*”), Corporate Information Solutions, Inc. (“*CIS*”), 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 <ul style="list-style-type: none"> • <i>MERALCO</i> • <i>Clark Electric</i> • <i>Shin Clark Power</i> Power generation <ul style="list-style-type: none"> • <i>MGen</i> and subsidiaries RES <ul style="list-style-type: none"> • <i>MERALCO</i> through <i>MPower</i> business unit • <i>Clark Electric</i> through <i>Cogent Energy</i> business unit • <i>Clarion</i> • <i>MGen RES</i> • <i>MeridianX</i> • <i>Phoenix Power</i> • <i>Vantage</i> 	<ul style="list-style-type: none"> • <i>CIS</i> • <i>Comstech</i> • <i>e-MVI Group</i> • <i>Finserve</i> • <i>LOIL</i> • <i>MIESCOR Group</i> • <i>MServ</i> • <i>Spectrum</i> • <i>Movem</i>

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 three months ended March 31, 2026 and 2025 are discussed below.

Unaudited				
For the Three Months Ended March 31, 2026				
	Power	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱118,097	₱4,978	(₱2,296)	₱120,779
Costs and expenses	108,547	3,860	(1,911)	110,496
Other income (expenses) - net	2,816	69	(125)	2,760
Net income attributable to equity holders of the parent	10,606	559	(332)	10,833

Unaudited				
For the Three Months Ended March 31, 2025				
	Power	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱111,753	₱4,444	(₱1,686)	₱114,511
Costs and expenses	101,084	3,558	(1,582)	103,060
Other income (expenses) - net	1,467	34	(85)	1,416
Net income attributable to equity holders of the parent	10,690	257	(499)	10,448

2026 compared with 2025

REVENUES

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

Unaudited						
For the Three Months Ended March 31						
	2026		2025		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱118,097	98	₱111,753	97	₱6,344	6
Other services	4,978	4	4,444	4	534	12
Inter-segment transactions	(2,296)	(2)	(1,686)	(1)	(610)	36
Total	₱120,779	100	₱114,511	100	₱6,268	5

Consolidated revenues increased by 5% to ₱120,779 million from ₱114,511 million. The combined higher pass-through generation and transmission charges and increased revenue contributions from *MGen* drove the higher revenues in the first three months of 2026 compared with the same period in 2025. Distribution revenues were lower with the 2% decrease in energy sold and regulatory refunds.

Other services revenue grew by 12% to ₱4,978 million from ₱4,444 million, largely due to higher revenues from (1) *Radius* for its enterprise and *SME* accounts and billable projects to *PLDT*, (2) *MIESCOR's* engineering, procurement and construction (“*EPC*”) projects, and (3) *MServ's* high voltage solutions and integrated facilities management projects.

Power

Revenues of the power business are from electricity distribution, *RES* and power generation. *MERALCO*, *Clark Electric* and *Shin Clark Power* distribute electricity to captive industrial, commercial and residential customers within their respective franchise areas. Meanwhile, *MPower*, *Cogent Energy*, *Vantage*, *MeridianX* and *MGen RES* supply electricity to their qualified contestable customers. Power generation revenues are from *GBPC*, *First Bulacan*, *PHRI*, Solar Philippines Calatagan Corporation (“*Solar Philippines Calatagan*”), Solar Philippines Tarlac Corporation (“*Solar Philippines Tarlac*”), *Greenery* and *GSEI*.

Revenues of the power segment for the three months ended March 31, 2026 was at ₱118,097 million, ₱6,344 million or 6% higher compared with the same period in 2025 primarily driven by higher pass-through generation and transmission charges and stronger power generation revenue contributions.

MERALCO's average retail rate increased by 12% to ₱12.39 per *kWh* in the first quarter of 2026 from ₱11.06 per *kWh* in the same period in 2025, mainly due to a 10% increase in generation charge, which accounted for 62% of the total rate. Generation charge for the period includes the ₱0.30 per *kWh* combined contract price adjustments relating to fuel cost recoveries, which the Energy Regulatory Commission (“*ERC*”) approved for four (4) generation companies. Also contributing to the increase were the higher fixed charges following the *ERC*-approved interim extension of a Power Purchase Agreement (“*PPA*”); and the peso depreciation as the local currency weakened to an average of ₱59.10 from ₱57.96 against the US dollar during the first quarter last year.

Transmission charge, which was 10% of the retail rate, similarly increased by 38% due to higher ancillary service charges from the reserve market. In addition, starting July 2025, the *ERC* approved the ₱6.6 billion higher Maximum Annual Revenue (“*MAR*”) and collection of the ₱28.0 billion under-recoveries for 2016 to 2022 in favor of the National Grid Corporation of the Philippines (“*NGCP*”) which resulted in an equivalent increase of an average of ₱0.10 per *kWh* and ₱0.04 per *kWh*, respectively.

MERALCO's actual average distribution charge in the first quarter of 2026 of ₱1.36 per *kWh* was 3% lower, mainly due to the implementation of the following *ERC*-approved refunds of (i) the Regulatory Reset Fee starting February 2025; and (ii) the difference between the Actual Weighted Average Tariff (“*AWAT*”) and the approved lapsed period tariff for the period July 2022 to December 2024 beginning April 2025. The distribution charge accounted for 11% of *MERALCO*'s average retail rate in the first quarter of 2025.

The following summarizes the customer count of the electricity distribution business as at March 31, 2026 and 2025 and the corresponding electric consumption per customer class for the three months ended March 31, 2026 and 2025:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2026	2025	2026	2025	No. of Customers	Electricity Sales
Residential	7,635	7,469	4,111	4,257	2	(3)
Commercial	609	598	4,704	4,744	2	(1)
Industrial	11	11	3,420	3,455	–	(1)
Streetlights	5	5	38	37	–	3
Total	8,260	8,083	12,273	12,493	2	(2)

Consolidated *DU* energy sales stood at 12,273 *GWh* in the first quarter of 2026, 2% lower than 12,493 *GWh* during the same period in 2025. *MERALCO* volumes slipped by 2% due to cooler temperatures compared with warmer post-El Niño conditions in the first quarter last year; while *Clark Electric* posted 1% growth in sales. *Shin Clark* contributed an additional 0.7 *GWh* to consolidated sales. The lower sales volume was partly attributable to the own-use solar installations which accounted for approximately 42 *GWh* decline in sales in the first quarter of 2026.

The commercial segment contributed 38% to the sales mix and delivered 4,704 *GWh*, 1% lower than 4,744 *GWh* year-on-year. Beyond the lower-than-usual temperatures, performance further declined as office demand softened from elevated vacancies, while the retail and hotel sectors slightly contracted following implementation of energy efficiency initiatives. Expansion in cafés and quick-service restaurants provided a partial uplift in the segment.

The residential segment accounted for 34% of total sales, with a volume of 4,111 *GWh*, down 3% from 4,257 *GWh* in the same period last year. Year-to-date average temperatures declined by 1.09°C, reducing organic demand, coupled with the increasing own-use solar installations. On the other hand, there are increasing applications and energization of new services, which provide incremental sales.

The industrial segment maintained a 28% share, with sales of 3,420 *GWh* – a slight 1% decline from 3,455 *GWh* last year. While some sectors faced operational disruptions and economic challenges, the semiconductor and cement industries continued to demonstrate resilience, and remained the primary growth drivers within the segment.

By the end of March 2026, consolidated customer count increased to 8.3 million, 2% more than last year’s count.

Other Services

Non-electric revenues are from (i) fees billed by *MERALCO* and *Clark Electric* for foreign attachments to distribution poles; (ii) space rental income; and (iii) revenues of subsidiaries not engaged in the power business. These non-power subsidiaries generate revenues from third-party customers through the following activities: (a) *MIESCOR Group - EPC* contracts; operations and maintenance services for transmission and telecommunications facilities; (b) *MServ* - supply and installation of powerhouse, load side equipment, and provision of energy efficiency solutions; (c) *Radius* - data connectivity and internet services; and (d) *Movem* - sale of electric vehicles to enterprises supporting electric vehicle expansion, and from the provision of e-shuttle services.

Revenue of other services grew by 12% to ₱4,978 million from ₱4,444 million, largely due to higher revenues from (1) *Radius* for its enterprise and *SME* accounts and billable projects to *PLDT*, (2) *MIESCOR*’s *EPC* projects, and (3) *MServ*’s high voltage solutions and integrated facilities management projects.

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2026, amounted to ₱110,496 million, higher by ₱7,436 million compared with ₱103,060 million in the same period in 2025. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2026		2025		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ¹	₱108,547	98	₱101,084	98	₱7,463	7
Other services	3,860	4	3,558	4	302	8
Inter-segment transactions	(1,911)	(2)	(1,582)	(2)	(329)	21
Total	₱110,496	100	₱103,060	100	₱7,436	7

¹*ibid.*

Power

Costs and expenses of power segment for the three months ended March 31, 2026 amounted to ₱108,547 million, 7% higher compared with ₱101,084 million in the same period in 2025. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Three Months Ended March 31					
	2026		2025		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱92,673	85	₱86,349	86	₱6,324	7
Depreciation and amortization	4,174	4	3,734	4	440	12
Salaries, wages and employee benefits	4,011	4	4,243	4	(232)	(5)
Contracted services	2,725	3	2,466	2	259	11
Coal and fuel	2,023	2	2,178	2	(155)	(7)
Others	2,941	2	2,114	2	827	39
Total	₱108,547	100	₱101,084	100	₱7,463	7

Purchased power cost (“PPC”) increased by 7% to ₱92,673 million from ₱86,349 million, consistent with the increase in pass-through revenues largely from higher generation and transmission charges.

Depreciation and amortization was higher by 12% to ₱4,174 million from ₱3,734 million with the completion of CAPEX projects during the period.

Contracted services increased due to intensified maintenance work on DU facilities, as well as continued investments in IT systems and software.

Other expenses consist of business taxes and permits, provision for expected credit losses, costs of materials, transportation, net provision reversals following settlement of real property taxes and reassessment of previously recognized provisions and other corporate expenses.

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2026 amounted to ₱3,860 million, 8% higher compared with ₱3,558 million in 2025.

	Unaudited					
	For the Three Months Ended March 31					
	2026		2025		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Contracted services	₱1,221	32	₱1,290	36	(₱69)	(5)
Salaries, wages and employee benefits	1,151	30	1,202	34	(51)	(4)
Depreciation and amortization	192	5	243	7	(51)	(21)
Others	1,296	33	823	23	473	57
Total	₱3,860	100	₱3,558	100	₱302	8

The increase in cost and expenses of the other services business segment reflects the higher level of business activity for the three months ended March 31, 2026 compared with the same period in 2025, consistent with the growth in related revenues.

Depreciation and amortization expenses decreased by 21% to ₱192 million from ₱243 million with the decrease in e-MVI Group’s depreciation to ₱122 million in the first quarter of 2026 from ₱167 million in the same period in 2025 due to the P1.2 billion impaired assets recognized in December 2025.

OTHER INCOME (EXPENSES)

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

	Unaudited			
	For the Three Months Ended March 31			
	2026	2025	Increase/Decrease	
Amount			%	
		<i>(Amounts in millions)</i>		
Power ²	₱2,816	₱1,467	₱1,349	92
Other services	69	34	35	103
Intersegment transactions	(125)	(85)	(40)	47
Total	₱2,760	₱1,416	₱1,344	95

Other income, net of expenses, for the three months ended March 31, 2026 increased by ₱1,344 million, primarily due to higher share in net earnings of associates.

Power

Other income (expenses) of power segment consists of:

	Unaudited			
	For the Three Months Ended March 31			
	2026	2025	Increase/Decrease	
Amount			%	
		<i>(Amounts in millions)</i>		
Equity in net earnings of associates and joint ventures	₱4,891	₱3,317	₱1,574	47
Interest and other financial charges	(2,068)	(2,032)	(36)	2
Interest and other financial income	766	827	(61)	(7)
Foreign exchange gains (losses)	(36)	125	(161)	(129)
Others	(737)	(770)	33	(4)
Total	₱2,816	₱1,467	₱1,349	92

The higher share in net earnings of associates and joint ventures was primarily driven by the contribution from MGen's operations in the first quarter of 2026 resulting in total equity in net earnings of ₱4.9 billion compared to ₱3.4 billion in the same period last year.

For the three months ended March 31, 2026, the MERALCO Group recognized foreign exchange losses, mainly due to volatility in dollar exchange rates since December 31, 2025.

²ibid.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

Unaudited						
For the Three Months Ended March 31						
	2026		2025		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱10,606	98	₱10,690	102	(₱84)	(1)
Other services	559	5	257	2	302	118
Inter-segment transactions	(332)	(3)	(499)	(4)	167	(33)
Total	₱10,833	100	₱10,448	100	₱385	4

Net income attributable to equity holders of the parent increased by ₱385 million, primarily due to increased contribution from the power generation segment, mainly driven by full-capacity operation and full three (3) months contribution of *LNGPH*, the owner of a major integrated *LNG* terminal and a 2,475 MW (net) power facility in Batangas, where *MGEN* now holds a 40.2% interest following the acquisition on January 27, 2025.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2026	December 31, 2025	Increase (Decrease)	
	Unaudited	Audited	Amount	%
<i>(Amounts in millions)</i>				
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	₱393,565	₱378,232	₱15,333	4
Investments in associates and interests in joint ventures	128,706	140,440	(11,734)	(8)
Investment properties	1,482	1,483	(1)	-
Intangible assets	40,480	40,658	(178)	-
Deferred tax assets - net	26,396	25,706	690	3
Other noncurrent assets	27,101	24,136	2,965	12
Total Noncurrent Assets	617,730	610,655	7,075	1
Current Assets				
Cash and cash equivalents	112,896	109,317	3,579	3
Trade and other receivables	69,299	76,726	(7,427)	(10)
Inventories	10,828	10,983	(155)	(1)
Other current assets	19,037	16,198	2,839	18
Total Current Assets	212,060	213,224	(1,164)	(1)
Total Assets	₱829,790	₱823,879	₱5,911	1
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱166,345	₱173,137	(₱6,792)	(4)
Non-controlling interests	50,526	50,387	139	-
Total Equity	216,871	223,524	(6,653)	(3)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	202,668	186,531	16,137	9
Customers' deposits - net of current portion	39,901	39,206	695	2
Long-term employee benefits	14,392	13,565	827	6
Provisions	12,148	12,335	(187)	(2)
Refundable service extension costs - net of current portion	3,356	3,371	(15)	-
Deferred tax liabilities - net	8,453	8,432	21	-
Other noncurrent liabilities	83,759	84,865	(1,106)	(1)
Total Noncurrent Liabilities	364,677	348,305	16,372	5
Current Liabilities				
Notes payable	29,015	36,367	(7,352)	(20)
Trade payables and other current liabilities	203,768	199,620	4,148	2
Customers' refund	2,850	2,851	(1)	-
Income tax payable	1,852	1,764	88	5
Current portion of long-term employee benefits	4,300	4,300	-	-
Current portion of interest-bearing long-term financial liabilities	6,457	7,148	(691)	(10)
Total Current Liabilities	248,242	252,050	(3,808)	(2)
Total Liabilities	612,919	600,355	12,564	2
Total Liabilities and Equity	₱829,790	₱823,879	₱5,911	1

CHANGES IN FINANCIAL POSITION

Utility Plant, Generation Plant and Others

The ₱15,333 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 ₱19,424 million. This was offset by depreciation and amortization of ₱3,999 million.

Investments in Associates and Interests in Joint Ventures

Investments in associates and interest in joint ventures decreased due to the redemption of preferred shares in *Chromite Holdings* owned by *MGen* amounting to ₱18,090 million at issue price on March 19, 2026 and dividends declared by associates and joint ventures totalling to ₱2,734 million. This was offset by recognition of equity in net earnings for the quarter of ₱4,891 million.

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 three months ended March 31, 2026.

Trade and Other Receivables

Trade and other receivables decreased consistent with the decline in energy sales of the distribution business.

Other Current Assets

The increase in other current assets is mainly due to (1) higher input VAT of ₱10,320 million as at March 31, 2026 from ₱9,293 million, and (2) changes in fair value of the foreign exchange forwards entered into by *MTerra Solar* in 2025 to hedge its forecasted payments in foreign currency arising from its Engineering and Procurement Contracts related to the construction of its solar power plant.

Interest-bearing debt

Consolidated interest-bearing debts totaled ₱238 billion as at March 31, 2026 compared with ₱230 billion as at December 31, 2025 due to additional loan drawdowns mainly by *MERALCO*, *MTerra Solar* and *Solar Philippines Tarlac* of ₱6.5 billion, ₱7.5 billion and ₱3.8 billion, respectively, to finance investments and other strategic initiatives.

2025 compared with 2024

REVENUES

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

	Unaudited					
	For the Three Months Ended March 31					
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱111,753	97	₱101,363	97	₱10,390	10
Other services	4,444	4	4,015	4	429	11
Inter-segment transactions	(1,686)	(1)	(830)	(1)	(856)	103
Total	₱114,511	100	₱104,548	100	₱9,963	10

Consolidated revenues rose by 10% to ₱114,511 million from ₱104,548 million mainly due to higher volumes sold by the distribution utility, increase in pass through transmission charge and higher revenues of *MGen* from the reserve market.

Other services revenue increased by 11% from ₱4,015 million to ₱4,444 million due to higher revenues of *MIESCOR* and *MServ* at ₱2,242 million and ₱369 million, respectively, for the three months ended March 31, 2025 from ₱1,988 million and ₱272 million, respectively, in the same period in 2024. 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 three months ended March 31, 2025 was at ₱111,753 million, ₱10,390 million or 10% higher compared with the same period in 2024 driven by higher distributed volume, higher pass-through transmission charge and higher revenues from the reserve market.

Meralco's average retail rate grew by 3% to ₱11.06 per *kWh* in the first quarter of 2025 from ₱10.78 per *kWh* in the same period in 2024, mainly due to an equivalent increase in generation charge, which accounted for 63% of total retail rate. This came as a result of higher cost of natural gas, as well as full recovery of previously deferred charges for First Gas Sta. Rita and San Lorenzo plants, as approved by the *ERC*. The peso depreciation, which weakened to an average of ₱57.96 per US dollar in the first quarter of 2025 versus ₱55.96 in the same period in 2024, also lifted generation charge for the three-month period.

Transmission charge, comprising 8% of the retail rate, went up by 11% due to higher ancillary service charges from additional capacity sourced by the National Grid Corporation of the Philippines ("*NGCP*") from new Ancillary Service Procurement Agreements ("*ASPAs*") and the reserve market. Ancillary service charges in the first quarter of 2025 also included the collection of the remaining 70% of *NGCP*'s March 2024 ancillary service costs from the reserve market, which was approved by the *ERC*.

The following summarizes the customer count of the electricity distribution business as at March 31, 2025 and 2024 and the corresponding electric consumption per customer class for the three months ended March 31, 2025 and 2024:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2025	2024	2025	2024	No. of Customers	Electricity Sales
Residential	7,469	7,279	4,257	4,144	3	3
Commercial	598	584	4,744	4,678	2	1
Industrial	11	11	3,455	3,448	–	–
Streetlights	5	5	37	37	–	–
Total	8,083	7,879	12,493	12,307	3	2

Consolidated distribution utility energy sales volumes in the first quarter of 2025 rose to 12,493 GWh from 12,307 GWh in the same period in 2024. Volumes attributable to *MERALCO* and *Clark Electric* increased by 2% and 3%, respectively, while *Shin Clark Power* brought in additional 1 GWh.

Commercial segment had the biggest share of 38% in the energy sales mix, while residential and industrial accounted for 34% and 28%, respectively.

Commercial segment closed the first quarter of 2025 with 4,744 GWh of energy sold, 1% more than 4,678 GWh in the same period in 2024.

Sales volumes from the residential sector grew 3% to 4,257 GWh from 4,144 GWh, owing to the energization of new residential customers that drove consumption growth and contributed 95 GWh in the first quarter.

Sales volumes from the industrial segment rose marginally to 3,455 GWh from 3,448 GWh in the first quarter of 2024.

Meanwhile, consolidated customer count was at 8.08 million customers, 3% higher than the 7.88 million customers in the first quarter of 2024.

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 in the first quarter of 2025 compared with the same period in 2024 due to higher revenues of *MIESCOR* and *MServ* at ₱2,242 million and ₱369 million, respectively, for the three months ended March 31, 2025 from ₱1,988 million and ₱272 million in the same period in 2024. This was mitigated by the deconsolidation of *MIDC* at the end of September 2024.

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2025, amounted to ₱103,060 million, lower by ₱9,616 million compared with ₱93,444 million in 2024. The following table shows the breakdown of consolidated costs and expenses by business segment:

Unaudited						
For the Three Months Ended March 31						
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ³	₱101,084	98	₱90,949	97	₱10,135	11
Other services	3,558	4	3,373	4	185	5
Inter-segment transactions	(1,582)	(2)	(878)	(1)	(704)	80
Total	₱103,060	100	₱93,444	100	₱9,616	10

Power

Costs and expenses of power segment for the three months ended March 31, 2025 amounted to ₱101,084 million, 11% higher compared with ₱90,949 million in 2024. The details of costs and expenses are summarized in the following table:

Unaudited						
For the Three Months Ended March 31						
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱86,349	86	₱76,462	84	₱9,887	13
Salaries, wages and employee benefits	4,243	4	3,315	4	928	28
Depreciation and amortization	3,734	4	3,985	4	(251)	(6)
Contracted services	2,466	2	2,189	2	277	13
Coal and fuel	2,178	2	2,756	3	(578)	(21)
Others	2,114	2	2,242	3	(128)	(6)
Total	₱101,084	100	₱90,949	100	₱10,135	11

Purchased power cost (“PPC”) increased by 13% to ₱86,349 million from ₱76,462 million consistent with the movement in pass-through revenues which increased due to higher volume purchased as well as higher transmission charge. The average Malampaya natural gas price increased to US\$ 11.61 per *GJ* in the first quarter of 2025 from US\$ 9.94 per *GJ* a year ago due to higher oil price indices. Average Wholesale Electricity Spot Market (“WESM”) prices, on the other hand, went down 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.

Salaries, wages and employee benefits expense increased due to increase in manpower count within the power generation business as this segment continues to expand its operations, employee annual merits and higher employee retirement benefits driven by adjustment in discount rate assumption used in determining the defined benefit obligation.

Lower depreciation and amortization was mainly due to the deconsolidation of *MIDC* at the end of September 2024.

Coal and fuel are costs incurred by the power generation business, mainly *GPBC* and its subsidiaries. Coal and fuel costs decreased by 21% due to lower plant maintenance cost resulting from higher plant availability and fewer outage days, and lower coal and fuel prices.

Other expenses consist of business taxes and permits, provision for expected credit losses, costs of materials, transportation, and other corporate expenses.

³*ibid.*

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2025 amounted to ₱3,558 million, 5% higher compared with ₱3,373 million in 2024.

	Unaudited					
	For the Three Months Ended March 31					
	2025		2024		Increase/Decrease	
Amount	%	Amount	%	Amount	%	
<i>(Amounts in millions)</i>						
Contracted services	₱1,290	36	₱619	18	₱671	108
Salaries, wages and employee benefits	1,202	34	1,194	36	8	1
Depreciation and amortization	243	7	545	16	(302)	(55)
Others	823	23	1,015	30	(192)	(19)
Total	₱3,558	100	₱3,373	100	₱185	5

The increase in cost and expenses of other services business segment reflects the costs of increasing business activities for the three months ended March 31, 2025 compared with the same period in 2024, consistent with the increase in related revenues.

Contacted services rose to ₱1,290 million from ₱619 million driven by an increase in *MIESCOR* Group's contracted services from ₱235 million to ₱835 million in line with the growth in related revenues. The increase was partially mitigated by the decrease in depreciation and amortization due to 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 Three Months Ended March 31			
	2025	2024	Increase/Decrease	
			Amount	%
<i>(Amounts in millions)</i>				
Power ⁴	₱1,467	₱1,021	₱446	44
Other services	34	(134)	168	(125)
Intersegment transactions	(85)	176	(261)	(148)
Total	₱1,416	₱1,063	₱353	33

Other income, net of expenses, for the three months ended March 31, 2025 increased by ₱353 million mainly due to higher share in net earnings of associates. The increase was mitigated by higher interest and financial charges resulting from the availment of ₱75 billion term loan in January 2025.

⁴*Ibid.*

Power

Other income (expenses) of power segment consists of:

Unaudited				
For the Three Months Ended March 31				
	2025	2024	Increase/Decrease	
			Amount	%
<i>(Amounts in millions)</i>				
Equity in net earnings of associates and joint ventures	₱3,317	₱1,709	₱1,608	94
Interest and other financial charges	(2,032)	(1,133)	(899)	79
Interest and other financial income	827	889	(62)	(7)
Foreign exchange gains	125	2	123	6,150
Others	(770)	(446)	(324)	73
Total	₱1,467	₱1,021	₱446	44

The higher share in net earnings of associates and joint ventures was attributed to the net income contribution of *MGen's* operations in the first quarter of 2025 resulted in total equity in net earnings of ₱3.4 billion compared with ₱1.6 billion in the same period in 2024.

Interest and other financial charges increased by ₱79 million due to additional loans obtained in the first quarter of 2025 compared with the same period in 2024.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

Unaudited						
For the Three Months Ended March 31						
	2025		2024		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power	₱10,690	102	₱9,505	99	₱1,185	12
Other services	257	2	254	3	3	(1)
Inter-segment transactions	(499)	(4)	(162)	(2)	(337)	208
Total	₱10,448	100	₱9,597	100	₱851	9

Net income attributable to equity holders of the parent increased by ₱851 million due to (a) higher sales volume of the *DU* business compared in the same period in 2024, owing to strong performance of commercial and residential segments and recovery of industrial segment, and (b) higher contribution from the power generation segment due to its operational stability and efficiency of its operating assets and strategic participation in co-optimized market bidding for both energy and ancillary services in the Visayas grid.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2025	December 31, 2024	Increase (Decrease)	
	Unaudited	Audited	Amount	%
<i>(Amounts in millions)</i>				
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	₱310,226	₱288,501	₱21,725	8
Investments in associates and interests in joint ventures	128,250	47,513	80,737	170
Investment properties	1,486	1,487	(1)	–
Intangible assets	41,063	41,559	(496)	(1)
Deferred tax assets - net	27,241	26,382	859	3
Financial and other noncurrent assets	33,765	32,900	865	3
Total Noncurrent Assets	542,031	438,342	103,689	24
Current Assets				
Cash and cash equivalents	103,124	84,480	18,644	22
Trade and other receivables	62,453	64,697	(2,244)	(3)
Inventories	11,301	11,422	(121)	(1)
Financial and other current assets	18,354	19,017	(663)	(7)
Total Current Assets	195,232	179,616	15,616	8
Total Assets	₱737,263	₱617,958	₱119,305	19
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱141,840	₱144,599	(₱2,759)	(2)
Non-controlling interests	47,911	41,283	6,628	16
Total Equity	189,751	185,882	3,869	2
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	148,667	54,797	93,870	171
Customers' deposits - net of current portion	35,341	33,274	2,067	6
Long-term employee benefits	17,082	16,263	819	5
Provisions	9,063	9,855	(792)	(8)
Refundable service extension costs - net of current portion	3,692	3,753	(61)	(2)
Deferred tax liabilities - net	8,708	8,769	(61)	(1)
Other noncurrent liabilities	69,024	68,991	33	–
Total Noncurrent Liabilities	291,577	195,702	95,875	49
Current Liabilities				
Notes payable	30,057	34,287	(4,230)	(12)
Trade payables and other current liabilities	210,668	191,472	19,196	10
Customers' refund	2,853	2,853	–	–
Income tax payable	3,026	2,070	956	46
Current portion of interest-bearing long-term financial liabilities	9,331	5,692	3,639	64
Total Current Liabilities	255,935	236,374	19,561	8
Total Liabilities	547,512	432,076	115,436	27
Total Liabilities and Equity	₱737,263	₱617,958	₱119,305	19

CHANGES IN FINANCIAL POSITION

Utility Plant, Generation Plant and Others

The ₱21,725 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 ₱25,389 million. This was offset by depreciation and amortization of ₱3,608 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 ₱3,317 million. This was offset by dividends declared by associates and joint ventures totalling to ₱2,084 million.

Interest-bearing debt

Consolidated interest-bearing debts totaled ₱188.1 billion, including ₱72.6 billion debts of subsidiaries. In January 2025, *MERALCO* utilized its ₱75 billion credit facility with major banks and drew on such facility to finance investments, among others. In March 2025, *MTerra Solar* secured project financing amounting to ₱25.2 billion, with ₱18 billion 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.

Trade payables and other current liabilities

The increase in this account is attributed to the recognition of (a) dividends declared in February 2025 amounting to ₱15,482 million and (b) liabilities amounting to ₱10,270 million in relation to the investment agreement of *CGHI* on January 30, 2025.

LIQUIDITY AND CAPITAL RESOURCES

The following show the cash flows for the three months ended March 31, 2026 and 2025 as well as the capitalization and other selected consolidated financial data as at March 31, 2026 and December 31, 2025:

	Unaudited	
	For the Three Months Ended	
	March 31	
	2026	2025
<u>Cash Flows</u>		
Net cash provided by operating activities	₱3,474	₱9,721
Net cash used in investing activities	8,890	94,135
Net cash provided by financing activities	9,037	103,114
Net increase in cash and cash equivalents	3,621	18,700
<u>Capital Expenditures</u>	25,399	9,435
	March 31,	December 31,
	2026	2025
	(Unaudited)	(Audited)
	<i>(Amounts in millions)</i>	
<u>Capitalization</u>		
Interest-bearing long-term financial liabilities		
Current	₱6,457	₱7,148
Noncurrent	202,668	186,531
Notes payable	29,015	36,367
Equity attributable to equity holders of the parent	166,345	173,137
<u>Other Selected Financial Data</u>		
Total assets	829,790	823,879
Utility plant, generation plant and others	393,565	378,232
Cash and cash equivalents	112,896	109,317

Debt Financing

The details of *MERALCO*'s interest bearing financial liabilities are discussed in Notes 17 and 27 to the consolidated financial statements.

The power plant complex of *PHRI*, generation plant and equipment of *First Bulacan*, *Greenery*, *Solar Philippines Calatagan*, *Solar Philippines Tarlac*, *TNI* and *GSEI* and the solar power plant undergoing development of *MTerra Solar*, with aggregate carrying value of ₱116,502 million as at March 31, 2026, are pledged as securities for the project finance debt.

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 March 31, 2026, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Equity Financing

As at March 31, 2026, *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 ₱1,455 million and ₱1,459 million as at March 31, 2026 and December 31, 2025, respectively. Total unclaimed dividends amounted to ₱248 million as at March 31, 2026 and December 31, 2025. 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.

As at March 31, 2026, the total number of treasury shares is 178,608.

The following are the cash dividends declared on common shares for the for the three months ended March 31, 2026 and 2025:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(<i>In millions</i>)
February 25, 2026	March 26, 2026	April 20, 2026	₱16.67	₱18,791
February 24, 2025	March 12, 2025	April 4, 2025	13.74	15,482

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 exposed to material regulatory uncertainty arising from timing, scope, and outcome of its next rate rebasing and related rate-setting processes. The operating results and financial condition *MERALCO*, *Clark Electric* and *Shin Clark Power* are significantly influenced by regulatory determination on the valuation of the regulatory asset base ("RAB"), the allowable rate of return, and the level and timing of permitted cost recoveries.

Distribution rates billed by *MERALCO* and *Clark Electric* are subject to approval by the *ERC* and are designed to allow a reasonable return on invested capital. Their approved rate structures provide for the pass-through of purchased power costs based on approved *PSAs*, recovery of system loss ("SL") charges subject to an *ERC*-imposed annual cap, and the pass-through of applicable taxes and other allowable charges. *Shin Clark Power* is currently operating under *Return on Rate Base* ("RORB") framework with its *RORB* rate approved by the *ERC* in an Order dated September 18, 2025.

Shin Clark Power is expected to transition to Performance-Based Regulations ("PBR") under the Rationalized Rules for Setting the Distribution Wheeling Rates ("RRDWR") as a Group B entrant, with its first *RP* commencing in January 2027. *MERALCO*, together with three (3) other private distribution utilities ("DUs"), is classified as a Group A entrant to the *PBR*.

Under the *PBR* regime, distribution tariffs are set once every Regulatory Period ("RP") based on an approved rate-setting methodology that considers forecast operating and capital expenditures, as well as the regulated return on approved *RAB*, to ensure compliance with prescribed performance standards and service quality requirements. The *PBR* framework also incorporates incentives and penalty mechanisms that adjust revenues based on network and service performance outcomes. For *MERALCO*, the first regulatory period under *PBR* covers the period from July 1, 2026 to June 30, 2030 ("IRP").

Each *RP* consists of four (4) Regulatory Years ("RYs"), with each *RY* for *MERALCO* running from July 1 to June 30 of the following year. Any delay, modification, or adverse determination by the *ERC* in the approval of rates, regulatory parameters, or performance targets could materially affect *MERALCO*'s ability to recover its costs, earn its approved return, and achieve forecast financial results. In accordance with the *RRDWR*, on February 2, 2026, *MERALCO* filed its regulatory reset application for the *IRP*, covering the period from July 1, 2026 to June 30, 2030. As at May 4, 2026, clarificatory hearings are ongoing. *MERALCO* filed its Formal Offer of Evidence on April 17, 2026.

For the Lapsed Period, the *ERC* approved an average distribution rate of ₱1.3522 per *kWh*. *MERALCO* was authorized to continue implementing this rate until otherwise directed by the *ERC*, net of the Regulatory Reset Fees in the amount of ₱0.0023 per *kWh*, which the *ERC* ordered to be discontinued under *ERC* Case No. 2025-025 RC. There can be no assurance that future rate approvals, true-ups, or regulatory resets will be granted on a timely basis or under terms consistent with *MERALCO*'s expectations.

Regulatory Reset Costs

On December 17, 2024, in *ERC* Resolution No. 18, Series of 2024, the *ERC* also required *DUs* under *PBR* to refund the collected regulatory reset costs from July 2015 to October 2024, 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 May 4, 2026, the *ERC* has yet to respond to *MERALCO*'s letter.

Distribution Rate True-Up ("DRTU") Applications

The *ERC*'s initial Orders for *DRTU* refunds totaling ₱48,247 million were implemented starting 2021 and have been fully refunded to the customers as of the May 2023 billing. This resulted in an excess refund of ₱862 million, which has been reported to the *ERC* in June 2023, including a proposed recovery mechanism. As at May 4, 2026, 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 *ERC*'s decision approving the *DRTU* refund application. As at May 4, 2026, 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. The application also included *MERALCO*'s proposal to offset the recovery of the over refund from the implementation of previous orders of *DRTU* refunds. In an Order dated March 5, 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 recovery of over-refund from the previous *AWAT* refund implementation as this was still to be verified by the *ERC*. *MERALCO* implemented the refund starting in its April 2025 billings. As at March 31, 2026, *MERALCO* has refunded a total of ₱6.3 billion. In the *ERC* Decision dated April 22, 2026, the *ERC* ordered the refund of the remaining unrefunded amount of ₱14.2 billion as of the February billing month or an equivalent average refund rate of ₱0.2511 per *kWh* over 12 months or until such time that the amount shall have been fully refunded to its customers.

Additionally, on August 20, 2025, *MERALCO* filed an application for the confirmation of the true-up calculation of the *AWAT* for the period January 1, 2025 to June 30, 2025. Under *ERC* Resolution No. 23, Series of 2025, entitled, "A Resolution Directing All Private Distribution Utilities ("*PDU*s") to File Their Respective *AWAT* Applications for the Lapsed Period", the *ERC* resolved to adopt a confirmation and true-up process in determining the rates of the *PDU*s to address the lapsed period for their respective Entry Groups and defined the lapsed period for each Entry Group. The *ERC* then directed all *PDU*s to file an application for the confirmation of their *AWAT* as against their last approved rates, within sixty (60) calendar days from the effectivity of the Resolution. However, in *ERC* Resolution No. 1, Series of 2026, the *ERC* clarified the timeline for filing of the *AWAT* and directed all *PDU*s to file, within one hundred twenty (120) days from the effectivity of the *AWAT* Resolution on November 22, 2025, or until March 22, 2026. *MERALCO* filed its application covering the period from July 1, 2025 to December 31, 2025 on or before the stated deadline. As at May 4, 2026, the *ERC* promulgated the Order dated April 1, 2026 setting both *ERC* Case Nos. 2025-178 RC and 2026-040 RC for joint hearing, effectively consolidating both cases.

Capital Expenditure ("CAPEX")

Absent the final rules governing the lapsed period from *RY* 2016, *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. For forecast *CAPEX* after June 30, 2022, the proposals were filed as part of *MERALCO*'s regulatory reset applications.

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, and approval of the *RY* 2018 *CAPEX* amounting to ₱16,370 million, all other applications remain pending with the *ERC*. As at May 4, 2026, *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 *5RP*, covering the period from *RY 2026* to *RY 2029*, on February 7, 2025. As the first *RY* of this reset period lapsed, *MERALCO* filed an Omnibus Motion to: (a) withdraw the application; (b) allow *MERALCO* to re-file its *5RP* Application to cover the period from *RY2027* to *RY2030*; and (c) to consider *RY2026* as lapsed period. In an Order dated January 30, 2026, the *ERC* issued an Order allowing the withdrawal of the Application and directed *MERALCO* to file its new regulatory reset application in accordance with the *RRDWR*.

In accordance with the *RRDWR*, on February 2, 2026, *MERALCO* filed its regulatory reset application for the *IRP*, covering the period from July 1, 2026 to June 30, 2030. As at May 4, 2026, clarificatory hearings are ongoing. However, *MERALCO* filed its Formal Offer of Evidence on April 17, 2026.

PBR Reset for Clark Electric

Similar to *MERALCO*, *Clark Electric* is subject to operational performance and service level requirements approved by the *ERC*.

On December 3, 2025, the *ERC* issued *ERC* Resolution No. 24, Series of 2025, adopting the *RRDWR* for *PDU*s under *PBR*. Pursuant thereto, *Clark Electric* was reclassified from Group D to Group B. Under the *RRDWR*, the first *RY* for Group B will commence on January 1, 2027 and end on December 31, 2027.

During its lapsed period, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY 2015*. In parallel, *Clark Electric* annually filed and manifested as urgent its *CAPEX* requirements with the *ERC* to enable the timely implementation of critical infrastructure projects. As at May 4, 2026, the *CAPEX* applications covering *RY 2015* to *RY 2024* remain pending with the *ERC* while *CAPEX* application for *RY 2025* to *RY 2026* is still pending filing with the *ERC*.

Following the adoption of the *RRDWR*, *Clark Electric* is currently preparing its Application for the Approval of the Annual Revenue Requirement (“*ARR*”) and the Performance Incentive Scheme (“*PIS*”) for the first *RY*, including the approval of the Maximum Average Price (“*MAP*”) for *RY 2027*, and the translation of the approved *MAP* into a distribution rate structure for its various customer classes, in accordance with the provisions of the *RRDWR*.

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:

- 3.5-*GWp* solar power plant with a 4,500-*MWhr* battery energy storage system of *MTerra Solar*
- 450 *MWac* solar plant in Bugallon, Pangasinan
- Hydrogen-ready Combined Cycle Gas Turbine facility in Jurong Island, Singapore
- 49-*MW* Battery Energy Storage System (“*BESS*”) project in Toledo, Cebu

MGreen also entered into 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*”). On March 18, 2026, *NGCP* issued a Provisional Certificate of Approval to Connect (“*PCATC*”) for *Barracuda Energy*’s 450 *MWac* solar power plant.

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.

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 *DU* energy sales stood at 12,273 *GWh* in the first quarter of 2026, 2% lower than 12,493 *GWh* during the same period in 2025. *MERALCO* volumes slipped by 2% due to cooler temperatures compared with warmer post-El Niño conditions in the first quarter last year; while *Clark Electric* posted 1% growth in sales. *Shin Clark* contributed an additional 0.7 *GWh* to consolidated sales. The lower sales volume was partly attributable to the own-use solar installations which accounted for approximately 42 *GWh* decline in sales in the first quarter of 2026.

The commercial segment contributed 38% to the sales mix and delivered 4,704 *GWh*, 1% lower than 4,744 *GWh* year-on-year. Beyond the lower-than-usual temperatures, performance further declined as office demand softened from elevated vacancies, while the retail and hotel sectors slightly contracted following implementation of energy efficiency initiatives. Expansion in cafés and quick-service restaurants provided a partial uplift in the segment.

The residential segment accounted for 34% of total sales, with a volume of 4,111 *GWh*, down 3% from 4,257 *GWh* in the same period last year. Year-to-date average temperatures declined by 1.09°C, reducing organic demand, coupled with the increasing own-use solar installations. On the other hand, there are increasing applications and energization of new services, which provide incremental sales.

The industrial segment maintained a 28% share, with sales of 3,420 *GWh* – a slight 1% decline from 3,455 *GWh* last year. While some sectors faced operational disruptions and economic challenges, the semiconductor and cement industries continued to demonstrate resilience, and remained the primary growth drivers within the segment.

By the end of March 2026, consolidated customer count increased to 8.3 million, 2% more than last year's count.

Lower electricity sales volumes pose a risk to *MERALCO*'s revenue and profitability. Recent volume declines have been driven largely by external factors, including weather variability, increased rooftop solar adoption, and broader economic conditions. A prolonged period of weak electricity demand could adversely affect financial performance, load growth assumptions, revenue recovery, and long-term investment and capacity planning.

Power Supply and Demand Management

The electricity distributed by *MERALCO* and *Clark Electric* is sourced primarily through *PSAs* with generators and long-term *PPAs* with *IPPs*. Any supply shortfall under these *PSAs* and *PPAs* is procured from the *WESM*, which serves as the centralized trading venue where electricity is bought and sold as a commodity.

Below is the summary of *MERALCO* and *Clark Electric*'s electricity suppliers and the respective amounts of power purchased for the three months period ended March 31, 2026 and 2025. The details of the relevant *IPPs* and *PSAs* 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 three months ended March 31, 2026 and 2025 follow:

	Unaudited	
	For the Three Months Ended March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
<i>NGCP</i>	₱18,163	₱13,059
<i>SPPC</i>	14,304	13,195
First Gas Power Corporation (“ <i>FGPC</i> ”)	11,994	13,623
Excellent Energy Resources, Inc. (“ <i>EERF</i> ”)	9,036	8,699
Masinloc Power Partners Co. Ltd. (“ <i>MPPCL</i> ”)	8,331	4,251
GNPower Dinginin Ltd. Co. (“ <i>GNPD</i> ”)	6,421	–
<i>SBPL</i>	4,888	5,029
FGP Corp. (“ <i>FGP</i> ”)	4,635	6,405
San Miguel Energy Corporation (“ <i>SMEC</i> ”)	3,589	3,704
Mariveles Power Generation Corporation (“ <i>MPGC</i> ”)	2,843	–
San Roque Hydropower Inc. (“ <i>SRHP</i> ”)	2,552	–
Independent Electricity Market Operator (“ <i>IEMOP</i> ”)	2,007	9,477
RE Resources, Inc. (“ <i>RERF</i> ”)	986	–
First NatGas Power Corp. (“ <i>FNPC</i> ”)	524	–
ACEN Corporation (“ <i>AC Energy</i> ”)	233	–
Southwest Luzon Power Generation Corporation	212	61
Solar Philippines Tarlac Corporation (“ <i>Solar Philippines Tarlac</i> ”)	146	112
Sem-Calaca Power Corporation (“ <i>Sem-Calaca</i> ”)	118	157
<i>NSEC</i>	116	115
Panay Energy Development Corporation (“ <i>PEDC</i> ”)	51	–
Quezon Power (Philippines) Limited Company (“ <i>QPPL</i> ”)	–	4,799
Limay Power Inc. (“ <i>LPP</i> ”)	–	2,570
Therma Luzon, Inc. (“ <i>TLF</i> ”)	–	346
Others	1,581	825
	₱92,730	₱86,427

The Philippine power supply environment continues to face structural tightening arising from a combination of factors, including the continuing Malampaya gas restriction, rising fuel indices and plant outages due to delayed preventive maintenance and forced outages, and delays in the commissioning of new generation projects. These conditions collectively heighten supply risks and increase exposure to *WESM* procurement.

MERALCO’s baseload capacities with *SPI* (330 MW) and *SPPC* (670 MW) were terminated following the *ERC* denial of the Joint Motions for the Price Adjustment on Notices of *CIC* of *SPI* and *SPPC*. The matter was elevated to the *CA*, which set aside *ERC*’s denial. Subsequently, the *ERC* elevated the case to the *SC*. On July 4, 2024, the *SC* issued a Resolution denying the *ERC*’s Motion for Reconsideration.

Thereafter, the *ERC* approved the two (2) *CIC* claims of *SPI* and *SPPC* totalling ₱34.2 billion. *CIC* 1 totalling ₱5 billion is billable to customers beginning September 2025 billing period over six (6) months until full recovery. *CIC* 2 on the other hand totaling ₱29.3 billion is recoverable over 36 months starting the March 2026 billing period. *AC Energy* filed similar *CIC* claims totaling ₱2.56 billion. On January 26, 2026, the *ERC* granted *AC Energy*’s Updated and Supplemental Joint Motions for Price Adjustment and allowed *AC Energy* to recover from *MERALCO* customers the amount of ₱1.75 billion, over 12 months starting the March 2026 billing period.

The operations of *MERALCO*, *Clark Electric* and *Shin Clark Power*, in their capacity as *DUs*, as well as the *RES* business, may be adversely affected if the electricity suppliers are unable to generate and deliver contracted power. The power generation business is likewise exposed to fuel price volatility, particularly for supply contracts with fixed fuel rate arrangements, as compared to those with pass-through fuel mechanisms, resulting in heightened cost and margin pressures.

Competition

With the effectivity of the *DOE* circulars on Competitive Selection Process (“*CSP*”) and its subsequent amendments and revisions since their publication in 2018, the execution of *PSA* by *MERALCO*’s power generation business has become increasingly competitive. The *CSP* framework is intended to promote transparency, competition and greater private sector participation in ensuring adequate generation capacity to serve the captive market.

However, given the heightened competition under the *CSP* regime, there can be no assurance that *MERALCO*’s power generation business will consistently submit the most competitive bids in terms of price and other commercial parameters. As a result, *MERALCO*’s generation affiliates may not be awarded *PSAs* in certain *CSP* rounds, which could limit contracted capacities, reduce revenue opportunities, and adversely affect the financial condition and results of operations of the power generation business.

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 Electric*, 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 October 12, 2023, a Put Option Agreement was executed by and among *MGreen*, Solar Philippines Power Project Holdings, Inc. (“*SPPPHI*”) and *SPNEC*, covering *MGreen*’s grant to *SPPPHI* 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. In January 2024, *MGreen* acquired 2.2 billion shares of *SPNEC*, attaining a 53.7% equity interest. The following month, *MGreen* extended a ₱6,700.0 million exchangeable loan to *SPPPHI*, which was settled in October 2025 by exchanging it for the remaining 5.8 billion common shares of *SPNEC*, resulting in derecognition of the liability related to the Put Option.

The purchase consideration in the Put Option Agreement included the value of certain entities which may be transferred back to *SPPPHI* at the option of *SPNEC*. On September 3, 2024, *SPNEC* exercised its put option and executed a Deed of Absolute Sale of Shares with *SPPPHI* 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.

In March 2025, *MGreen* extended an additional loan to *SPPPHI* amounting to ₱6,259.1 million which was settled in exchange for 5.0 billion common shares of *SPNEC* in October 2025. As result, *MGreen*’s voting interest in *SPNEC* increased to 69.25% and a reduction in non-controlling interest amounting to ₱6,293.2 million was recognized.

Also 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 ₱29.9 billion. As part of this investment deal, *Actis* infused ₱17.8 billion in cash into *MTerra Solar*. Consequently, unpaid subscription price amounting to ₱12.1 billion was recognized as subscription receivable. On December 17, 2025, *MGreen* and *Actis* entered into a Memorandum of Agreement (“*MOA*”), establishing a mechanism for certain payments to *Actis*. As a result of these equity transactions, a ₱8.4 billion contingent liability was recognized, while the excess of ₱4.1 billion over *Actis* share in the net assets of *MTerra Solar* was recorded as an equity reserve.

MGen secured the Department of Energy’s (“*DOE*”) reaffirmation of the status of its *AIE* 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.

(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 early years of *CSE*, *MERALCO*’s total purchases from *NPC* exceeded the contract level. However, following the Asian crisis in 1997, a decline in energy demand occurred. A dispute ensued with a Settlement Agreement signed between *NPC* and *MERALCO* on July 15, 2003 which was filed with the *ERC* for approval. After the validity of the Settlement Agreement was questioned by the Office of the Solicitor General, the matter was elevated to the *RTC* under a petition for declaratory relief. The *RTC* Decision declaring the Settlement Agreement valid and binding, except for the pass-through provision which remains under the *ERC*’s jurisdiction, was affirmed by both the *CA* and *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 May 4, 2026, *MERALCO* is awaiting further action of the *ERC* on this matter.

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 May 4, 2026, *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 *LGUs* 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*.

On March 26, 2026, following the petition filed by *PEPOA* seeking to amend the provisions of the foregoing resolution, the *ERC* issued Resolution No. 9, Series of 2026 providing for the “Revised Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities” allowing full recovery, as pass-through costs, the arrearages, excluding interests, penalties and other charges, imposed on the paid by *DUs* for the years prior to the effectivity of said rules.

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. 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*. The *COA* then submitted its audit report to the *ERC*.

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, in a Decision dated November 13, 2019, the *SC*: (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: (a) the valuation of the *RAB* of *MERALCO*; and (b) 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. The *SC* Decision is now final and executory.

Under *ERC* Resolution No. 19, Series of 2025, the *ERC* adopted its policy direction in compliance with the *SC* Decision. The *ERC* clarified that the ruling only applies to *MERALCO*'s unbundled rates from June 2003 to June 2007 and does not extend to other *DUs*, regulatory periods or affects final *ERC* decisions. The *ERC* also adopted the trending method for valuing *MERALCO*'s *RAB* for the affected period. A separate Order will be issued to *MERALCO* to submit a revised *RAB* valuation for the covered period using the trending method. The *ERC* will likewise determine the parameters for the pass-through of expenses not directly and entirely related to distribution operations for the same period. Pursuant to the *ERC* Resolution, the *ERC* issued an Order dated February 27, 2026, directing *MERALCO* to submit a new asset valuation report using the trending method for the period covered by the *SC* Decision. *MERALCO* complied with the *ERC*'s Order on May 3, 2026.

(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

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 August 15, 2025, the *ERC* released Resolution No. 22, Series of 2025, entitled “A Resolution Lowering the Eligibility Threshold for Retail Competition and Open Access

("RCOA") and Retail Aggregation Program ("RAP"). In said Resolution, the ERC lowered the demand threshold for eligibility to the Competitive Retail Electricity Market ("CREM)/RCOA to an average monthly peak demand of at least 100 kW effective June 26, 2026.

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. 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.

2. Petition for Dispute Resolution against Philippine Electricity Market Corporation ("PEMC"), National Transmission Corporation ("TransCo"), NPC and Power Sector Assets and Liabilities Management Corporation ("PSALM")

A Petition for Dispute Resolution was filed by MERALCO 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 sought to, among others, direct PEMC to adopt the NPC- Time-of-Use ("TOU") rate or the price determined through the ERC-approved 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.

The ERC eventually found merit in MERALCO's petition and ruled that there is double charging. Thus, NPC was directed to refund line rental adjustment to MERALCO. Discussions ensued on the methodology for segregation of line rental into congestion cost and line losses from the start of the WESM operation. Amounts of refunds were determined and NPC was directed to refund amounts collected for the period November 2006 to August 2012. Additionally, MERALCO was directed to file a petition against several successor generating companies ("SGCs") to recover the line loss collected by them. Among subsequent filings was a Petition for Review on Certiorari (With Urgent TRO and/or Writ of Preliminary Mandatory Injunction Applications) filed by PSALM. The CA dismissed the Petition for Certiorari and upheld the decision on the ERC with respect to the double charging. Another MR filed by PSALM was also denied by the CA with PSALM elevating the case to the SC. The motion has been given due course and is awaiting further action of the SC on the Petition as of May 4, 2026.

3. Petition for Dispute Resolution Against SPPC, MPPCL, Aboitiz Power Renewables, Inc. ("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 SGCs; and 2) approval of MERALCO's proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the SGCs, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, MERALCO received the SGCs' Joint Motion to Dismiss. On October 7, 2013, MERALCO filed its Comment on the said Joint Motion.

On October 8, 2013, MERALCO received the SGCs Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the SGC's Joint Motion to Dismiss. On October 11, 2013, MERALCO filed its pre-trial brief. On October 14, 2013, MERALCO filed its Opposition to the SGC's Manifestation and Motion. On October 24, 2013, MERALCO received the SGC's Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, MERALCO filed its Rejoinder. Thereafter, the SGC's filed their Sur-Rejoinder dated November 4, 2013. As at May 4, 2026, 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 May 4, 2026, the Petition is pending resolution by the *ERC*.

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

After several hearings, petitions and motions, on August 3, 2022, the *SC* affirmed the December 9, 2013 letter of the *ERC* approving *MERALCO*'s proposal to implement a staggered collection over three (3) months and also voided the *ERC*'s March 3, 2014 Order imposing a regulated rate for the said period. A subsequent *MR* was denied with finality by the *SC* on October 11, 2022.

With the foregoing, *MERALCO* and *IEMOP* completed the reconciliation of the final amount to be recovered and a joint letter has been sent to the *ERC* on March 12, 2024 for implementation of the *SC* Decision. As of May 4, 2026, the parties are awaiting the decision of the *ERC* on the recovery of such pass-through charges.

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.

Several proceedings ensued at the *ERC*, *CA* and the *SC*. In a resolution dated September 29, 2021, the *SC* affirmed with the *CA* that the *ERC* has jurisdiction over the cases. In the meantime, the *ERC* resumed hearing to discuss updates and developments related to the case. Pre-trial conferences have been conducted and the *ERC* is in the process of resolving the pending motions filed by the GenCos and *MERALCO*. As of May 4, 2026, the parties are awaiting further action by the *ERC*.

7. Ombudsman Case Against Directors

Certain consumer groups charged the *MERALCO* directors and the *ERC* with alleged conspiracy on the misappropriation of bill deposits received from consumers. On May 18, 2018, the criminal complaint for syndicated estafa was dismissed but the case was referred to the *COA* for conduct of audit with respect to compliance therewith. A subsequent *MR* filed by the same consumer group was denied by the *SC*. Thereafter, the same 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 May 4, 2026, the matter is still pending.

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 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 May 4, 2026, 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, 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 May 4, 2026, 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*, *Clark Electric* and *Shin Clark* exhibit a clear pattern of quarterly seasonality. First quarter *kWh* sales are typically below the annual average, reflecting cooler weather conditions and softer consumer demand following heightened spending during the fourth quarter of the prior year. Second-quarter *kWh* sales are generally higher than the annual average, driven by several factors: increased electricity consumption of households and commercial establishments during the summer months; higher industrial production to replenish inventories and prepare for the opening of classes; and, increased construction activity taking advantage of favorable weather conditions. In the third quarter, manufacturing industries serving export markets typically operate at peak production levels as they rush to meet overseas shipping deadlines. At the same time, industries catering to the domestic market begin ramping up production in preparation for the Christmas season. Fourth quarter sales are generally around the annual average. Industrial activity moderates, while households and commercial establishments reduce cooling loads toward the latter part of the year. Given this seasonal pattern, a higher proportion of *MERALCO*’s and *Clark Electric*’s revenues is typically generated in the second half of the year. Beyond quarterly seasonality, year-on-year movements in *kWh* sales are influenced by broader macroeconomic and environment factors. Electricity sales generally increase during periods of economic growth, low inflation and lower electricity rates, as well as during extended periods of high temperatures, such as those experienced during “*El Niño*” episodes.

MERALCO Group sales for the three months ended March 31, 2026 and 2025 are 12,273 *GWh* and 12,493 *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 March 31, 2026, other than those already disclosed in this report and in the consolidated financial statements.

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

Listed hereunder are *MERALCO*'s five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the three months ended March 31, 2026 and 2025.

Financial Highlights and Ratios⁵ of Major Subsidiaries
As at and for the three months ended March 31, 2026 and 2025
(Amounts in million except for financial ratios and % change)

	<i>Clark Electric</i>			<i>MGen</i>			<i>MIESCOR</i>			<i>e-MVI</i>			<i>CIS</i>		
	<u>2026</u>	<u>2025</u>	<u>% change</u>	<u>2026</u>	<u>2025</u>	<u>% change</u>	<u>2026</u>	<u>2025</u>	<u>% change</u>	<u>2026</u>	<u>2025</u>	<u>% change</u>	<u>2026</u>	<u>2025</u>	<u>% change</u>
Percentage of ownership	65%	65%		100%	100%		100%	100%		100%	100%		100%	100%	
<u>Condensed Statements of Financial Position</u>															
Total assets	₱4,597	₱4,382	5	₱412,863	₱335,062	23	₱19,185	₱16,689	15	₱3,513	₱5,592	(37)	₱4,909	₱6,176	(21)
Current assets	2,043	1,938	5	68,924	66,293	4	11,591	9,105	27	1,566	1,795	(13)	4,796	5,971	(20)
Cash and cash equivalents	1,566	1,417	11	29,798	40,930	(27)	3,194	1,791	78	850	823	3	2,761	3,981	(31)
Equity	2,739	2,702	1	193,490	170,755	13	11,845	10,083	17	1,407	2,074	(32)	546	1,038	(47)
Total debt ⁶	–	–	–	124,810	71,430	75	184	292	(37)	–	630	(100)	–	–	–
Current liabilities	856	736	16	33,603	42,096	(20)	6,807	6,158	11	1,159	1,672	(31)	4,248	4,972	(15)
<u>Financial Ratios</u>															
Debt-to-equity ratio	–	–	–	0.65	0.42	54	0.02	0.03	(46)	–	0.30	(100)	–	–	–
Current ratio	2.39	2.63	(9)	2.05	1.57	30	1.70	1.48	15	1.35	1.07	26	1.13	1.20	(6)
<u>Condensed Statements of Income</u>															
Revenues	1,161	1,015	14	7,794	7,314	7	3,005	2,242	34	735	575	28	345	549	(37)
Costs and expenses	1,058	925	14	5,879	5,502	7	2,531	2,024	25	650	554	17	320	518	(38)
Net income (loss)	114	94	21	5,657	4,202	35	428	166	158	65	11	491	28	35	(20)
<u>Financial Ratios</u>															
Profit margin	9.8%	9.3%	6	72.6%	57.5%	26	14.2%	7.4%	92	8.8%	1.9%	362	8.1%	6.4%	27
Return on equity	4.2%	3.5%	20	2.9%	2.5%	19	3.6%	1.6%	119	4.6%	0.5%	771	5.1%	3.4%	52
Asset turnover	0.26	0.24	8	0.02	0.03	(24)	0.17	0.10	75	0.16	0.10	61	0.06	0.08	(23)

⁵The 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*.

⁶Total 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 March 31, 2026

(Amounts in millions)

	T o t a l	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables - energy	₱48,369	₱12,605	₱3,450	₱15,209	₱17,105
Other trade receivables - service contracts	17,789	13,488	353	282	3,666
Gross trade receivables	66,158	26,093	3,803	15,491	20,771
Non-trade receivables	12,790	12,351	18	–	421
Total receivables	78,948	38,444	3,821	15,491	21,192
Allowance for expected credit losses	(9,649)	(151)	(445)	(964)	(8,089)
Net receivables	₱69,299	₱38,293	₱3,376	₱14,527	₱13,103

Manila Electric Company and Subsidiaries

Consolidated Financial Statements
as at March 31, 2026 (Unaudited) and December 31, 2025 (Audited)
And

For the Three Months Ended March 31, 2026 and 2025 (Unaudited)

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

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	<i>7 and 10</i>	₱393,565	₱378,232
Investments in associates and interests in joint ventures	<i>8 and 23</i>	128,706	140,440
Investment properties	<i>9</i>	1,482	1,483
Intangible assets	<i>7 and 10</i>	40,480	40,658
Deferred tax assets – net	<i>28</i>	26,396	25,706
Other noncurrent assets	<i>2, 11, 15, 26, 27 and 30</i>	27,101	24,136
Total Noncurrent Assets		617,730	610,655
Current Assets			
Cash and cash equivalents	<i>12 and 27</i>	112,896	109,317
Trade and other receivables	<i>13, 24 and 27</i>	69,299	76,726
Inventories	<i>14</i>	10,828	10,983
Other current assets	<i>11, 15, 23 and 27</i>	19,037	16,198
Total Current Assets		212,060	213,224
Total Assets		₱829,790	₱823,879

EQUITY AND LIABILITIES

**Equity Attributable to Equity Holders
of the Parent Company**

Common stock	<i>16</i>	₱11,273	₱11,273
Additional paid-in capital		4,111	4,111
Equity reserve	<i>3</i>	5,953	5,953
Employee stock purchase plan	<i>16</i>	1,049	1,049
Hedging reserve	<i>16 and 27</i>	1,509	483
Unrealized fair value gains on financial assets at fair value through other comprehensive income (“FVOCI”)	<i>11</i>	1,018	895
Remeasurement adjustments on retirement and other post-employment liabilities	<i>26</i>	2,038	2,035
Share in remeasurement adjustments on associates’ retirement liabilities	<i>8</i>	(28)	(28)
Share in other comprehensive income and cumulative translation adjustments of associates	<i>8</i>	1,863	1,861
Cumulative translation adjustments of subsidiaries		(689)	(701)
Treasury shares	<i>16</i>	(13)	(13)
Retained earnings	<i>16</i>	138,261	146,219
Equity Attributable to Equity Holders of the Parent Company		166,345	173,137
Non-controlling Interests	<i>3 and 16</i>	50,526	50,387
Total Equity		216,871	223,524

(Forward)

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	<i>17 and 27</i>	₱202,668	₱186,531
Customers' deposits - net of current portion	<i>18, 22 and 27</i>	39,901	39,206
Long-term employee benefits	<i>26</i>	14,392	13,565
Provisions	<i>19, 22 and 29</i>	12,148	12,335
Refundable service extension costs - net of current portion	<i>22 and 27</i>	3,356	3,371
Deferred tax liabilities - net	<i>28</i>	8,453	8,432
Other noncurrent liabilities	<i>2, 3, 8, 24 and 29</i>	83,759	84,865
Total Noncurrent Liabilities		364,677	348,305
Current Liabilities			
Notes payable	<i>21 and 27</i>	29,015	36,367
Trade payables and other current liabilities	<i>2, 16, 22, 23, 27 and 29</i>	203,768	199,620
Customers' refund	<i>2, 20 and 27</i>	2,850	2,851
Income tax payable		1,852	1,764
Current portion of long-term employee benefits	<i>26</i>	4,300	4,300
Current portion of interest-bearing long-term financial liabilities	<i>17 and 27</i>	6,457	7,148
Total Current Liabilities		248,242	252,050
Total Liabilities		612,919	600,355
Total Liabilities and Equity		₱829,790	₱823,879

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

		Unaudited	
		For the Three Months Ended March 31	
		<i>Note</i>	
		2026	2025
<i>(Amounts in millions, except per share data)</i>			
REVENUES			
Sale of electricity	2, 5, 6, 23, 24, 30 and 32	₱118,097	₱111,753
Sale of other services	23	2,682	2,758
		120,779	114,511
COSTS AND EXPENSES			
Purchased power	24 and 30	92,730	86,427
Salaries, wages and employee benefits	25 and 26	4,749	5,343
Depreciation and amortization	7, 9, 10 and 25	4,362	3,975
Contracted services		2,849	2,715
Coal and fuel		2,023	2,178
Taxes, fees and permits		895	873
Power plant operations and maintenance cost		769	442
Provision for (reversal of provision) for probable charges and expenses from claims	2, 19 and 29	212	(249)
Other expenses	23 and 25	1,907	1,356
		110,496	103,060
OTHER INCOME (EXPENSES)			
Equity in net earnings of associates and joint ventures	8	4,891	3,317
Interest and other financial charges	17, 18 and 21	(2,085)	(2,056)
Interest and other financial income	11 and 12	805	880
Foreign exchange gains (losses)		(24)	120
Others	2, 5, 7, 8, 23, 30 and 32	(827)	(845)
		2,760	1,416
INCOME BEFORE INCOME TAX		13,043	12,867
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current	28	2,637	2,822
Deferred		(759)	(902)
		1,878	1,920
NET INCOME		₱11,165	₱10,947
Attributable To			
Equity holders of the Parent	31	₱10,833	₱10,448
Non-controlling interests		332	499
		₱11,165	₱10,947
Earnings Per Share Attributable to Equity Holders of the Parent			
Basic	31	₱9.61	₱9.27
Diluted		9.61	9.27

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

		Unaudited	
		For the Three Months	
		Ended March 31	
	<i>Note</i>	2026	2025
		<i>(Amounts in millions)</i>	
NET INCOME		₱11,165	₱10,947
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to profit or loss in subsequent periods:			
Unrealized fair value gains (losses) on fair value through other comprehensive (“ <i>FVOCI</i> ”) financial assets	<i>11</i>	112	(572)
Cumulative translation adjustments of subsidiaries		12	–
Cumulative translation adjustments of associates		2	(28)
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods		126	(600)
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement adjustments on retirement and other post-employment liabilities	<i>26</i>	4	76
Income tax effect		(1)	(19)
		3	57
Unrealized fair value gains on equity securities at <i>FVOCI</i>		12	11
Income tax effect		(1)	(1)
		11	10
Change in fair value of cash flow hedges	<i>16 and 27</i>	1,026	(1,277)
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		1,040	(1,210)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		1,166	(1,810)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱12,331	₱9,137
Total Comprehensive Income Attributable To			
Equity holders of the Parent		₱11,999	₱8,638
Non-controlling interests		332	499
		₱12,331	₱9,137

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 2025 AND 2026

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 <i>FVOCI</i> (Note 11)	Remeasure- ment Adjustments on Retirement and Other Post- Employment Liabilities (Note 26)	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities (Note 8)	Share in Other Comprehen- sive 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 (Notes 3 and 6)	Total Equity
	<i>(Amounts in millions)</i>														
At January 1, 2026	₱11,273	₱4,111	₱5,953	₱1,049	₱483	₱895	₱2,035	(₱28)	₱1,861	(₱701)	(₱13)	₱146,219	₱173,137	₱50,387	₱223,524
Net income	-	-	-	-	-	-	-	-	-	-	-	10,833	10,833	332	11,165
Other comprehensive income	-	-	-	-	1,026	123	3	-	2	12	-	-	1,166	-	1,166
Total comprehensive income	-	-	-	-	1,026	123	3	-	2	12	-	10,833	11,999	332	12,331
Dividends	-	-	-	-	-	-	-	-	-	-	-	(18,791)	(18,791)	-	(18,791)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	(193)	(193)
	-	-	-	-	-	-	-	-	-	-	-	(18,791)	(18,791)	(193)	(18,984)
At March 31, 2026	₱11,273	₱4,111	₱5,953	₱1,049	₱1,509	₱1,018	₱2,038	(₱28)	₱1,863	(₱689)	(₱13)	₱138,261	₱166,345	₱50,526	₱216,871

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 (Note 16 and 27)	Unrealized Fair Value Gains on Financial Assets at <i>FVOCI</i> (Note 11)	Remeasure- ment Adjustments on Retirement and Other Post- Employment Liabilities (Note 26)	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities (Note 8)	Share in Other Comprehen- sive 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
	<i>(Amounts in millions)</i>														
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	-	-	-	-	-	-	-	-	-	-	-	10,448	10,448	499	10,947
Other comprehensive income (loss)	-	-	-	-	(1,277)	(562)	57	-	-	(28)	-	-	(1,810)	-	(1,810)
Total comprehensive income (loss)	-	-	-	-	(1,277)	(562)	57	-	-	(28)	-	10,448	8,638	499	9,137
Dividends	-	-	-	-	-	-	-	-	-	-	-	(15,482)	(15,482)	-	(15,482)
Effect of changes in ownership in MERALCO PowerGen Corporation ("MGen")	-	-	3,990	-	-	-	-	-	-	-	-	-	3,990	6,130	10,120
Effect of changes in ownership in CIS Bayad Center, Inc. ("Bayad") and Radius Telecoms, Inc. ("Radius")	-	-	95	-	-	-	-	-	-	-	-	-	95	-	95
Others	-	-	4,085	-	-	-	-	-	-	-	-	(15,482)	(11,397)	(1)	(1)
At March 31, 2025	₱11,273	₱4,111	₱5,040	₱1,049	₱-	₱239	₱999	(₱28)	₱1,575	(₱710)	(₱13)	₱118,305	₱141,840	₱47,911	₱189,751

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	<i>Note</i>	Unaudited	
		For the Three Months Ended March 31	
		2026	2025
<i>(Amounts in millions)</i>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱13,043	₱12,867
Adjustments for:			
Equity in net earnings of associates and joint ventures	8	(4,891)	(3,317)
Depreciation and amortization	7, 9 and 10	4,362	3,975
Interest and other financial charges	17, 18 and 21	2,085	2,056
Interest and other financial income	11 and 12	(805)	(880)
Provision for probable losses and expenses from claims – net of settlement	2 and 29	364	1,602
Provision for (reversal of) expected credit losses (“ECL”)		(1)	23
Others		9	(24)
Operating income before working capital changes		14,166	16,302
Decrease (increase) in:			
Trade and other receivables		3,017	(2,932)
Inventories		155	121
Financial and other current assets		(3,543)	1,656
Increase (decrease) in:			
Trade payables and other current liabilities		(9,369)	(8,368)
Customers’ deposits		710	2,084
Customers’ refund		(1)	–
Long-term employee benefits		916	858
Net cash flows provided by operating activities		6,051	9,721
Income tax paid		(2,577)	–
Net cash flows provided by operating activities		3,474	9,721
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Utility plant and others	7	(19,424)	(25,181)
Financial assets at <i>FVOCI</i>	11	(10,968)	(10,120)
Investments in associates and interests in joint ventures	8	(10,381)	(70,600)
Intangible assets	10	(207)	(11)
Short-term investments		(27)	(445)
Debt securities at amortized cost	11	–	(1)
Proceeds from maturity of:			
Financial assets at <i>FVOCI</i>		11,028	9,555
Short-term investments		17	–
Debt securities at amortized cost		–	308
Proceeds from the return of investment in Chromite Gas Holdings, Inc. (“Chromite Holdings”)	8	18,090	–
Dividends received from associates and joint ventures		2,734	2,084
Cash flow hedge		1,026	(420)
Dividends paid by subsidiaries attributable to non-controlling interests		(984)	–
Interest and other financial income received		836	591
Proceeds from disposal of utility plant and others		59	42
Increase in minority interests		–	215
Increase in financial and other noncurrent assets		(689)	(152)
Net cash used in investing activities		(8,890)	(94,135)

(Forward)

		Unaudited	
		For the Three Months	
		Ended March 31	
	<i>Note</i>	2026	2025
		<i>(Amounts in millions)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Interest-bearing long-term financial liabilities	<i>17</i>	₱17,770	₱81,900
Notes payable	<i>21</i>	1,162	13,800
Payments of:			
Interest-bearing long-term financial liabilities	<i>17</i>	(7,220)	(701)
Notes payable		(3,513)	(119)
Interest and other financial charges		(1,748)	(1,476)
Dividends	<i>16</i>	(458)	-
Proceeds from capital infusion of a non-controlling interest	<i>3 and 13</i>	3,000	10,000
Increase (decrease) in other noncurrent liabilities		44	(290)
Net cash provided by financing activities		9,037	103,114
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,621	18,700
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF PERIOD		109,317	84,480
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON			
CASH AND CASH EQUIVALENTS		(42)	(56)
CASH AND CASH EQUIVALENTS			
AT END OF PERIOD	<i>12</i>	₱112,896	₱103,124

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. The regulated business segment covers the electricity distribution business of *MERALCO*, Clark Electric Distribution Corporation (“*Clark Electric*”), and Shin Clark Power Corporation (“*Shin Clark Power*”). On the other hand, the unregulated businesses consist of power generation; retail electricity supply (“*RES*”); engineering design, construction and consultancy, payment fulfillment, bills collection and fintech, after-the-meter and energy management, insurance and reinsurance; electric mobility; and telecommunication and information technology services.

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. The franchise of *MERALCO* has been renewed for another 25 years through 2053 under *RA* No. 12146, “An Act Renewing for another twenty-five (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/Municipalities of Metro Manila, Bulacan, Cavite and Rizal, and certain Cities/Municipalities/Barangays in Batangas, Laguna, Quezon and Pampanga”.

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 Holdings*”), *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*. *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 IP*”) 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.

The *RES* businesses are executed directly through the local *RES* units, *MPower* for *MERALCO* and *Cogent Energy* for *Clark Electric*, and indirectly through the following affiliate *RES* entities: Vantage Energy Solutions and Management, Inc. (“*Vantage*”), MeridianX Inc. (“*MeridianX*”), Phoenix Power Solutions, Inc. (“*Phoenix Power*”) and MGen Retail Electricity Supplier Corporation (“*MGen RES*”) formerly Global Energy Supply Corporation (“*GESC*”). Clarion Energy Management Inc. (“*Clarion*”), a wholly-owned subsidiary of *Clark Electric*, re-filed its application for a *RES* license with the *ERC* on October 20, 2025. Subsequently, on December 12, 2025, the *ERC* issued the *RES* license.

MERALCO PowerGen Corporation (“*MGen*”), a wholly owned subsidiary of *MERALCO*, owns and operates a total of 5,069.7 *MW* of power generating plants of varying technologies. Its operations is anchored on three (3) pillars: (i) 1,286.2 *MW* of thermal plants held through Global Business Power Corporation (“*GBPC*”) and San Buenaventura Power Ltd. Co. (“*SBPL*”); (ii) 3,375.0 *MW* of liquefied natural gas (“*LNG*”) plants in the Philippines and Singapore through *Chromite Holdings* and *PacificLight Power Pte. Ltd.* (“*PacificLight Power*”); and (iii) 408.5 *MWac* of renewable energy plants through *MGEN Renewable Energy, Inc.* (“*MGreen*”). Through *SP New Energy Corporation* (“*SPNEC*”), it is developing a 3500 *MWdc* solar power plant with a 4,500 *MWh* battery energy storage system.

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 March 31, 2026, *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 47.46% while *JG Summit* has 26.37% direct ownership interest in *MERALCO*. The remaining 26.17% 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 (“*DUs*”), *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 determined in accordance with *ERC*-approved mechanism that governs the recovery of pass-through charges, address over- or under- recoveries, and establish *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 three (3) other private *DUs*.

Rate-setting under *PBR* framework for the first Regulatory Period (“*RP*”), effective from July 1, 2026 to June 30, 2030 (“*IRP*”), is governed by the Rationalized Rules for the Setting of Distribution Wheeling Rates (“*RRDWR*”). Under *PBR*, tariffs are set once every *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 (“*RYs*”). Each *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year.

Implemented Distribution Rate During Lapsed Period

The *ERC*’s approved average rate for the Lapsed Period is ₱1.3522 per *kWh*. *MERALCO* was authorized to continue implementing the said rate until otherwise directed, net of the Regulatory Reset Fees in the amount of ₱0.0023 per *kWh*, which is directed to no longer be collected under *ERC* Resolution No. 18, Series of 2024.

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

On December 17, 2024, in *ERC* Resolution No. 18, Series of 2024, the *ERC* also required *DUs* under *PBR* to refund the collected regulatory reset costs from July 2015 to October 2024, 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 and no longer collect, as part of its distribution wheeling rate, the amount of ₱0.0023 per *kWh*, representing the regulatory reset 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 May 4, 2026, the *ERC* has yet to reply to *MERALCO*’s letter.

Distribution Rate True-Up (“DRTU”) Applications

The *ERC*’s initial Orders for *DRTU* refunds totaling ₱48,247 million were implemented starting 2021 and have been fully refunded to the customers as of the May 2023 billing. This resulted in an excess refund of ₱862 million, which has been reported to the *ERC* in June 2023, including a proposed recovery mechanism. As at May 4, 2026, 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 *ERC*’s decision approving the *DRTU* refund application. As at May 4, 2026, 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. The application also included *MERALCO*’s proposal to offset the recovery of the over refund from the implementation of previous orders of *DRTU* refunds. In an Order dated March 5, 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 recovery of over-refund from the previous *AWAT* refund implementation as this was still to be verified by the *ERC*. *MERALCO* implemented the refund starting in its April 2025 billings. As at March 31, 2026, *MERALCO* has refunded a total of ₱6.3 billion. In the *ERC* Decision dated April 22, 2026, the *ERC* ordered the refund of the remaining unrefunded amount of ₱14.2 billion as of the February billing month or an equivalent average refund rate of ₱0.2511 per *kWh* over 12 months or until such time that the amount shall have been fully refunded to its customers.

Additionally, on August 20, 2025, *MERALCO* filed an application for the confirmation of the true-up calculation of the *AWAT* for the period January 1, 2025 to June 30, 2025. Under *ERC* Resolution No. 23, Series of 2025, entitled, “A Resolution Directing All Private Distribution Utilities (“*PDU*s”) to File Their Respective *AWAT* Applications for the Lapsed Period”, the *ERC* resolved to adopt a confirmation and true-up process in determining the rates of the *PDU*s to address the lapsed period for their respective Entry Groups and defined the lapsed period for each Entry Group. The *ERC* then directed all *PDU*s to file an application for the confirmation of their *AWAT* as against their last approved rates, within sixty (60) calendar days from the effectivity of the Resolution. However, in *ERC* Resolution No. 1, Series of 2026, the *ERC* clarified the timeline for filing of the *AWAT* and directed all *PDU*s to file, within one hundred twenty (120) days from the effectivity of the *AWAT* Resolution on November 22, 2025, or until March 22, 2026. *MERALCO* filed its application covering the period from July 1, 2025 to December 31, 2025 on or before the stated deadline. As at May 4, 2026, the *ERC* promulgated the Order dated April 1, 2026 setting both *ERC* Case Nos. 2025-178 RC and 2026-040 RC for joint hearing, effectively consolidating both cases.

Capital Expenditures (“CAPEX”)

Absent the final rules governing the lapsed period from *RY* 2016, *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. For forecast *CAPEX* after June 30, 2022, the proposals were filed as part of *MERALCO*’s regulatory reset applications.

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, and approval of the *RY* 2018 *CAPEX* amounting to ₱16,370 million, all other applications remain pending with the *ERC*. As at May 4, 2026, *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 *5RP*, covering the period from *RY* 2026 to *RY* 2029, on February 7, 2025. As the first *RY* of this reset period lapsed, *MERALCO* filed an Omnibus Motion to: (a) withdraw the application; (b) allow *MERALCO* to re-file its *5RP* Application to cover the period from *RY*2027-*RY*2030; and (c) to consider *RY*2026 as lapsed period. In an Order dated January 30, 2026, the *ERC* issued an Order allowing the withdrawal of the Application and directed *MERALCO* to file its new regulatory reset application in accordance with the *RRDWR*.

In accordance with the *RRDWR*, on February 2, 2026, *MERALCO* filed its regulatory reset application for the *IRP*, covering the period from July 1, 2026 to June 30, 2030. As at May 4, 2026, clarificatory hearings are ongoing. However, *MERALCO* filed its Formal Offer of Evidence on April 17, 2026.

Clark Electric

Similar to *MERALCO*, *Clark Electric* is subject to operational performance and service level requirements approved by the *ERC*.

On December 3, 2025, the *ERC* issued *ERC* Resolution No. 24, Series of 2025, adopting the *RRDWR* for *PDU*s under *PBR*. Pursuant thereto, *Clark Electric* was reclassified from Group D to Group B. Under the *RRDWR*, the first *RY* for Group B will commence on January 1, 2027 and end on December 31, 2027.

PBR Reset for Clark Electric

During its lapsed period, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. In parallel, *Clark Electric* annually filed and manifested as urgent its *CAPEX* requirements with the *ERC* to enable the timely implementation of critical infrastructure projects. As at May 4, 2026, the *CAPEX* applications covering *RY* 2015 to *RY* 2024 remain pending with the *ERC* while *CAPEX* application for *RY* 2025 to *RY* 2026 is still pending filing with the *ERC*.

Following the adoption of the *RRDWR*, *Clark Electric* is currently preparing its Application for the Approval of the Annual Revenue Requirement (“*ARR*”) and the Performance Incentive Scheme (“*PIS*”) for the first *RY*, including the approval of the Maximum Average Price (“*MAP*”) for *RY* 2027, and the translation of the approved *MAP* into a distribution rate structure for its various customer classes, in accordance with the provisions of the *RRDWR*.

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. 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*. The *COA* then submitted its audit report to the *ERC*.

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, in a Decision dated November 13, 2019, the *SC*: (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: (a) the valuation of the *RAB* of *MERALCO*; and (b) 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. The *SC* Decision is now final and executory.

Under *ERC* Resolution No. 19, Series of 2025, the *ERC* adopted its policy direction in compliance with the *SC* Decision. The *ERC* clarified that the ruling only applies to *MERALCO*'s unbundled rates from June 2003 to June 2007 and does not extend to other *DUs*, regulatory periods or affects final *ERC* decisions. The *ERC* also adopted the trending method for valuing *MERALCO*'s *RAB* for the affected period. A separate Order will be issued to *MERALCO* to submit a revised *RAB* valuation for the covered period using the trending method. The *ERC* will likewise determine the parameters for the pass-through of expenses not directly and entirely related to distribution operations for the same period. Pursuant to the *ERC* Resolution, the *ERC* issued an Order dated February 27, 2026, directing *MERALCO* to submit a new asset valuation report using the trending method for the period covered by the *SC* Decision. *MERALCO* complied with the *ERC*'s Order on May 3, 2026.

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, real property, local franchise and business taxes, including the timelines for *DUs* to file their respective application and post-verification.

On various dates, the *ERC* provisionally approved *MERALCO*'s applications to refund 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 May 4, 2026, *MERALCO* is awaiting final resolution of the *ERC*.

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 May 4, 2026, 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 to be allowed to recover the additional amount of ₱884 million pertaining to the recovery of the CIC claims of PEDC. MERALCO concluded the presentation of its witnesses on March 18, 2026 and thereafter filed its Formal Offer of Evidence on March 27, 2026. As at May 4, 2026, MERALCO is awaiting final resolution of the ERC.

MERALCO filed its application to confirm its over/under recoveries for the period from January 2023 to December 2025 which was docketed on April 8, 2026. As at May 4, 2026, MERALCO is awaiting the ERC’s Order setting the case for hearing.

Clark Electric

Clark Electric filed an application for the approval of its first 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.

Clark Electric completed the implementation of ERC Orders related to the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014 through 2019.

On May 31, 2023, Clark Electric filed its fourth True-up Application covering the years 2020-2022 with the ERC. Hearings were conducted on August 24 and 31, 2023. As at May 4, 2026, the application remains pending with the ERC.

On March 23, 2026, Clark Electric initiated the online pre-filing for its True-up Application covering the years 2023-2025 with the ERC. As at May 4, 2026, the pre-filing 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 May 4, 2026, 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 May 4, 2026, 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 which MERALCO has implemented beginning November 2009 until September 2010. However, the ERC did not rule on MERALCO’s deferred PPA under-recoveries of ₱106 million. On November 4, 2009, MERALCO filed an MR with the ERC. As at May 4, 2026, 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.

Thereafter, LFT paid are subject to a pass-through mechanism under the ERC Resolution No. 2, Series of 2021, “Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes”).

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 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 May 4, 2026, 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:

Subsidiaries	Place of Incorporation	Principal Business Activity	2026		2025	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. (“ <i>CIS</i> ”)	Philippines	e-Transactions	100	–	100	–
<i>Bayad</i> ⁵	Philippines	Bills payment collection	5	87.75	5	87.75
Customer Frontline Solutions, Inc. (“ <i>CFSP</i> ”) ⁴	Philippines	Telling services	–	–	–	100
Meralco Energy, Inc. (“ <i>MServ</i> ”)	Philippines	Energy systems management	100	–	100	–
Aurora Managed Power Services, Inc. (“ <i>AMPS</i> ”) ¹	Philippines	Energy systems management	–	60	–	60
eMeralco Ventures, Inc. (“ <i>e-MVT</i> ”)	Philippines	e-Business development	100	–	100	–
Paragon Vertical Corporation (“ <i>Paragon</i> ”)	Philippines	Information technology (“ <i>IT</i> ”) and multi-media services	–	100	–	100
<i>Radius</i>	Philippines	Telecommunication services	–	65.10	–	65.10
<i>MGen</i>	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation ²	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. (“ <i>AIE</i> ”) ²	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 (“ <i>MPG Asia</i> ”)	British Virgin Islands	Holding company	–	100	–	100
<i>Solvre, Inc.</i> ²	Philippines	Retail electricity supplier	–	100	–	100
<i>MGreen</i>	Philippines	Renewable energy	–	100	–	100
LagunaSol Corporation (“ <i>LagunaSol</i> ”) ²	Philippines	Renewable energy	–	100	–	100
Greentech Solar Energy, Inc. (“ <i>GSEI</i> ”)	Philippines	Renewable energy	–	100	–	100
MGreen International Limited (“ <i>MGreen International</i> ”)	British Virgin Islands	Holding company	–	100	–	100
Global Hydro Power Corporation	Philippines	Power generation	–	100	–	100
PacificLight Renewables Pte Ltd (“ <i>PLP Renewables</i> ”)	British Virgin Islands	Investment and holding company	–	58	–	58
Nortesol III Inc. (“ <i>NorteSol</i> ”) ²	Philippines	Renewable energy	–	70	–	70
Powersource First Bulacan Solar, Inc. (“ <i>First Bulacan</i> ”)	Philippines	Renewable energy	–	60	–	60
CACI Power Corporation	Philippines	Power generation	–	60	–	60
PH Renewables Inc. (“ <i>PHRF</i> ”)	Philippines	Power generation	–	60	–	60
Greenergy For Global Inc. (“ <i>Greenergy</i> ”)	Philippines	Renewable energy	–	98.16	–	98.16

Subsidiaries	Place of Incorporation	Principal Business Activity	2026		2025	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
		Development of power generation plants	–	57.33	–	69.25
<i>SPNEC</i>	Philippines					
Terra Nueva, Inc. (“ <i>TNP</i> ”)	Philippines	Real estate	–	57.33	–	69.25
Solar Philippines Tarlac Corporation (“ <i>Solar Philippines Tarlac</i> ”)	Philippines	Renewable energy	–	57.33	–	69.25
Terra Solar Philippines, Inc. (“ <i>MTerra Solar</i> ”)	Philippines	Renewable energy	–	34.40	–	41.55
Solar Philippines Calatagan Corporation (“ <i>Solar Philippines Calatagan</i> ”)	Philippines	Renewable energy	–	35.55	–	42.94
SP Holdings, Inc.	Philippines	Holding company	–	57.33	–	69.25
<i>GBPC</i>	Philippines	Holding company	–	100	–	100
ARB Power Ventures, Inc.	Philippines	Holding company	–	100	–	100
Toledo Power Company (“ <i>TPC</i> ”)	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
<i>MGen RES</i>	Philippines	Retail electricity supplier	–	100	–	100
Toledo Energy Development Corporation formerly Mindanao Energy Development Corporation	Philippines	Power generation	–	100	–	100
Global Renewable Power Corporation	Philippines	Renewable energy	–	100	–	100
Panay Power Holdings Corporation	Philippines	Holding company	–	89.30	–	89.30
<i>PEDC</i>	Philippines	Power generation	–	89.30	–	89.30
Panay Power Corporation (“ <i>Panay Power</i> ”)	Philippines	Power generation	–	89.30	–	89.30
Global Formosa Power Holdings, Inc.	Philippines	Holding company	–	93.20	–	93.20
Cebu Energy Development Corporation (“ <i>CEDC</i> ”)	Philippines	Power generation	–	52	–	52
Global Luzon Energy Development Corporation (“ <i>GLEDC</i> ”)	Philippines	Power generation	–	57	–	57
Lunar Power Core, Inc.	Philippines	Holding company	–	57	–	57
MGen Gas Energy Holdings, Inc. (“ <i>MGas</i> ”)	Philippines	Holding company	–	100	–	100
MSpectrum, Inc. (“ <i>Spectrum</i> ”)	Philippines	Renewable energy	100	–	100	–
<i>Vantage</i>	Philippines	Retail electricity supplier	100	–	100	–
Meralco Financial Services Corporation (“ <i>Finserve</i> ”)	Philippines	Property management and leasing	100	–	100	–
Lighthouse Overseas Insurance Limited (“ <i>LOIL</i> ”)	Bermuda	Insurance	100	–	100	–
MRAIL, Inc. (“ <i>MRail</i> ”)	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
<i>Phoenix Power</i> ²	Philippines	Retail electricity supplier	100	–	100	–
Movem Electric, Inc. (“ <i>Movem</i> ”)	Philippines	Maintenance and operation of transport service networks	100	–	100	–
Meralco Industrial Engineering Services Corporation (“ <i>MIESCOR</i> ”) ³	Philippines	Engineering, construction and consulting services	99.74	–	99.74	–
Miescor Builders Inc. (“ <i>MBI</i> ”)	Philippines	Electric transmission and distribution operation and maintenance services	–	99.74	–	99.74
Miescor Logistics Inc. (“ <i>MLI</i> ”)	Philippines	General services, manpower/maintenance	–	99.74	–	99.74
Customer Frontline Solutions, Inc. (“ <i>CFSF</i> ”) ⁴	Philippines	Telling services	–	99.74	–	–
<i>Clark Electric</i>	Philippines	Power distribution	65	–	65	–
<i>Clarion</i> ²	Philippines	Retail electricity supplier	–	65	–	65
<i>Comstech</i>	Philippines	Management of power distribution	60	–	60	–

Subsidiaries	Place of Incorporation	Principal Business Activity	2026		2025	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
<i>MeridianX</i>	Philippines	Retail electricity supplier	–	60	–	60
Greater Pampanga Power Corp. ²	Philippines	Power distribution	–	60	–	60
Meridian Power Ventures Limited (“MPV Limited”) ²	Hongkong	Investment holdings	100	–	100	–
<i>Shin Clark Holdings</i>	Philippines	Holding company	60	–	60	–
<i>Shin Clark Power</i>	Philippines	Power distribution	–	54	–	54

¹ The BOD of AMPSI approved the dissolution and shortening of corporate life until March 31, 2021. As of March 31, 2026, the dissolution and shortening of corporate life of AMPSI is still pending approval by the SEC.

² Has not started commercial operations.

³ MIESCOR Retirement Fund has less than 1% equity interest in MIESCOR.

⁴ In September 2025, MIESCOR completed the acquisition of 400,000 common shares of CFSI from Bayad, representing 100% equity interests.

⁵ Bayad is currently owned by CIS, Kayana, and MERALCO with equity interests of 85%, 10%, and 5%, respectively. On April 17, 2026, MERALCO, CIS and Kayana signed a Share Purchase Agreement for the sale of 90% share in Bayad to Kayana. The completion of the transaction is subject to the satisfaction of certain conditions precedent.

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.

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 ₱29.9 billion. As part of this investment deal, *Actis* infused a total ₱20.8 billion in cash into *MTerra Solar* as at March 31, 2026. Consequently, unpaid subscription price as at March 31, 2026 and December 31, 2025 amounting to ₱9.1 billion and ₱12.1 billion was recognized as subscription receivable. On December 17, 2025, *MGreen* and *Actis* entered into a Memorandum of Agreement (“*MOA*”), establishing a mechanism for certain payments to *Actis*. As a result of these equity transactions, a ₱8.4 billion contingent liability was recognized, while the excess of ₱4.1 billion over *Actis* share in the net assets of *MTerra Solar* was recorded 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. As a result, the difference between the redemption of shares and settlement of dividends and the ₱2,348.0 million balance of the non-controlling interest amounting to ₱547.6 million was recognized as an equity reserve.

SPNEC

On October 12, 2023, a Put Option Agreement was executed by and among *MGreen*, Solar Philippines Power Project Holdings, Inc. (“*SPPPHI*”) and *SPNEC*, covering *MGreen*’s grant to *SPPPHI* 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. In January 2024, *MGreen* acquired 2.2 billion shares of *SPNEC*, attaining a 53.7% equity interest. The following month, *MGreen* extended a ₱6,700.0 million exchangeable loan to *SPPPHI*, which was settled in October 2025 by exchanging it for the remaining 5.8 billion common shares of *SPNEC*, resulting in derecognition of the liability related to the Put Option.

The purchase consideration in the Put Option Agreement included the value of certain entities which may be transferred back to *SPPPHI* at the option of *SPNEC*. On September 3, 2024, *SPNEC*

exercised its put option and executed a Deed of Absolute Sale of Shares with *SPPPHI* 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.

In March 2025, *MGreen* extended an additional loan to *SPPPHI* amounting to ₱6,259.1 million which was settled in exchange for 5.0 billion common shares of *SPNEC* in October 2025. As result, *MGreen*'s voting interest in *SPNEC* increased to 69.25% and a reduction in non-controlling interest amounting to ₱6,293.2 million was recognized.

Furthermore, *MGreen* derecognized the liability related to the initial investment in *SPNEC* amounting to ₱2,200.0 million following change in management decision to proceed with the planned acquisition of 1.6 billion common shares of *SPNEC* in 2025. Consequently, a corresponding increase in non-controlling interest and equity reserve amounting to ₱2,010.9 million and ₱189.1 million, respectively, was recognized.

On January 14, 2026, *SPNEC* redeemed the 19.4 billion preferred shares issued to *MGreen* for ₱194.0 million. As a result, *MGreen*'s voting interest was reduced to 57.33%.

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.

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 its 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 2026. 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*.

- Amendments to Illustrative Examples on *PFRS 7, PFRS 18, PAS 1, PAS 8, PAS 26 and PAS 37, Disclosures about Uncertainties in the Financial Statements*
- Amendments to *PFRS 9 and PFRS 7, Classification and Measurement of Financial Instruments*
- Amendments to *PFRS 9 and PFRS 7, Contracts Referencing Nature-dependent Electricity*
- 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*

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Earlier adoption is permitted, and that fact must be disclosed. When applying the amendments, an entity cannot restate comparative information.

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, 2027

- *PFRS 17, Insurance Contracts*
- *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:

<u>Asset Type</u>	<u>Estimated Useful Lives</u>
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 (“ <i>ROU</i> ”) 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 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 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*. *ECLs* 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.

ECLs are measured in a way that reflects the following:

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

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

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

For trade receivables and contract assets, a simplified approach is applied in calculating *ECLs*. Changes in credit risk are not tracked, instead a loss allowance based on lifetime *ECLs* 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 *ECLs* 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, *ECLs* 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 "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) rereasurements 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 units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation (“*PSALM*”) and National Transmission Corporation (“*TransCo*”), respectively] do not form part of 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 *MERALCO Group*'s contract liabilities include assets funded by customers and over-recoveries of pass-through charges.

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.

Net Over-recoveries of Pass-through Charges

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

Cost and Expense Recognition

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

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.

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.

Arrangement that Contains a Lease

As assessed, the *PPAs* and *PSAs* 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 *PPAs* and *PSAs* 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 *PPAs* and *PSAs*. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end.

Revenues from electricity service 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. Co. ("*SBPL*") and 60% interest in Chromite Gas Holdings, Inc. ("*Chromite Holdings*"). While *MERALCO* has majority of the voting rights in *SBPL* and *Chromite Holdings*, it does not have sole control of the entities. *MERALCO*'s investments in *SBPL* and *Chromite Holdings* are accounted for as a joint venture since key operating and financial decisions of these entities 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 Power*. *MERALCO*'s investment in *PacificLight Power* is accounted for as an associates since its 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. 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 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.

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

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 *EPPAs* 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.

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 ₱3,999 million and ₱3,608 million for the three months ended March 31, 2026 and 2025, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱393,565 million and ₱378,232 million as at March 31, 2026 and December 31, 2025, respectively.

Total depreciation of investment properties amounted to ₱1 million for each of the three months ended March 31, 2026 and 2025. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,482 million and ₱1,483 million as at March 31, 2026 and December 31, 2025, respectively.

Total amortization of intangible assets with finite lives amounted to ₱362 million and ₱366 million for the three months ended March 31, 2026 and 2025, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱40,480 million and ₱40,658 million as at March 31, 2026 and December 31, 2025, 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	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Utility plant, generation plant and others	₱393,565	₱378,232
Investments in associates and interests in joint ventures	128,706	140,440
Intangible assets	40,480	40,658
Investment properties	1,482	1,483

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 – 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. As of March 31, 2026 and December 31, 2025, the temporary differences without deferred tax amounted to ₱5,939 million and ₱6,769 million, respectively.

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 *ECLs* 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 *ECLs* are considered.

ECLs for trade and other receivables, net of recoveries, amounted to ₱1 million (benefit) and ₱28 million (expense) for the three months ended March 31, 2026 and 2025, respectively. Trade and other receivables, net of allowance for *ECL*, amounted to ₱69,299 million and ₱76,726 million as at March 31, 2026 and December 31, 2025, respectively.

See *Note 13 – Trade and Other Receivables*.

Estimating Net Realizable Value of Inventories

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

The carrying values of inventories amounted to ₱10,828 million and ₱10,983 million as at March 31, 2026 and December 31, 2025, 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 ₱456 million and ₱493 million for the three months ended March 31, 2026 and 2025, respectively. Retirement and other post-employment benefit liabilities as at March 31, 2026 and December 31, 2025 amounted to ₱14,026 million and ₱13,559 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 March 31, 2026 and December 31, 2025, provisions and other noncurrent liabilities are presented net of the effect of the time value of money of ₱6,396 million and ₱7,476 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 billing of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by power generation companies is taken up in the subsequent period. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

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 liabilities” accounts in the consolidated statement of financial position. As at March 31, 2026 and December 31, 2025, the balance of refund liability (gross of present value adjustments) amounted to ₱22,940 million and ₱22,839 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.

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 Holdings 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*, incorporated and registered with the *SEC*, 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 5,069.7 *MW* (net) of coal, liquid natural gas, renewable and diesel plants in the Philippines and Singapore. In addition, it is developing a total of 3,950 *MWp* of solar capacities.

This portfolio includes the 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon operated by *SBPL*, of which *MGen* has a 51% interest.

GBPC owns 831 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. This 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 100% interest in *Sarangani Energy*.

MGreen, wholly owned subsidiary of *MGen*, is engaged in the development, construction and operation of solar power facilities. *MGreen* holds a 60% equity interest in *First Bulacan*, which owns and operates a 55 *MWac* utility scale solar facility in San Miguel, Bulacan, under an *ERC*-approved *PSA* with *MERALCO* for a period of 20 years up to April 2041.

In 2025, *MGreen* inaugurated the 52.7 *MWac* solar power plant of *Greenenergy* and the 19.8 *MWac* solar power plant of *GSEI*.

SPNEC, through its subsidiaries *MTerra Solar* (60%) and *TNI* (100%), are 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 2026 while the balance is due to be completed in 2027. *SPNEC* is 69.25% owned by *MGreen*.

MGen also secured confirmation from the Department of Energy's ("DOE") that the 1,200-*MW* ultra supercritical coal-fired power project of *AIE* remains a Committed Project and is outside the coverage of the coal moratorium policy.

PHRI, in partnership with Mitsui & Co.'s local unit Mit-Renewables Philippine Corporation, owns and operates a total of 80.1 *MWac* solar plant in Baras, Rizal ("*Baras Solar Plant*"). Separately, Nuevo Solar Energy Corporation ("*NSEC*"), a joint venture between *MGreen* and Vena Energy Solar PH B.V. ("*Vena Energy*"), owns and operates a 68.7 *MWac* solar plant in Ilocos Norte.

MGreen also entered into 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*"). On March 18, 2026, *NGCP* issued a Provisional Certificate of Approval to Connect ("*PCATC*") for *Barracuda Energy*'s 450 *MWac* solar power plant.

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

Outside the Philippines, *MGen* holds a combined 58% (direct and indirect) interests in *PacificLight Power*, which owns and operates a 2 x 400 *MW* LNG-fueled combined cycle turbine power plant on Jurong Island, Singapore. In May 2025, *PacificLight Power* completed and commissioned a 100 *MW* fast-start LNG facility to provide ancillary services under a 25-year contract with Singapore's Energy Market Authority ("*EMA*"). In January 2025, *PacificLight Power* was awarded the right to develop a hydrogen-ready Combined Cycle Gas Turbine ("*CCGT*") facility with a capacity of at least 600 *MW*, scheduled to commence 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. As distribution utilities, *MERALCO* and *Clark Electric* are also licensed to operate as local retail electricity suppliers within their respective franchise area through their separate business units, *MPower* and *Cogent Energy*. Under Retail Competition and Open Access ("*RCOA*") framework, qualified contestable customers may procure electricity from any licensed retail electricity supplier, including *MPower* and *Cogent Energy*.

Affiliate *RES* entities include *Vantage* and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*; and *MGen RES*, a wholly owned subsidiary of *GBPC* are affiliate *RES*s. *Clarion*, a wholly owned subsidiary of *Clark Electric*, was issued its *RES* license by the *ERC* on December 12, 2025, following the re-filing of its application and submission of updated requirements.

- 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*, *MLI* and *CFSI* (collectively known as “*MIESCOR Group*”), *CIS* and *Bayad* (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 (“*CCNP*”). 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.

	Note	Power		Other Services		Inter-segment Transactions		Total	
		For the Three Months Ended March 31							
		2026	2025	2026	2025	2026	2025	2026	2025
<i>(Amounts in Millions)</i>									
Revenues		₱118,097	₱111,753	₱4,978	₱4,444	(₱2,296)	(₱1,686)	₱120,779	₱114,511
Segment results		₱13,229	₱13,893	₱777	₱559	₱-	₱-	₱14,006	₱14,452
Depreciation and amortization	7, 8 and 10	(4,170)	(3,732)	(192)	(243)	-	-	(4,362)	(3,975)
Provision (reversal of provision) for probable losses and expenses from claims	2, 19 and 29	(243)	259	31	(10)	-	-	(212)	249
Interest and other financial income	24	737	826	68	54	-	-	805	880
Equity in net earnings of associates and joint ventures	8	4,891	3,317	-	-	-	-	4,891	3,317
Interest and other financial charges	24	(2,068)	(2,032)	(17)	(24)	-	-	(2,085)	(2,056)
Provision for income tax - net	27	(1,770)	(1,841)	(108)	(79)	-	-	(1,878)	(1,920)
Net income attributable to non-controlling interests		-	-	-	-	(332)	(499)	(332)	(499)
Net income attributable to equity holders of the Parent		₱10,606	₱10,690	₱559	₱257	(₱332)	(₱499)	₱10,833	₱10,448
CCNI		₱10,879	₱10,910	₱547	₱262	₱-	₱-	₱11,426	₱11,172

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 Three Months Ended	
	March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
<i>EBITDA</i>	₱18,735	₱17,920
Add (deduct):		
Depreciation and amortization	(4,362)	(3,975)
Interest and other financial charges net of income and foreign exchange adjustments	(1,330)	(1,078)
Income before income tax	13,043	12,867
Provision for income tax - net	(1,878)	(1,920)
Net income	11,165	10,947
Net income for the period attributable to non-controlling interests	(332)	(499)
Net income for the period attributable to equity holders of the parent company	10,833	10,448
Add (deduct) non-core items, net of tax:		
Non-core losses - net	891	805
Foreign exchange gains	(298)	(81)
<i>CCNI</i>	₱11,426	₱11,172

7. Utility Plant, Generation Plant and Others

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

March 31, 2026 (Unaudited)										
Note	Data									
	Land	Power Plant Machinery and Equipment	Sub- transmission and Distribution	Communication Towers, Buildings and Improvements	Transmission Cables and Communi- cation Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
<i>(Amounts in millions)</i>										
Cost:										
Balance at beginning of period	₱38,654	₱53,755	₱271,430	₱14,687	₱7,836	₱6,899	₱5,995	₱15,282	₱121,777	₱536,315
Additions	4	14	691	1	-	30	79	182	18,423	19,424
Transfers from construction in progress	-	37	3,374	51	(1)	55	-	74	(3,590)	-
Disposals/retirements	-	-	(565)	-	-	-	(2)	(1)	(4)	(572)
Reclassifications and others	<i>10</i>	9	-	3	(1)	-	-	(59)	219	171
Balance at end of period	38,658	53,815	274,930	14,742	7,834	6,984	6,072	15,478	136,825	555,338
Less accumulated depreciation and amortization:										
Balance at beginning of period	-	14,330	111,215	5,215	4,732	4,998	3,850	5,952	-	150,292
Depreciation and amortization	-	781	2,513	124	129	158	117	177	-	3,999
Disposals/retirements	-	-	(510)	-	-	-	(2)	(1)	-	(513)
Reclassifications and others	-	(12)	-	-	(3)	-	(10)	215	-	190
Balance at end of period	-	15,099	113,218	5,339	4,858	5,156	3,955	6,343	-	153,968
Less allowance for impairment losses										
Balance at beginning of period	-	292	-	-	1,220	-	-	-	6,279	7,791
Reclassification and others	-	-	-	-	(28)	-	-	-	42	14
Balance at end of period	-	292	-	-	1,192	-	-	-	6,321	7,805
Net book value	₱38,658	₱38,424	₱161,712	₱9,403	₱1,784	₱1,828	₱2,117	₱9,135	₱130,504	₱393,565

December 31, 2025 (Audited)											
<i>Note</i>	Land	Power Plant Machinery and Equipment	Sub- transmission and Distribution	Communication Towers, Buildings and Improvements	Transmission Cables and Communi- cation Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total	
<i>(Amounts in millions)</i>											
Cost:											
Balance at beginning of period	P31,601	P49,979	P254,667	P13,445	P7,666	P6,137	P5,476	P13,526	P49,999	P432,496	
Additions	7,058	2,458	699	94	38	724	646	927	94,006	106,650	
Transfers from construction in progress	-	1,080	18,985	1,275	389	36	-	312	(22,077)	-	
Disposals/retirements	(10)	(1,331)	(3,051)	(137)	(1)	(9)	(128)	(297)	-	(4,964)	
Reclassifications and others	<i>10</i>	5	1,569	130	10	(256)	11	814	(151)	2,133	
Balance at end of period	38,654	53,755	271,430	14,687	7,836	6,899	5,995	15,282	121,777	536,315	
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	-	3,060	9,588	504	692	589	430	703	-	15,566	
Disposals/retirements	-	(1,331)	(3,050)	(134)	-	(7)	(103)	(233)	-	(4,858)	
Reclassifications and others	-	3,741	27	(279)	149	(8)	-	(1,450)	-	2,180	
Balance at end of period	-	14,330	111,215	5,215	4,732	4,998	3,850	5,952	-	150,292	
Less allowance for impairment losses											
Balance at beginning of period	-	292	-	-	-	-	-	-	6,299	6,591	
Charge for the period	-	-	-	-	1,220	-	-	-	(20)	1,200	
Balance at end of period	-	292	-	-	1,220	-	-	-	6,279	7,791	
Net book value	P38,654	P39,133	P160,215	P9,472	P1,884	P1,901	P2,145	P9,330	P115,498	P378,232	

As at March 31, 2026 and December 31, 2025, the net book values of customer-funded assets included in “Utility plant, generation plant and others” account amounted to ₱6,698 million and ₱6,643 million, respectively. The corresponding liabilities to customers in the same amounts as at March 31, 2026 and December 31, 2025 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*, *Greenery*, *Solar Philippines Calatagan*, *Solar Philippines Tarlac*, *TNI* and *GSEI* and the solar power plant undergoing development of *MTerra Solar*, with aggregate carrying value of ₱116,502 million as at March 31, 2026, are pledged as securities for the project finance debt.

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

As at March 31, 2026 and December 31, 2025, the capitalized site preparation expenses for the development of a power generation plant of *AIE* amounted to ₱12,751 million and ₱12,740 million, respectively. Allowance for impairment loss amounted to ₱6,571 million as at March 31, 2026 and December 31, 2025.

In 2025, *Radius* recognized an impairment loss amounting to ₱1,220.0 million related to network assets deployed to support its RED Fiber consumer business due to their under-utilization. The recoverable amount was determined based on value in use, using cash flow projections approved by management and a market-based interest rate.

Construction in progress pertains to both electric capital projects (“*ECPs*”) and non-*ECPs*. *ECPs* are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Non-*ECPs* mainly represent construction of *MGen*’s power plant projects, *MERALCO*’s buildings and improvements, and *Radius*’ network expansion projects. Total interest capitalized amounted to ₱1,565 million and ₱319 million based on average capitalization rate of 6% for the three months ended March 31, 2026 and 2025.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

			March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Associates				
FPM Power Holdings Limited (“ <i>FPM Power</i> ”)/ <i>PacificLight Power</i>	British Virgin Islands/ Singapore	Investment and holding company/ Power generation	58	58
<i>ATEC</i>	Philippines	Power generation	50	50
<i>Barracuda Energy</i>	Philippines	Renewable energy	50	50
Redondo Peninsula Energy Inc. (“ <i>RP Energy</i> ”)	Philippines	Power generation	47	47
Pacific Medco Solar Energy Pte Ltd. (“ <i>Pacific Medco</i> ”)	Singapore	Renewable energy	21.46	21.46
Aclara Meters Philippines, Inc. (“ <i>Aclara Meters</i> ”)	Philippines	Sale of metering products and services	35	35
Power Distribution Services Ghana Limited (“ <i>PDS Ghana</i> ”)	Ghana	Distribution of power	30	30
<i>Kayana</i>	Philippines	Electronic payment and reward system	27.50	27.50
Terra Renewables Holdings, Inc.	Philippines	Holding company	34.6	34.6
<i>Pylon</i>	Philippines	Holding company	25.56	25.56

			March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Indra Philippines, Inc. (“ <i>Indra Philippines</i> ”)	Philippines	Management and <i>IT</i> consultancy	24.95	24.95
<i>AF Payments</i>	Philippines	Electronic payment clearing and settlement system operator	10	10
Joint Ventures				
<i>Chromite Holdings</i>	Philippines	Holding company	60	60
<i>SBPL</i>	Philippines	Power generation	51	51
Kalilayan Power, Inc.	Philippines	Holding company	51	51
MRail-DESCO Joint Venture (“ <i>MDJV</i> ”)	Philippines	Maintenance of mass transit system	51	51
Pure Meridian Hydropower Corporation (“ <i>Pure Meridian</i> ”)	Philippines	Renewable energy	50	50
<i>NSEC</i>	Philippines	Power generation	50	50
First Balfour-MRail Joint Venture (“ <i>FBMJV</i> ”)	Philippines	Maintenance of mass transit system	49	49
MPioneer Insurance Inc. (“ <i>MPioneer</i> ”)	Philippines	Insurance	35	35
Rockwell Business Center Joint Venture (“ <i>RBC JV</i> ”)	Philippines	Real estate	30	30

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

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Acquisition cost:			
Balance at beginning of period		₱127,468	₱42,378
Additions		4,196	86,946
Return of investment		(18,090)	-
Hedge accounting adjustment in cost	27	-	(1,717)
Reclassification		-	(139)
Balance at end of period		113,574	127,468
Accumulated equity in net earnings:			
Balance at beginning of period		11,519	3,968
Equity in net earnings for the period		4,891	16,731
Dividends received		(2,734)	(9,181)
Reclassification		1	1
Balance at end of period		13,677	11,519
Share in remeasurement adjustments on retirement liabilities			
		(28)	(28)
Share in cumulative translation adjustments:			
Balance at beginning of period		2,605	1,866
Cumulative translation adjustments for the period		-	739
Balance at end of period		2,605	2,605
Share in other comprehensive income:			
Balance at beginning of period		(744)	(291)
Share in other comprehensive income for the period		2	(453)
Balance at end of period		(742)	(744)
Allowance for impairment loss		(380)	(380)
		₱128,706	₱140,440

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

	Note	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Associates:			
<i>FPM Power/PacificLight Power</i>		₱24,324	₱20,898
<i>ATEC</i>		10,135	9,831
<i>Pylon</i>	3	6,123	6,181
<i>Barracuda Energy</i>	6	3,605	3,170
<i>Kayana</i>		724	638
<i>Indra Philippines</i>		416	397
<i>Pacific Medco</i>		221	221
<i>Aclara Meters</i>		132	117
<i>RP Energy</i>		119	119
Others		47	52
Joint ventures:			
<i>Chromite Holdings</i>		71,620	87,196
<i>SBPL</i>		9,281	9,693
<i>RBC JV</i>		749	726
<i>NSEC</i>		576	578
<i>MPioneer</i>		576	565
<i>MDJV</i>		58	58
		₱128,706	₱140,440

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 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) 100% 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 finalized on September 13, 2024.

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.

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.

Pacific Medco

PLP Renewables is 58%-owned by *MERALCO* through *MGreen International* (a wholly-owned subsidiary of *MGreen*). *PLP Renewables* has a 37% equity interest in *Pacific Medco*, 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%, 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.

RP Energy

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

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*”) expired 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*.

Chromite Holdings

On January 27, 2025, *Chromite Holdings*, which is a joint venture between *MGen* (60%) and *TNGP* (40%), completed the acquisition of 67% stake in the two (2) gas-fired power plants owned by San Miguel Global Power Holdings Corp. (“*San Miguel Global*”), the 1,200 *MW* Ilijan power plant of South Premiere Power Corporation (“*SPPC*”), 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 *SPPC* and *EERI*.

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

	Amounts in millions
Cash paid	₱69,663
Hedge accounting adjustment	(1,717)
Liabilities	12,033
Total purchase consideration	₱79,979

In February 2026, *MGen* settled ₱6,185.4 million Investment Agreement-related liabilities.

The fair values of the identifiable assets and liabilities as at the date of acquisition, are as follows:

	Amounts in millions
Generation plant and others	₱148,668
Intangible assets	102,154
Other noncurrent assets	429
Cash and cash equivalents	1,918
Trade and other receivables	11,137
Inventories	4,474
Other current assets	23,683
Trade and other payables	(40,672)
Interest-bearing long-term financial liabilities	(14,834)
Deferred tax liabilities	(31,784)
Other noncurrent liabilities	(6,220)
Net identifiable assets	198,953
Equity interest acquired	40.2%
Net assets acquired	₱79,979

On March 19, 2026, *Chromite Holdings* redeemed the preferred shares owned by *MGen* amounting to ₱18,090 million at issue price. A corresponding redemption was also made for *TNGP*.

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 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 December 31, 2025, MDJV is still in the process of liquidation.

The condensed statements of financial position of material associates follow:

March 31, 2026 (Unaudited)				
<i>FPM Power / PacificLight</i>				
	<i>ATEC</i>	<i>Power</i>	<i>Pylon</i>	<i>Barracuda</i>
<i>(Amounts in millions)</i>				
Current assets	₱4,563	₱29,402	₱5,829	₱4,768
Noncurrent assets	29,947	45,746	57,506	20,652
Current liabilities	(5,622)	(19,554)	(4,276)	(687)
Noncurrent liabilities	(8,618)	(16,216)	(38,550)	(17,559)
Net assets	₱20,270	₱39,378	₱20,509	₱7,174
December 31, 2025 (Audited)				
<i>FPM Power / PacificLight</i>				
	<i>ATEC</i>	<i>Power</i>	<i>Pylon</i>	<i>Barracuda</i>
<i>(Amounts in millions)</i>				
Current assets	₱4,489	₱19,986	₱5,150	₱3,375
Noncurrent assets	30,366	41,971	56,634	19,133
Current liabilities	(6,538)	(20,149)	(4,264)	(819)
Noncurrent liabilities	(8,655)	(15,193)	(36,784)	(15,509)
Net assets	₱19,662	₱26,615	₱20,736	₱6,180

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

	2026				2025			
	<i>FPM Power / PacificLight</i>		<i>Pylon Barracuda</i>		<i>FPM Power / PacificLight</i>		<i>Pylon Barracuda</i>	
	<i>ATEC</i>	<i>Power</i>	<i>Pylon</i>	<i>Barracuda</i>	<i>ATEC</i>	<i>Power</i>	<i>Pylon</i>	<i>Barracuda</i>
	<i>Amounts in millions</i>							
Revenues	₱2,536	₱20,965	₱2,117	₱85	₱2,305	₱17,472	₱1,093	₱4
Costs and expenses	(1,882)	(18,293)	(2,344)	(108)	(1,790)	(14,475)	(1,721)	(71)
Net income (loss)	654	2,672	(227)	(23)	515	2,997	(628)	67
Non-controlling interests	-	-	-	-	(120)	-	-	-
Net income (loss) attributable to equity holders of the parent	654	2,672	(227)	(23)	395	2,997	(628)	67
Other comprehensive income	-	2,794	-	-	-	-	-	-
Total comprehensive income (loss)	₱654	₱5,466	(₱227)	(₱23)	₱395	₱2,997	(₱628)	₱67
Dividends received	₱-	₱1,787	₱-	₱-	₱-	₱856	₱-	₱-

The reconciliation of the net assets of the foregoing material associates to the carrying amounts of investments and advances in these associates recognized in the consolidated statements of financial position is as follows:

	March 31, 2026 (Unaudited)			
	<i>ATEC</i>	<i>FPM Power / PacificLight</i>		<i>Barracuda</i>
		<i>Pylon</i>		
	<i>(Amounts in millions, except % of ownership)</i>			
Net assets of associates	₱20,270	₱39,378	₱20,509	₱7,174
Proportionate ownership in associates (%)	50	58	25.56	50
	10,135	22,839	5,242	3,587
Fair value and other adjustments	-	1,485	881	18
	₱10,135	₱24,324	₱6,123	₱3,605

	December 31, 2025 (Audited)			
	<i>ATEC</i>	<i>FPM Power / PacificLight</i>		<i>Barracuda</i>
		<i>Pylon</i>		
	<i>(Amounts in millions, except % of ownership)</i>			
Net assets of associates	₱19,662	₱26,615	₱20,736	₱6,180
Proportionate ownership in associates (%)	50	58	25.56	50
	9,831	15,437	5,300	3,090
Fair value and other adjustments	-	5,461	881	80
	₱9,831	₱20,898	₱6,181	₱3,170

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

	For the Three Months Ended March 31 (Unaudited)	
	2026	2025
	<i>(Amounts in millions)</i>	
Share in net income	₱5	₱35
Share in other comprehensive income	–	–
Share in total comprehensive income	₱5	₱35
Dividends received	₱–	₱–

Joint Ventures

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

	March 31, 2026 (Unaudited)		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Chromite Holdings</i>
	<i>(Amounts in millions)</i>		
Cash and cash equivalents	₱896	₱4,143	₱59
Current assets, excluding cash and cash equivalents	326	5,413	–
Noncurrent assets	1,762	39,269	121,299
Trade payables	(81)	(447)	–
Current liabilities, excluding trade payables	(406)	(4,989)	(2,270)
Noncurrent liabilities	–	(25,191)	(6,950)
Net assets	₱2,497	₱18,198	₱112,138

	December 31, 2025 (Audited)		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Chromite Holdings</i>
	<i>(Amounts in millions)</i>		
Cash and cash equivalents	₱685	₱3,957	₱69
Current assets, excluding cash and cash equivalents	363	5,265	–
Noncurrent assets	1,861	39,673	147,491
Trade payables	(84)	(714)	(5)
Current liabilities, excluding trade payables	(405)	(4,023)	(19,421)
Noncurrent liabilities	–	(25,152)	–
Net assets	₱2,420	₱19,006	₱128,134

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

	For the Three Months Ended March 31 (Unaudited)					
	2026			2025		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Chromite Holdings</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>Chromite Holdings</i>
	<i>(Amounts in millions)</i>					
Revenues	₱223	₱4,871	₱–	₱221	₱5,068	₱–
Costs and expenses, excluding depreciation	(39)	(2,618)	–	(43)	(2,826)	–
Depreciation	(56)	(385)	–	(54)	(382)	–
Other income (expense) – net	48	(552)	4,084	49	(656)	1,416
Benefit from (provision for) income tax – net	–	(326)	–	–	8	–
Net income	₱176	₱990	₱4,084	₱173	₱1,212	₱1,416
Dividends received	₱30	₱917	₱–	₱–	₱1,228	₱–

The reconciliation of the net assets of the foregoing material joint ventures to the carrying amounts of investments in these joint ventures recognized in the consolidated statements of financial position is as follows:

	March 31, 2026 (Unaudited)		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Chromite Holdings</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of joint ventures	₱2,497	₱18,198	₱112,138
Proportionate ownership in joint ventures (%)	30	51	60
	749	9,281	67,283
Fair value and other adjustments	–	–	4,337
	₱749	₱9,281	₱71,620

	December 31, 2025 (Audited)		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Chromite Holdings</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of joint ventures	₱2,420	₱19,006	₱128,134
Proportionate ownership in joint ventures (%)	30	51	60
	726	9,693	76,880
Fair value and other adjustments	–	–	10,316
	₱726	₱9,693	₱87,196

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

	For the Three Months Ended March 31 (Unaudited)	
	2026	2025
	<i>(Amounts in millions)</i>	
Share in net income	₱4	₱24
Share in other comprehensive income (loss)	–	–
Share in total comprehensive income	₱4	₱24
Dividends received	₱–	₱–

9. Investment Properties

The movements in investment properties are as follows:

March 31, 2026 (Unaudited)			
	Land	Buildings and Improvements	Total
<i>(Amounts in millions)</i>			
Cost	₱1,428	₱209	₱1,637
Less accumulated depreciation:			
Balance at beginning of period	–	154	154
Depreciation	–	1	1
Balance at end of period	–	155	155
	₱1,428	₱54	₱1,482

December 31, 2025 (Audited)			
	Land	Buildings and Improvements	Total
<i>(Amounts in millions)</i>			
Cost	₱1,428	₱209	₱1,637
Less accumulated depreciation:			
Balance at beginning of period	–	150	150
Depreciation	–	4	4
Balance at end of period	–	154	154
	₱1,428	₱55	₱1,483

Investment properties consist of decommissioned 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 March 31, 2026 and December 31, 2025 are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>		
Land	₱10,998	₱5,619
Buildings and improvements	164	164

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱409,000. 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:

	Note	March 31, 2026 (Unaudited)				Total
		Software	Franchise	Land and Leasehold Rights	Customer Contracts	
<i>(Amounts in millions)</i>						
Cost:						
Balance at beginning of period		₱9,023	₱63	₱696	₱43,505	₱53,287
Additions		201	–	6	–	207
Balance at end of period		9,224	63	702	43,505	53,494
Less accumulated amortization:						
Balance at beginning of period		6,451	–	467	5,417	12,335
Amortization		99	–	6	257	362
Reclassification	3	23	–	–	–	23
Balance at end of period		6,573	–	473	5,674	12,720
Less allowance for impairment loss		294	–	–	–	294
		₱2,357	₱63	₱229	₱37,831	₱40,480

	December 31, 2025 (Audited)					Total
	Note	Software	Franchise	Land and Leasehold Rights	Customer Contracts	
<i>(Amounts in millions)</i>						
Cost:						
Balance at beginning of period		₱8,460	₱63	₱776	₱43,505	₱52,804
Additions		622	–	24	–	646
Disposals/retirement		(50)	–	–	–	(50)
Reclassification	3	(9)	–	(104)	–	(113)
Balance at end of period		9,023	63	696	43,505	53,287
Less accumulated amortization:						
Balance at beginning of period		6,113	–	463	4,375	10,951
Amortization		390	–	32	1,042	1,464
Disposals/retirement		(50)	–	–	–	(50)
Reclassification	3	(2)	–	(28)	–	(30)
Balance at end of period		6,451	–	467	5,417	12,335
Less allowance for impairment loss		294	–	–	–	294
		₱2,278	₱63	₱229	₱38,088	₱40,658

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

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

11. Other Noncurrent Assets

This account consists of:

	Note	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Financial assets:			
Financial assets at <i>FVOCI</i>	27	₱3,180	₱3,231
Debt securities at amortized cost	15 and 27	1,068	1,088
Nonfinancial assets:			
Under-recoveries of pass-through charges – net	2 and 24	11,914	10,535
Deposits		8,474	7,147
Finance lease		1,106	899
Receivable from the <i>BIR</i>		181	181
Construction bonds		162	162
Deferred input <i>VAT</i>		22	23
Others		994	870
		₱27,101	₱24,136

Financial Assets at FVOCI

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

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Investments in debt securities - corporate bonds and others	₱603	₱777
Investments in shares of stock and club shares	2,577	2,454
	₱3,180	₱3,231

Interest income from debt and equity securities amounted to ₱49 million and ₱127 million for the three months ended March 31, 2026 and 2025, 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:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Balance at beginning of period	₱895	₱801
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	112	108
Equity securities	11	(14)
Balance at end of period	₱1,018	₱895

Debt Securities at Amortized Cost

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

	March 31, 2026 (Unaudited)			December 31, 2025 (Audited)		
	Current Portion (see Note 15)	Noncurrent Portion	Total	Current Portion (see Note 15)	Noncurrent Portion	Total
	<i>(Amounts in millions)</i>					
Government securities	₱-	₱1,036	₱1,036	₱-	₱1,056	₱1,056
Private debt securities	21	32	53	-	32	32
	₱21	₱1,068	₱1,089	₱-	₱1,088	₱1,088

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO Clark Electric* and *Shin Clark Power* as *DUs*, 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 ₱4,602 million as at March 31, 2026 and December 31, 2025.

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 against 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 *PSAs* 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:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱33,435	₱41,292
Cash equivalents	79,461	68,025
	₱112,896	₱109,317

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods of up to three (3) months depending on *MERALCO 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 ₱705 million and ₱717 million for the three months ended March 31, 2026 and 2025, respectively.

As at March 31, 2026 and December 31, 2025, cash and cash equivalents include balances in bank accounts totaling ₱5,084 million and ₱5,077 million, respectively, equivalent to unpaid SC refund, meter deposits and RES bill deposits which MERALCO set aside in compliance with regulatory requirements.

13. Trade and Other Receivables

This account consists of:

	Note	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Trade:			
Electricity sold	23 and 27	₱42,161	₱46,030
Service contracts		9,592	10,955
Energy generated	27	6,208	6,717
Unbilled receivables	24	8,197	8,150
Subscription receivable	3	9,109	12,109
Nontrade	23 and 27	3,681	2,441
		78,948	86,402
Less allowance for expected credit losses		9,649	9,676
		₱69,299	₱76,726

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

	March 31, 2026 (Unaudited)			
	Balance at Beginning of Period	Provisions	Write-offs	Balance at End of Period
<i>(Amounts in millions)</i>				
Trade:				
Electricity sold	₱6,848	(₱1)	₱-	₱6,847
Energy generated	1,301	-	-	1,301
Other trade receivables	1,117	-	(37)	1,080
Nontrade receivables	410	11	-	421
	₱9,676	₱10	(₱37)	₱9,649

	December 31, 2025 (Audited)			
	Balance at Beginning of Period	Provisions	Write-offs	Balance at End of Period
<i>(Amounts in millions)</i>				
Trade:				
Electricity sold	₱6,349	₱504	(₱5)	₱6,848
Energy generated	1,279	173	(151)	1,301
Other trade receivables	787	330	-	1,117
Nontrade receivables	439	39	(68)	410
	₱8,854	₱1,046	(₱224)	₱9,676

	March 31, 2026 (Unaudited)					December 31, 2025 (Audited)				
	Trade					Trade				
	Electricity Sold	Energy Generated	Other Trade Receivables	Nontrade Receivables	Total	Electricity Sold	Energy Generated	Other Trade Receivables	Nontrade Receivables	Total
	<i>(Amounts in millions)</i>									
Individually impaired	₱4,916	₱-	₱1,080	₱421	₱6,417	₱4,732	₱-	₱1,117	₱410	₱6,259
Collectively impaired	1,931	1,301	-	-	3,232	2,116	1,301	-	-	3,417
	₱6,847	₱1,301	₱1,080	₱421	₱9,649	₱6,848	₱1,301	₱1,117	₱410	₱9,676

Trade Receivables – Electricity Sold

Trade receivables of *MERALCO*, *Clark Electric* and *Shin Clark Power* include charges for pass-through costs. Pass-through costs of *MERALCO* as a *DU* consist of generation, transmission and *SL* charges, which represent 62%, 10% and 4%, respectively, of the total billed amount in 2026 and 64%, 8% and 5%, respectively, of the total billed amount in 2025. Billed receivables are due 10 days after bill date. *MERALCO*'s, *Clark Electric*'s and *Shin Clark Power*'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 represents 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 with 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 – Other Noncurrent Assets*.

14. Inventories

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At cost	₱11,869	₱12,000
At net realizable value (“NRV”)	10,828	10,983
Materials and supplies at lower of cost and NRV	₱10,828	₱10,983

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱1,041 million and ₱1,017 million as at March 31, 2026 and December 31, 2025, respectively. No item of inventory has been written off for the three months ended March 31, 2026 and 2025.

Movements in allowance for inventory obsolescence are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Balance at beginning of period	₱1,017	₱1,005
Provision for allowance for inventory obsolescence	24	12
Balance at end of period	₱1,041	₱1,017

See Note 25 – Expenses and Income.

15. Other Current Assets

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
		<i>(Amounts in millions)</i>	
Financial assets:			
Derivative assets	27	₱1,478	₱524
Short-term investments		151	140
Debt securities at amortized cost	11	21	–
Nonfinancial assets:			
Input VAT		10,320	9,293
Advance payments to suppliers		3,583	3,252
Prepayments		1,954	1,275
Prepaid tax		903	934
Creditable withholding taxes		484	456
Others		143	324
		₱19,037	₱16,198

16. Equity

<i>Common Stock</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(In millions, except par value)</i>	
<u>Authorized number of shares - ₱10 par value per share</u>	<u>1,250</u>	<u>1,250</u>
<u>Issued and outstanding – number of shares</u>	<u>1,127</u>	<u>1,127</u>

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 39,970 and 40,060 common shareholders as at March 31, 2026 and December 31, 2025, 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 ₱112,410 million and ₱107,107 million as at March 31, 2026 and December 31, 2025, respectively. These amounts are held 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 three months ended March 31, 2026 and 2025:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				<i>(In millions)</i>
February 25, 2026	March 26, 2026	April 20, 2026	₱16.67	₱18,791
February 24, 2025	March 12, 2025	April 4, 2025	13.74	15,482

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 for *Chromite Holdings* which is 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 investment in *Chromite Holdings* was completed and *MERALCO* infused \$1.187 billion into *MGen* as settlement for its share in the investment in *Chromite Holdings*. The hedging reserve gain was reclassified from *OCI* to investment account at ₱1,717 million.

In 2025, *MTerra Solar* entered into various forward exchange forwards to hedge its forecasted payments in foreign currency arising from its Engineering and Procurement Contracts related to the construction of its solar power plant. The forecasted payments depend on each supplier's milestone. The foreign exchange forwards were accounted for as cashflow hedges. 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 were reclassified in the generation plant construction cost at each milestone payment date. The hedging reserve loss reclassified from *OCI* to generation plant construction cost amounted to ₱250 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.

As at March 31, 2026, 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:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Long-term portion of interest-bearing financial liabilities – long-term debt	₱202,668	₱186,531
Current portion of interest-bearing financial liabilities:		
Long-term debt	5,002	5,689
Redeemable preferred stock	1,455	1,459
	6,457	7,148
	₱209,125	₱193,679

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 March 31, 2026 and December 31, 2025. 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:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
<i>MERALCO</i>		
₱75.0 Billion Term Loan	₱74,250	₱75,000
₱10.0 Billion Term Loan	9,700	9,700
₱6.5 Billion Term Loan	6,500	–
<i>MGen Group</i>		
₱76.1 Billion Term Loan	76,097	68,597
₱18.0 Billion Term Loan	15,300	15,300
₱11.6 Billion Term Loan	7,961	8,203
₱3.8 Billion Term Loan	3,770	–
₱5.8 Billion Term Loan	3,190	3,190
₱4.5 Billion Term Loan	2,713	2,811
₱3.0 Billion Term Loan	2,564	2,564
₱2.7 Billion Term Loan	2,427	2,502
₱2.0 Billion Term Loan	2,034	2,034
₱3.5 Billion Term Loan	1,170	1,365
₱791 Million Term Loan	791	791
₱3.4 Billion Term Loan	551	762
<i>MIESCOR</i>		
₱375 Million Term Loan	134	134
<i>MServ</i>		
₱600 Million Term Loan	120	240
<i>Radius</i>		
₱700 Million Term Loan	–	525
Total long-term debt	209,272	193,718
Less unamortized debt issue costs	1,739	1,648
	207,533	192,070
Redeemable preferred stock	1,455	1,459
Fair value adjustment in relation to the purchase of <i>GBPC</i>	137	150
	209,125	193,679
Less current portion	6,457	7,148
Long-term portion of interest-bearing financial liabilities	₱202,668	₱186,531

The scheduled maturities of the outstanding long-term debt at nominal values as at March 31, 2026 are as follows:

	Amount in millions
Less than one (1) year	₱5,443
One (1) year up to two (2) years	7,112
More than two (2) years up to three (3) years	7,894
More than three (3) years up to four (4) years	8,908
More than four (4) years up to five (5) years	10,724
More than five (5) years	169,191
	<u>₱209,272</u>

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.

₱6.5 Billion Term Loan

MERALCO has a ₱6,500 million, 12-year floating rate loan due in February 2038. The related interest is payable quarterly. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

MGen Group

₱76.1 Billion Term Loan

MTerra Solar has a ₱76,097 million, 15-year term loan due in March 2040. Interest rate is subject to repricing in 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 in 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.

₱3.8 Billion Term Loan

Solar Philippines Tarlac has a ₱3,770 million, 14-year term loan due in January 2040. 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 semi-annually 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 by GBPC. The loan is a fixed rate 12-year facility with quarterly principal repayment until November 2029.

₱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 semi-annually 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 52.7 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.

₱791 Million Term Loan

On May 17, 2024, *GSEI* secured a 15-year term project financing facility to develop its 19.8 *MWac* solar plant in Bongabon, Nueva Ecija. The principal and related interest are payable semi-annually until May 2039.

₱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.

MIESCOR

₱375 Million Term Loan

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

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.

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 related interest are payable quarterly until August 2029. In March 2026, the loan was fully paid.

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 December 31, 2025 and 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 March 31, 2026 and December 31, 2025, 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 ₱1,664 million and ₱1,586 million for the three months ended March 31, 2026 and 2025, respectively.

Unamortized Debt Issue Costs

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

<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Balance at beginning of period	₱1,648	₱403
Additions	116	1,377
Amortization charged to interest and other financial charges	(25)	(132)
Balance at end of period	₱1,739	₱1,648

Redeemable Preferred Stock

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

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
Balance at beginning of period	145,874,926	146,108,911
Redemptions	(422,195)	(233,985)
Balance at end of period	145,452,731	145,874,926

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:

	March 31, 2026 (Unaudited)			December 31, 2025 (Audited)		
	Current Portion (see Note 22)	Noncurrent Portion	Total	Current Portion (see Note 22)	Noncurrent Portion	Total
	<i>(Amounts in millions)</i>					
Bill deposits	₱2,497	₱39,901	₱42,398	₱2,482	₱39,206	₱41,688
Meter deposits	318	–	318	318	–	318
	₱2,815	₱39,901	₱42,716	₱2,800	₱39,206	₱42,006

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*.

Under *ERC* Resolution No. 03, Series of 2026, the *ERC* introduced amendments to the *Magna Carta*. With respect to bill deposits, the rules were updated to introduce automatic bill deposit refunds for (a) consumers who qualify for a 100% lifeline discount and (b) customers who have made timely payments for two consecutive years. New applicants may also pay required bill deposits in full or three (3) monthly installments and *DUs* may waive or provide alternatives to bill deposits.

In addition, under its Advisory dated January 31, 2026, the *ERC* directed all *DUs* to submit detailed information regarding its bill deposits within thirty (30) days, or until March 1, 2026. On May 3, 2026, *MERALCO* submitted the information required by the *ERC*.

The following are the movements of the bill deposits account:

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Balance at beginning of period		₱41,688	₱35,767
Additions		1,145	13,259
Refunds		(435)	(7,338)
Balance at end of period		42,398	41,688
Less portion maturing within one year	22	2,497	2,482
Noncurrent portion of bill deposits and related interests		₱39,901	₱39,206

Interest expense on bill deposits amounted to ₱5 million and ₱6 million for the three months ended March 31, 2026 and 2025, 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

The movements of the provisions account follow:

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Balance at beginning of period		₱63,514	₱65,493
Provisions for the period - net		2,321	12,167
Settlements		(2,031)	(5,158)
Reclassifications	22	1,204	(8,988)
Balance at end of period		65,008	63,514
Less current portion	22	52,860	51,179
Noncurrent portion of provisions		₱12,148	₱12,335

Provisions represent estimated amount of over-recoveries and claims or losses related to commercial arrangements with unresolved terms and local/national tax assessments being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*. Information provided is consistent with the limited disclosure provision as allowed in *PFRS* Accounting Standards.

MERALCO recognized provisions 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. *MERALCO* recognized a net provisions included in “Other noncurrent liabilities” amounting to ₱1,798 million and net reversal of provisions amounting to ₱267 million for the three months ended March 31, 2026 and 2025, respectively.

See Note 2 Rate Regulations.

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 5.60% and 6.31% as at March 31, 2026 and December 31, 2025, respectively.

Interest expense on notes payable amounted to ₱334 million and ₱387 million for the three months ended March 31, 2026 and 2025, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Trade accounts payable	<i>23 and 24</i>	₱78,920	₱90,525
Accrued expenses:			
Employee benefits		3,999	4,664
Services		3,116	3,255
Interest	<i>17</i>	1,771	1,459
Others		2,791	2,845
Current portions of:			
Provisions	<i>2, 19 and 29</i>	52,860	51,179
Bill deposits and related interests	<i>18</i>	2,497	2,482
Deferred income		2,146	499
Meter deposits and related interests	<i>18</i>	318	318
Refundable service extension costs		1,010	1,017
Dividends payable on:			
Common stock	<i>16</i>	21,738	4,195
Redeemable preferred stock	<i>17</i>	248	248
Payables to customers		12,239	11,817
Taxes		10,724	10,102
Liabilities related to Put Option and			
Investment Agreement	<i>3 and 8</i>	1,360	7,545
Universal charges payable	<i>32</i>	3,984	3,439
<i>FiT-All</i> payable	<i>32</i>	1,335	1,393
Payroll related remittances		422	474
Regulatory fees payable		482	412
Lease liability		213	175
Green Energy Auction Allowance (“ <i>GEA-All</i> ”)		191	–
Other current liabilities		1,404	1,577
		₱203,768	₱199,620

Trade Accounts Payable

Trade accounts payable are mainly obligations to power generating companies, *NGCP* and *IEMOP* for costs 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 March 31, 2026 and December 31, 2025, the noncurrent portion of refundable service extension costs of ₱3,356 million and ₱3,371 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 *DUs*. These are charges imposed to recover stranded debts, stranded contract costs of National Power Corporation (“*NPC*”), stranded contract costs of eligible contracts of *DUs*, missionary electrification and environment charges. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payables to Customers

Payables to customers include bill credits and advance payments received from customers that are 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 nature of transactions, which have been provided to 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 and *Clark Electric* 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*.

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 *MTerra Solar*, *SPPC*, *EERI*, *SBPL*, *NSEC*, *First Bulacan*, and *Solar Philippines Tarlac*.

Following is a summary of related party transactions for the three months ended March 31, 2026 and 2025 and the outstanding balances as at March 31, 2026 and December 31, 2025:

Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	For the Three Months Ended March 31		December 31,			
	2026	2025	March 31, 2026	2025		
	<i>(Amounts in millions)</i>					
Sale of electricity:						
<i>JG Summit Group</i>	₱1,272	₱1,049	₱821	₱870	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	148	198	36	34	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	77	140	35	44	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	202	278	(160)	(79)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - <i>Aclara Meters</i>	75	142	(34)	(41)	30-day; noninterest-bearing	Unsecured

Compensation of Key Management Personnel

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

	Unaudited	
	For the Three Months	
	Ended March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
Short-term employee benefits	₱395	₱379
Long-term employee incentives and retirement benefits	134	128
Total compensation to key management personnel	₱529	₱507

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 March 31, 2026, 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	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Contract assets:			
Unbilled receivables	13	₱4,030	₱3,983
Under-recoveries of pass-through charges - net	11	11,914	10,535
Contract liabilities:			
Non-refundable liability related to asset funded by customers		949	946
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges - net		298	374

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱44 million and ₱40 million for the three months ended March 31, 2026 and 2025, respectively.

Purchased Power

The details of purchased power are as follows:

	Unaudited For the Three Months Ended March 31	
	2026	2025
<i>(Amounts in millions)</i>		
Generation costs	₱74,584	₱73,381
Transmission costs	18,146	13,046
	₱92,730	₱86,427

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

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

The details of purchased power follow:

	Unaudited	
	For the Three Months	
	Ended March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
<i>NGCP</i>	₱18,163	₱13,059
<i>SPPC</i>	14,304	13,195
First Gas Power Corporation (“ <i>FGPC</i> ”)	11,994	13,623
<i>EERI</i>	9,036	8,699
Masinloc Power Partners Co. Ltd. (“ <i>MPPCL</i> ”)	8,331	4,251
GNPower Dinginin Ltd. Co. (“ <i>GNPD</i> ”)	6,421	–
<i>SBPL</i>	4,888	5,029
FGP Corp. (“ <i>FGP</i> ”)	4,635	6,405
San Miguel Energy Corporation (“ <i>SMEC</i> ”)	3,589	3,704
Mariveles Power Generation Corporation (“ <i>MPGC</i> ”)	2,843	–
San Roque Hydropower Inc. (“ <i>SRHP</i> ”)	2,552	–
<i>IEMOP</i>	2,007	9,477
RE Resources, Inc. (“ <i>RERF</i> ”)	986	–
First NatGas Power Corp. (“ <i>FNPC</i> ”)	524	–
ACEN Corporation (“ <i>AC Energy</i> ”)	233	–
Southwest Luzon Power Generation Corporation	212	61
Solar Philippines Tarlac Corporation (“ <i>Solar Philippines Tarlac</i> ”)	146	112
Sem-Calaca Power Corporation (“ <i>Sem-Calaca</i> ”)	118	157
<i>NSEC</i>	116	115
<i>PEDC</i>	51	–
<i>QPPL</i>	–	4,799
Limay Power Inc. (“ <i>LPI</i> ”)	–	2,570
Therma Luzon, Inc. (“ <i>TLI</i> ”)	–	346
Others	1,581	825
	₱92,730	₱86,427

Generation and transmission costs are net of company use amounting to ₱141 million and ₱127 million for the three months ended March 31, 2026 and 2025, 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, 2025, the total *SL* charge over-recoveries included in “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to ₱216 million.

25. Expenses

Salaries, Wages and Employee Benefits

	<i>Note</i>	Unaudited	
		For the Three Months	
		Ended March 31	
		2026	2025
		<i>(Amounts in millions)</i>	
Salaries, wages and related employee benefits		₱4,293	₱4,850
Retirement benefits	26	410	454
Other post-employment benefits	26	46	39
		₱4,749	₱5,343

Depreciation and Amortization

	<i>Note</i>	Unaudited	
		For the Three Months	
		Ended March 31	
		2026	2025
		<i>(Amounts in millions)</i>	
Utility plant, generation plant and others	7	₱3,999	₱3,608
Intangible assets	10	362	366
Investment properties	9	1	1
		₱4,362	₱3,975

Other Expenses

		Unaudited	
		For the Three Months	
		Ended March 31	
	<i>Note</i>	2026	2025
		<i>(Amounts in millions)</i>	
Materials used	14	₱829	₱536
Rent and utilities		392	347
Insurance		145	146
Transportation and travel		146	120
Advertising		84	116
Communication	22	56	48
Others		255	43
		₱1,907	₱1,356

26. Long-term Employee Benefits

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

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Retirement benefits liability	₱11,447	₱11,002
Long-term incentives	4,666	4,306
Other post-employment benefits	2,579	2,557
	18,692	17,865
Less current portion	4,300	4,300
	₱14,392	₱13,565

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 Three Months Ended March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
Current service costs	₱219	₱262
Net interest costs	166	170
Net retirement benefits expense	₱385	₱432

Retirement Benefits Liability

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱40,888	₱40,606
Fair value of plan assets	(29,441)	(29,604)
Net retirement benefits liability	₱11,447	₱11,002

Changes in the net retirement benefits liability are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of period	₱11,002	₱11,134
Net retirement benefits expense	385	1,767
Amounts recognized in <i>OCI</i>	(4)	(1,749)
Contributions by employer	-	(150)
Others	64	-
Net retirement benefits liability at end of period	₱11,447	₱11,002

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

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of period	₱40,606	₱41,420
Interest costs	599	2,310
Current service costs	219	1,084
Benefits paid	(596)	(2,807)
Others	64	-
Actuarial losses (gains) due to:		
Changes in financial assumptions	(4)	(970)
Experience adjustments	-	(431)
Defined benefit obligation at end of period	₱40,888	₱40,606

Changes in the fair value of plan assets are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of period	₱29,604	₱30,286
Interest income	433	1,627
Contributions by employer	-	150
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	-	348
Benefits paid	(596)	(2,807)
Fair value of plan assets at end of period	₱29,441	₱29,604

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:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amount in millions)</i>	
Investments quoted in active markets:		
Government securities	₱9,143	₱9,336
Bonds and commercial notes	8,806	8,200
Marketable equity securities	7,133	7,338
Real property	1,927	1,927
Receivables	1,705	2,016
Cash and cash equivalents	727	787
Fair value of plan assets	₱29,441	₱29,604

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)

	Unaudited	
	For the Three Months Ended	
	March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
Interest costs	₱41	₱34
Current service costs	5	5
	₱46	₱39

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Balance at beginning of period	₱2,557	₱2,255
Interest costs	41	133
Current service costs	5	18
Benefits paid	(24)	(161)
Actuarial losses due to change in assumptions	-	312
Balance at end of period	₱2,579	₱2,557

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
Annual discount rate	6.00%-6.61%	6.00%-6.61%
Future range of annual salary increases	4.00%-10.00%	4.00%-10.00%

Funding

MERALCO contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

Less than one (1) year	₱3,759
One (1) year up to five (5) years	14,986
More than five (5) years up to 10 years	18,074
More than 10 years up to 15 years	21,928
More than 15 years up to 20 years	22,042
More than 20 years	52,254

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 ₱25 million and ₱22 million for the three months ended March 31, 2026 and 2025, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	Unaudited	
	For the Three Months Ended	
	March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
Expense recognized for defined benefit plans	₱385	₱432
Expense recognized for defined contribution plan	25	22
Retirement benefits expense	₱410	₱454

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
<i>(Amounts in millions)</i>				
Assets as at March 31, 2026				
<i>Noncurrent</i>				
Other noncurrent assets	₱1,068	₱3,180	₱–	₱4,248
<i>Current</i>				
Cash and cash equivalents	112,896	–	–	112,896
Trade and other receivables	61,132	–	–	61,132
Other current assets	172	1,478	–	1,650
Total Financial Assets	₱175,268	₱4,658	₱–	₱179,926
Liabilities as at March 31, 2026				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱202,668	₱202,668
Customers’ deposits - net of current portion	–	–	39,901	39,901
Refundable service extension costs - net of current portion	–	–	3,356	3,356
<i>Current</i>				
Notes payable	–	–	29,015	29,015
Trade payables and other current liabilities	–	–	129,542	129,542
Customers’ refund	–	–	2,850	2,850
Current portion of interest-bearing long-term financial liabilities	–	–	6,457	6,457
Total Financial Liabilities	₱–	₱–	₱413,789	₱413,789

	Financial Assets at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2025				
<i>Noncurrent</i>				
Other noncurrent assets	₱1,088	₱3,231	₱-	₱4,319
<i>Current</i>				
Cash and cash equivalents	109,317	-	-	109,317
Trade and other receivables	68,606	-	-	68,606
Other current assets	140	524	-	664
Total Financial Assets	₱179,151	₱3,755	₱-	₱182,906
Liabilities as at December 31, 2025				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	₱-	₱-	₱186,531	₱186,531
Customers' deposits - net of current portion	-	-	39,206	39,206
Refundable service extension costs - net of current portion	-	-	3,371	3,371
<i>Current</i>				
Notes payable	-	-	36,367	36,367
Trade payables and other current liabilities	-	-	122,492	122,492
Customers' refund	-	-	2,851	2,851
Current portion of interest-bearing long-term financial liabilities	-	-	7,148	7,148
Total Financial Liabilities	₱-	₱-	₱397,966	₱397,966

Fair Values

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group's* financial instruments:

	March 31, 2026 (Unaudited)		December 31, 2025 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Financial assets at FVOCI	₱3,180	₱3,180	₱3,231	₱3,231
Derivative assets	1,478	1,478	524	524
Debt securities at amortized cost	1,089	1,086	1,088	1,088
Short-term investments	151	151	140	140
	₱5,898	₱5,895	₱4,983	₱4,983
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	₱207,670	₱207,004	₱192,220	₱196,407

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 4.70% to 8.29% and 4.93% to 6.15% as at March 31, 2026 and December 31, 2025, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	March 31, 2026 (Unaudited)				December 31, 2025 (Audited)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>(Amounts in millions)</i>							
Financial assets								
Financial assets at <i>FVOCI</i>	₱3,180	₱-	₱-	₱3,180	₱3,231	₱-	₱-	₱3,231
Derivative assets	-	-	1,478	1,478	-	-	524	524
Debt securities at amortized cost	1,086	-	-	1,086	1,088	-	-	1,088
Short-term investments	-	-	151	151	-	-	140	140
	₱4,266	₱-	₱1,629	₱5,895	₱4,319	₱-	₱664	₱4,983
Financial liabilities								
Interest-bearing long-term financial liabilities	₱-	₱207,004	₱-	₱207,004	₱-	₱196,407	₱-	₱196,407

For the three months ended March 31, 2026 and 2025, 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
	<i>(Amounts in millions)</i>						
March 31, 2026 (Unaudited)	₱2,986	₱3,220	₱3,220	₱3,220	₱6,220	₱97,670	₱116,536
December 31, 2025 (Audited)	3,057	3,291	3,291	3,256	3,151	95,183	111,229

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 of floating rate loans from various banks, with all other variables held constant, of the *MERALCO Group's* income before income tax for the three months ended March 31, 2026 and 2025 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.

2026		2025	
Increase (Decrease) in Basis Points	Effect on Income before Income Tax	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
	<i>(Amounts in millions)</i>		
+75	(₱219)	+75	(₱177)
(75)	219	(75)	177

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 March 31, 2026 and December 31, 2025 and 2024, translated to Philippine peso at ₱60.75 and ₱58.79 to US\$1, respectively.

	March 31, 2026 (Unaudited)		December 31, 2025 (Audited)	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
	<i>(Amounts in millions)</i>			
Financial assets:				
Cash and cash equivalents	\$211	₱12,789	\$331	₱19,452
Financial assets at <i>FVOCI</i>	4	241	4	251
Short-term investments	12	734	27	1,603
	227	13,764	362	21,306
Financial liabilities:				
Trade payables and other liabilities	(7)	(406)	(5)	(298)
	\$220	₱13,358	\$357	₱21,008

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso and 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 for the three months ended March 31, 2026 and 2025 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.

	2026		2025	
	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	<i>(In %)</i>	<i>(In millions)</i>	<i>(In %)</i>	<i>(In millions)</i>
	+5	₱167	+5	₱167
	-5	(167)	-5	(167)

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 occurred, the related hedge reserve amounts were reclassified from *OCI* to investment.

Prior to the closing of the investment transaction in *Chromite Holdings* 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 *Chromite Holdings*. 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* customer segment's historical observed default rates. Each business segment of the *MERALCO* 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* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group's* policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

GBPC and 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 Power*, as *DUs*, 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	
	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Cash and cash equivalents:		
Cash in banks	₱33,083	₱41,003
Cash equivalents	79,461	68,025
Trade and other receivables:		
Electricity sold	35,314	39,182
Energy generated	4,907	5,416
Service contracts	8,542	9,868
Subscription receivable	9,109	12,109
Nontrade receivables	3,260	2,031
Other current financial assets:		
Derivative asset	1,478	524
Short-term investments	151	140
Debt securities at amortized cost	21	-
Other noncurrent financial assets:		
Financial assets at <i>FVOCI</i>	3,180	3,231
Debt securities at amortized cost	1,068	1,088
	₱179,574	₱182,617

The credit quality of financial assets is managed by *MERALCO* using “High Grade”, “Standard Grade” and “Sub-standard Grade” for accounts, which are neither impaired nor past due using internal credit rating policies.

The following tables show the credit quality by asset class:

March 31, 2026 (Unaudited)						
Neither Past Due nor Impaired						
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
<i>(Amounts in millions)</i>						
Cash in banks and cash equivalents	₱112,544	₱–	₱–	₱–	₱–	₱112,544
Trade and other receivables:						
Electricity sold	7,698	3,450	15,209	8,957	6,847	42,161
Service contracts	6,928	–	–	1,614	1,050	9,592
Energy generated	4,907	–	–	–	1,301	6,208
Subscription receivable	9,109	–	–	–	–	9,109
Nontrade receivables	2,970	272	–	18	421	3,681
Other current assets:						
Derivative asset	1,478	–	–	–	–	1,478
Short-term investments	151	–	–	–	–	151
Debt securities at amortized cost	21	–	–	–	–	21
Other noncurrent assets:						
Financial assets at <i>FVOCI</i>	3,180	–	–	–	–	3,180
Debt securities at amortized cost	1,068	–	–	–	–	1,068
	₱150,054	₱3,722	₱15,209	₱10,589	₱9,619	₱189,193

December 31, 2025 (Audited)						
Neither Past Due nor Impaired						
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
<i>(Amounts in millions)</i>						
Cash in banks and cash equivalents	₱109,028	₱–	₱–	₱–	₱–	₱109,028
Trade and other receivables:						
Electricity sold	6,281	3,868	16,755	12,278	6,848	46,030
Service contracts	6,518	–	–	3,350	1,087	10,955
Energy generated	5,416	–	–	–	1,301	6,717
Subscription receivable	12,109	–	–	–	–	12,109
Nontrade receivables	1,734	272	–	25	410	2,441
Other current assets:						
Derivative asset	524	–	–	–	–	524
Short-term investments	140	–	–	–	–	140
Other noncurrent assets:						
Financial assets at <i>FVOCI</i>	3,231	–	–	–	–	3,231
Debt securities at amortized cost	1,088	–	–	–	–	1,088
	₱146,069	₱4,140	₱16,755	₱15,653	₱9,646	₱192,263

Credit ratings are determined as follows:

- High Grade

High grade financial assets include cash in banks, cash equivalents, short-term investments, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade

receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	March 31, 2026 (Unaudited)				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	<i>(Amounts in millions)</i>				
Notes payable	₱7,587	₱22,618	₱–	₱–	₱30,205
Trade payables and other current liabilities	125,717	–	–	–	125,717
Customers' refund	2,850	–	–	–	2,850
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	2,283	6,074	40,832	101,534	150,723
Floating rate borrowings	2,601	6,969	39,578	118,493	167,641
Redeemable preferred stock	1,455	–	–	–	1,455
Customers' deposits	371	2,444	8,681	31,220	42,716
Refundable service extension costs	345	665	3,304	52	4,366
Non-refundable liability related to asset funded by customers	127	127	127	568	949
Total undiscounted financial liabilities	₱143,336	₱38,897	₱92,522	₱251,867	₱526,622

December 31, 2025 (Audited)					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱9,674	₱26,728	₱–	₱–	₱36,402
Trade payables and other current liabilities	118,675	–	–	–	118,675
Customers' refund	2,851	–	–	–	2,851
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	437	2,509	17,585	62,995	83,526
Floating rate borrowings	2,604	6,944	37,287	117,611	164,446
Redeemable preferred stock	1,459	–	–	–	1,459
Customers' deposits	1,298	1,502	8,518	30,688	42,006
Refundable service extension costs	345	672	3,303	68	4,388
Non-refundable liability related to asset funded by customers	127	127	127	565	946
Total undiscounted financial liabilities	₱137,470	₱38,482	₱66,820	₱211,927	₱454,699

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 ₱2,497 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at March 31, 2026.

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.

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions, except debt to equity ratio)</i>		
Long-term debt	₱207,670	₱192,220
Notes payable	29,015	36,367
Redeemable preferred stock	1,455	1,459
Debt (a)	₱238,140	₱230,046
Equity attributable to equity holders of the parent company (b)	₱166,345	₱173,137
Debt to equity ratio(a)/(b)	1.43	1.33

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	<i>Note</i>	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>			
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	19 and 22	₱26,194	₱25,670
Unfunded retirement benefits cost and unamortized past service cost	26	3,396	3,301
Allowance for expected credit losses	13	1,708	1,708
Accrued employee benefits	26	1,638	1,604
Decommissioning liability		101	100
Others		1,537	1,514
		34,574	33,897
Deferred income tax liabilities:			
Revaluation increment in utility plant and others	7,9 and 16	8,022	8,043
Fair value of net assets from acquisitions	3	6,218	6,297
Capitalized interest		1,093	1,054
Actuarial gains	26	555	555
Capitalized duties and taxes deducted in advance		289	297
Others		454	377
		16,631	16,623
		₱17,943	₱17,274

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
<i>(Amounts in millions)</i>		
Deferred income tax assets – net	₱26,396	₱25,706
Deferred income tax liabilities – net	(8,453)	(8,432)
	₱17,943	₱17,274

Provision for (benefit from) income tax consists of:

	Unaudited	
	For the Three Months Ended March 31	
	2026	2025
<i>(Amounts in millions)</i>		
Current	₱2,637	₱2,822
Deferred	(759)	(902)
	₱1,878	₱1,920

Deferred income tax charged directly to *OCI* amounted to ₱2 million and ₱20 million for the three months ended March 31, 2026 and 2025, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, for the three months ended March 31, 2026 and 2025, and provision for income tax as shown in the consolidated statements of income is as follows:

	Unaudited	
	For the Three Months Ended March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
Income tax computed at statutory tax rate	₱3,261	₱3,217
Income tax effects of:		
Interest income subjected to lower final tax rate	(188)	(377)
Nondeductible interest expense	109	94
Nontaxable income	(466)	(20)
Equity in net earnings of associates and joint ventures	(1,223)	(829)
Difference in calculation of tax deductible costs and expenses	(25)	(1,568)
Unrecognized deferred tax assets	59	1,166
Others	351	237
	₱1,878	₱1,920

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable periods, 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 March 31, 2026 and December 31, 2025 are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>(Amounts in millions)</i>	
Deferred tax assets:		
Allowance for impairment losses	₱4,080	₱4,092
Net operating loss carryover (“NOLCO”)	1,132	1,896
Provisions for various claims	537	452
Unfunded retirement benefits cost and unamortized past service cost	91	142
Decommissioning liability	55	112
Others	44	75
	₱5,939	₱6,769

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of NOLCO of MGen amounting to ₱9,014 million and ₱10,164 million as at March 31, 2026 and December 31, 2025, 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 ₱9,014 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		<i>(In millions)</i>
December 31, 2021	December 31, 2026	₱2,037
December 31, 2023	December 31, 2026	1,859
December 31, 2024	December 31, 2027	1,990
December 31, 2025	December 31, 2028	2,679
March 31, 2026	March 31, 2029	449
		₱9,014

NOLCO amounting to ₱3,257 million expired in 2025.

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 period 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 *DUs*, 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, 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 May 4, 2026, 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 *LFT* 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 *LGUs* 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*.

On March 26, 2026, following the petition filed by *PEPOA* seeking to amend the provisions of the foregoing resolution, the *ERC* issued Resolution No. 9, Series of 2026 providing for the “Revised Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities” allowing full recovery, as pass-through costs, the arrearages, excluding interests, penalties and other charges, imposed on the paid by *DUs* for the years prior to the effectivity of said rules.

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 early years of *CSE*, *MERALCO*’s total purchases from *NPC* exceeded the contract level. However, following the Asian crisis in 1997, a decline in energy demand occurred. A dispute ensued with a Settlement Agreement signed between *NPC* and *MERALCO* on July 15, 2003 which was filed with the *ERC* for approval. After the validity of the Settlement Agreement was questioned by the Office of the Solicitor General, the matter was elevated to the *RTC* under a petition for declaratory relief. The *RTC* Decision declaring the Settlement Agreement valid and binding, except for the pass-through provision which remains under the *ERC*’s jurisdiction, was affirmed by both the *CA* and *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 May 4, 2026, *MERALCO* is awaiting further action of the *ERC* on this matter.

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, and the 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, subject to the posting of a bond to cover potential damages.

The case remains pending, and is still at the pre-trial stage, with disputes over expert depositions. As at May 4, 2026, *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*

A Petition for Dispute Resolution was filed by *MERALCO* 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 sought to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use (“*TOU*”) rate or the price determined through the *ERC*-approved 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.

The *ERC* eventually found merit in *MERALCO*'s petition and ruled that there is double charging. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. Discussions ensued on the methodology for segregation of line rental into congestion cost and line losses from the start of the *WESM* operation. Amounts of refunds were determined and *NPC* was directed to refund amounts collected for the period November 2006 to August 2012. Additionally, *MERALCO* was directed to file a petition against several successor generating companies (“*SGCs*”) to recover the line loss collected by them. Among subsequent filings was a Petition for Review on Certiorari (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) filed by *PSALM*. The *CA* dismissed the Petition for Certiorari and upheld the decision on the *ERC* with respect to the double charging. Another *MR* filed by *PSALM* was also denied by the *CA* with *PSALM* elevating the case to the *SC*. The motion has been given due course and is awaiting further action of the *SC* on the Petition as of May 4, 2026.

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 *SGCs*; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGCs*, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGCs*' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at May 4, 2026, 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 May 4, 2026, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

After several hearings, petitions and motions, on August 3, 2022, the *SC* affirmed the December 9, 2013 letter of the *ERC* approving *MERALCO*'s proposal to implement a staggered collection over three (3) months and also voided the *ERC*'s March 3, 2014 Order imposing a regulated rate for the said period. A subsequent *MR* was denied with finality by the *SC* on October 11, 2022.

With the foregoing, *MERALCO* and *IEMOP* completed the reconciliation of the final amount to be recovered and a joint letter has been sent to the *ERC* on March 12, 2024 for implementation of the *SC* Decision. As of May 4, 2026, the parties are awaiting the decision of the *ERC* on the recovery of such pass-through charges.

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.

Several proceedings ensued at the *ERC*, *CA* and the *SC*. In a resolution dated September 29, 2021, the *SC* affirmed with the *CA* that the *ERC* has jurisdiction over the cases. In the meantime, the *ERC* resumed hearing to discuss updates and developments related to the case. Pre-trial conferences have been conducted and the *ERC* is in the process of resolving the pending motions filed by the *GenCos* and *MERALCO*. As of May 4, 2026, the parties are awaiting further action by the *ERC*.

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 *DUs*, like *MERALCO*, at the *WESM*. On June 10, 2024, *MERALCO* filed its Comment on the Petition. As at May 4, 2026, *MERALCO* awaits further action of the *SC* on the case.

Ombudsman Cases Against MERALCO Directors

Certain consumer groups charged the *MERALCO* directors and the *ERC* with alleged conspiracy on the misappropriation of bill deposits received from consumers. On May 18, 2018, the criminal complaint for syndicated estafa was dismissed but the case was referred to the *COA* for conduct of audit with respect to compliance therewith. A subsequent *MR* filed by the same consumer group was denied by the *SC*. Thereafter, the same 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 May 4, 2026, the matter is still pending.

Petition for Dispute Resolutions

Certain customers have filed a petition with the *ERC* and initiated arbitration proceedings over disputed billings, both of which remain pending, with the appointment of the arbitral tribunal still ongoing as at May 4, 2026.

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 *PPAs* 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* for the Sta. Rita plant ended on August 17, 2025. There was an 11-day extension initially implemented and thereafter an Interim Extension through January 31, 2026, both duly approved by the *ERC*. On January 30, 2026, the *ERC* approved the Second Interim Extension of the *PPA* until June 25, 2026 under the same terms and conditions for the implementation of the First Interim Extension. The *PPA* for the San Lorenzo plant ends on October 1, 2027.

QPPL

The 25-year *PPA* of *MERALCO* with *QPPL* ended on May 31, 2025.

See *Note 11 – Other Noncurrent Assets*.

Committed Energy Volume to be Purchased

The following are forecasted purchases from/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.

<u>Year</u>	<u>MEQ</u>	<u>Equivalent Amount</u>
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2027	3,357	5,816

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

The 20-Year *PSA* between *MERALCO* and *PEDC* was ultimately terminated after *PEDC* notified *MERALCO* of its decision to cease energy supply, citing the *ERC*'s failure to act on its Urgent Motion for Contract Adjustment amid rising coal prices driven by global geopolitical developments.

The *ERC*, though, approved *PEDC*'s application for recovery of actual fuel costs totaling ₱380 million representing the unrecovered losses from September 26, 2022 to December 4, 2022. The collection and settlement by *MERALCO* from its consumers shall begin with the March 2026 billing period.

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 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. The *ERC* approved a 2% annual escalation but left the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. The parties have jointly filed its application with the *ERC* and is awaiting final decision of the *ERC*.

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, which was filed with the *ERC* for approval. However, the 5-year approval period had lapsed without any resolution from the *ERC*. *Solar Philippines Tarlac* eventually filed a Motion to Withdraw the Application of the *PSA* on the basis of the *PSA*'s Longstop Date provision. This Motion to Withdraw Application remains pending the decision of the *ERC*. *Solar Philippines Tarlac* is of the position that it has no obligation to supply *MERALCO* for the additional 50 *MW* capacity.

SPI, AC Energy and SPPC – Baseload PSAs

MERALCO's baseload capacities with SPI (330 MW) and SPPC (670 MW) were terminated when the ERC denied the Joint Motions for the Price Adjustment on Notices of CIC of SPI and SPPC. Cases were filed with the CA, and the ERC elevated the case to the SC when the CA set aside the order of the ERC that denied the Joint Motions for Price Adjustment. On July 4, 2024, the SC issued a Resolution denying the ERC's Motion for Reconsideration.

Thereafter, the ERC approved the two (2) CIC claims of SPI and SPPC totalling ₱34.2 billion. CIC 1 totalling ₱5 billion is billable to customers beginning September 2025 billing period over six (6) months until full recovery. CIC 2 on the other hand totaling ₱29.3 billion is recoverable over 36 months starting the March 2026 billing period.

AC Energy filed similar CIC claims totaling ₱2.56 billion. On January 26, 2026, the ERC granted AC Energy's Updated and Supplemental Joint Motions for Price Adjustment and allowed AC Energy to recover from MERALCO customers the amount of ₱1.75 billion, over 12 months starting the March 2026 billing period.

First Gen Hydro Power Corporation ("First Gen Hydro"), AC Energy and SPPC – Mid-merit PSAs

MERALCO signed three (3) PSAs for mid-merit capacity with First Gen Hydro 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 PSAs for mid-merit capacity with AC Energy, and First Gen Hydro and SPPC, respectively. In its Orders dated November 26, 2020, the ERC granted interim relief authorizing continued implementation of the PSAs, until revoked or until the issuance of a final decision by the ERC. As at May 4, 2026, the three (3) PSA applications are pending final decision by the ERC.

MTerra Solar

MERALCO has a 20-year PSA with MTerra Solar for 850 MW renewable energy mid-merit capacity. The ERC approved the PSA on August 8, 2023, with notification of acceptance by MTerra Solar upon Receipt of the approval in December 2023. Phase 1 of MTerra Solar consisting of 650 MW capacity is expected to commence commercial operations in August 2026.

EERI, GNPD and MPGC – 2024 Baseload PSAs

MERALCO has three (3) PSAs 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 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 PSAs 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 May 4, 2026, the formal/complete final decisions approving the said PSAs 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 May 4, 2026, the formal/complete order of the said Notice of Resolution dated March 19, 2025 is pending release by the *ERC*.

SRHI, Palauig Solar 1 Inc. ("PSII") formerly Gigasol3, Inc. 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 *PSAs* with a) *SRHI* with operations effective date in March 2025 for 340 *MW*, b) *PSII* 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 *PSAs* with *SRHI*, *PSII* and *SCSEI* were filed with the *ERC* on September 23, 2024, September 23, 2024, and September 27, 2024, respectively. On September 10, 2025, the *ERC* promulgated the Decisions of even date for both the *PSII* and *SRHI PSAs* approving with final authority the *PSAs* to be implemented as applied for, subject to conditions. On September 17, 2025, *SRHI* commenced supply to *MERALCO*. On December 2, 2025 and January 22, 2026, *MERALCO* filed Urgent Motions to Resolve with the *ERC*, asking the *ERC* to resolve with finality the *SCSEI PSA*. As at May 4, 2026, the parties are awaiting *ERC*'s final decision on the application for approval of the *SCSEI PSA*.

GNPD and Masinloc Power Co. Ltd. ("MPCL") – Baseload PSAs

Following conduct of *CSP*, *MERALCO* has two (2) baseload supply *PSAs* 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 *PSAs* with *GNPD* and *MPCL* were filed with the *ERC* on October 2, 2024. On August 22, 2025, the *ERC* issued an Order of even date granting Interim Relief to implement the *PSA* as applied for subject to conditions. On August 26, 2025, *GNPD* commenced supply to *MERALCO*. On September 25, 2025, *GNPD* filed with the *ERC* a Motion for Issuance of Final Authority. On January 14, 2026, the *ERC* promulgated the final decision for the *GNPD PSA*. As at May 4, 2026, the parties are awaiting the *ERC*'s final decision for the *MPCL PSA*.

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. On August 22, 2025, the *ERC* promulgated the Decision of even date approving with final authority the *PSA* to be implemented as applied for, subject to conditions. On August 26, 2025, *GNPD* commenced supply to *MERALCO*. As at May 4, 2026, the parties are awaiting *ERC*'s final decision on the applications.

Interim Power Supply Agreements (“IPSAs”)

From 2017 to 2025, *MERALCO* entered into various *IPSAs*, emergency power supply agreements, and short-term *PSAs* with several suppliers to address temporary supply shortfalls arising from fuel supply disruptions, plant outages, regulatory delays, and court-issued injunctions affecting existing power supply contracts. These agreements were generally implemented under *DOE*-issued exemptions from the competitive selection process and were filed with the *ERC* for approval. Most of these contracts were short-term in nature and have already expired. As of May 4, 2026, several applications for approval and related regulatory matters remain pending with the *ERC*.

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.

The *ERC* approved the *PSA* between *Clark Electric* and *Sem-Calaca* through provisional authority in March 2021 and subsequently allowed its continued implementation by granting Interim Relief in February 2022 upon the authority’s expiration.

SPDC

Clark Electric entered into a *PSA* with *SPDC* for the supply of 25 *MW*, which was implemented under *ERC*-granted provisional authority and subsequent interim relief. The *PSA* remained in effect until its termination on December 25, 2025.

SPI

Clark Electric has two (2) separate *PSAs* with *SPI*: (1) for the supply of 15 *MW* baseload contract capacity and associated energy beginning December 26, 2025, and (2) for the supply of 15 *MW* mid-merit contract capacity and associated energy beginning April 26, 2026. The corresponding provisional authorities to implement the *PSAs* were granted by the *ERC* on November 21, 2025 and March 3, 2026, respectively.

TransCo/NGCP

Clark Electric has a Transmission Service Agreement with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules December 25, 2028.

Shin Clark Power

Temporary Power Supply Agreement (“TPSA”) and Sale for Resale Agreement (“SRA”)

Shin Clark Power entered into a *SRA* with *Clark Electric* to supply the entire power requirements of *NCC*, effective May 7, 2024 upon the expiration of its temporary *PSA* with another distribution utility. The initial approval of the *ERC* of the *SRA* excluded the Overhead Line Recovery Charge (“*OLRC*”). The *ERC* subsequently allowed the recovery of the Administrative and Overhead Line Recovery Charges, both prospectively and for the period from June 2024 to April 2025.

On September 18, 2025, the *ERC* approved the distribution tariff of *Shin Clark Power* at ₱4.0230 per *kWh*.

Supply and Equipment Loan Agreement with Shell Pilipinas Corporation (“Shell”)

Panay Power has a Supply and Equipment Loan Agreement with *Shell*, whereby *Shell* will supply *Panay Power*'s requirements of petroleum products at prices based on a pre-agreed formula. In May 2023, following the decommissioning of units 1 and 2 on March 31, 2023 and December 31, 2022, respectively, *Panay Power* informed *Shell* of its intention to terminate the contract. As at May 4, 2026, 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	220,000 MT
PT Mustika Indah Permai	Indonesia	2025-2027	ICI4	440,000 MT
Vitol Asia Pte. Ltd	Indonesia	2025 - 2027	GNewC/ICI4	165,000 MT
PT Bayan Resources TBK	Indonesia	2025-2027	GNewC/ICI4	220,000 MT
Semirara Mining and Power Corporation	Local	Jan-Dec 2026	Fixed Price	60,000 MT
Galaxy Energy & Resources Co. Pte. Ltd.	Indonesia	Jan-Dec 2026	ICI4	55,000 MT
Bulk Trading Far East Pte. Ltd.	Indonesia	Jan-Dec 2026	ICI4	55,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Antang Gunung Meratus	Indonesia	2025-2026	GNewC/ICI4	220,000 MT
PT Bara Indah Sinergi	Indonesia	2025-2027	ICI4	110,000 MT
PT Bayan Resources	Indonesia	2025-2027	GNewC/ICI4	275,000 MT
Vitol Asia Pte. Ltd.	Indonesia	2025-2027	GNewC/ICI4	165,000 MT
Bulk Trading Far East Pte. Ltd.	Indonesia	Jan-Dec 2026	ICI4	110,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Antang Gunung Meratus	Indonesia	2025-2026	GNewC/ICI4	55,000 MT
PT Bayan Resources	Indonesia	2026-2027	GNewC/ICI4	55,000 MT
PT Bara Indah Sinergi	Indonesia	2025-2026	GNew/ICI4	55,000 MT

MGen RES

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Bulk Trading Far East Pte Ltd	Indonesia	Jan-Dec 2026	ICI4	55,000 MT
LX International	Indonesia	Jan-Dec 2026	ICI4	55,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project (“Cagbalete Microgrid Project”)

On July 23, 2019, the Cagbalete Microgrid pilot project was energized with 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.

MERALCO filed an application with the *ERC* to implement the Cagbalete Microgrid Expansion Project, to allow *MERALCO* serve the rest of the residents in Cagbalete Island. This was subsequently withdrawn and remains pending further regulatory action. Pursuant to the Revised Microgrid Law *IRR*, *MERALCO* later notified the *DOE* of its intent to develop a *DU* microgrid system for Cagbalete Island, and received authority to proceed. As of January 25, 2026, *MERALCO* is preparing the necessary application with the *ERC* to secure required approvals.

Lease Agreement with CDC

Clark Electric has a lease agreement through 2032 with *CDC* covering land where its structures and offices are located.

In addition, there are two (2) supplemental lease agreements for an allocated space in *CDC*-owned Dolores Substation 2 and Clark-Mabalacat-Angeles Road Substation.

The annual lease payment is equivalent to ₱0.12 per *kWh* sold by *Clark Electric*.

Estimated future minimum guarantee fees to be remitted to *CDC* are as follows:

	March 31, 2026 (Unaudited)	December 31, 2025 (Audited)
	<i>In millions</i>	
Within one (1) year	₱92	₱91
After one (1) year but not more than five years	518	513
	₱610	₱604

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 operates the distribution system of *CEZ* under a concession agreement with *PEZA* for 25 years until May 2039. It operates under a Certificate of Registration No.10-01-U from *PEZA*.

MERALCO has a tripartite agreement with *PEZA* and *FNPC* for 77 MW power supply agreement beginning until June 25, 2026, reflecting the second interim extension approved by the *ERC*.

Joint Venture Agreement with NCC

Shin Clark Holdings has a Joint Venture Agreement with the *BCDA* for the construction, operation and maintenance of the electric distribution system in *NCC*. *Shin Clark Holdings* 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. The joint venture company, *Shin Clark Power*, was incorporated in May 2022 and was granted a *CPCN* by the *ERC* to operate as a *DU* until September 2044.

On October 15, 2024, *Shin Clark Power* filed an Application for its initial distribution rate structure to its various customer classes. On September 18, 2025, the *ERC* approved the Application, granting *Shin Clark Power* to collect an effective average rate of ₱4.0230 per kWh. As at May 4, 2026, *Shin Clark Power* filed a Motion for Partial Reconsideration which is pending before the *ERC*.

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 Three Months	
	Ended March 31	
	2026	2025
	<i>(Amounts in millions)</i>	
Net income attributable to equity holders of the Parent (a)	₱10,833	₱10,448
Weighted average common shares outstanding (b)	1,127	1,127
Per Share Amounts:		
Basic and diluted earnings per share (a/b)	₱9.61	₱9.27

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 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 August 15, 2025, the *ERC* released Resolution No. 22, Series of 2025, entitled “A Resolution Lowering the Eligibility Threshold for Retail Competition and Open Access (“*RCOA*”) and Retail Aggregation Program (“*RAP*”)”. In said Resolution, the *ERC* lowered the demand threshold for eligibility to the Competitive Retail Electricity Market (“*CREM*”)/*RCOA* to an average monthly peak demand of at least 100 *kW* effective June 26, 2026.

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. 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

On November 26, 2025, the *ERC* promulgated *ERC* Resolution No. 26, Series of 2025, which amended *ERC* Resolution No. 07, Series of 2021 and updated the Secondary Price framework based on 2023-2025 market data. The revised rules retained the 72-hour rolling average period and set the secondary price cap at ₱7,423 per *mWh*, triggered once the Cumulative Price Threshold (“*CPT*”) of ₱12,413 per *mWh* is breached. The island/regional Secondary Price Cap (“*SPC*”) mechanism is maintained for use during grid interconnection outages. Additional Compensation is now limited to oil-based and *LNG* plants whose verified short-run marginal costs exceed the *SPC*, with all other technologies excluded. The *ERC* also established that the *SPC* parameters, including the *SPC* value, *CPT*, and rolling period will undergo review every five years, or earlier if warranted.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued guidelines which effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The guidelines are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.

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”)

MERALCO and *TransCo* sought regulatory approval for the acquisition of Batch 4 sub-transmission assets, which was denied by the *ERC* and became the subject of prolonged regulatory, appellate, and *SC* proceedings, with a motion for reconsideration currently pending. Separately, *MERALCO* pursued an interpleader case relating to the payment and transfer of certain *TransCo* assets, which was ultimately remanded for proper disposition and attained finality. In December 2020, *MERALCO* and *TransCo* executed the deeds of absolute sale covering the Batch 2 and Batch 4 assets, resulting in *MERALCO*'s full acquisition and possession of these assets and corresponding adjustments to transmission charges effective December 2021.

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 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.

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 <i>kWh</i>	Approved Rate per <i>kWh</i>	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 <i>Covid-19</i>)	₱0.0364	August 30, 2022
2023	₱0.2382	₱0.0838	March 20, 2024
2024	₱0.0867	₱0.1189	February 19, 2025
2025	₱0.1006	₱0.2073	October 22, 2025
2026	₱0.1488	₱0.2011	December 26, 2025

The *FiT* regime has been subject to various regulatory and judicial actions including periodic rate adjustment and temporary suspension of collections.

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. *MERALCO* was approved by *PEMC* as a mandated participant in the Renewable Energy Market, which has since commenced full commercial operations.

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 Renewable Energy Act, the *DOE* issued the rules and supplemental guidelines establishing the Green Energy Option Program (“*GEOP*”), while the *ERC* subsequently adopted the implementing rules. As at March 31, 2026, *MERALCO* has processed the switching of 714 customers to *GEOP*.

On January 26, 2026, the *DOE* issued Department Circular No. DC2026-01-002 “Promulgating the Revised Rules and Guidelines Governing the Implementation of the Green Energy Option Program (“*GEOP*)”. The Department Circular expands *GEOP* eligibility by lowering the minimum threshold from 100 *kW* to 50 *kW*. It likewise introduces aggregation for end-users whose individual demand falls below 50 *kW*, allowing them to collectively participate in the program. However, unlike the Retail Aggregation Program (“*RAP*”), *GEOP* aggregation is limited to participants located within a contiguous area. The Department Circular takes effect fifteen (15) days after its publication on February 6, 2026 in the Daily Tribune and BusinessWorld.

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* was 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 collection of *UC-SCC* and stranded debts portion of the universal charge ("*UC-SD*") from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

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

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

Net Metering Program

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

The *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs*' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at March 31, 2026, *MERALCO* has already installed 21,822 meters and energized 21,715 net metering customers.

Interruptible Load Program (“ILP”)

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*’s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 “A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program”, *DOE* Circular No. DC2015-06-0003 “Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program” and *ERC* Resolution No. 3, Series of 2019 “A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules”.

As at March 31, 2026, there are 100 companies with a total committed de-loading capacity of 526.16 *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* filed a Motion to withdraw the application without prejudice to its re-filing 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 May 4, 2026, 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* filed a Motion to Withdraw the Application which was granted by the *ERC* in its Order dated September 8, 2025.

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 *PSAs* of ten (10) years for financial *PSAs*, fifteen (15) years for physical *PSAs* and twenty (20) years for physical *PSAs* where the nominated plants are renewable energy power plants. *PSA* templates, containing minimum terms and conditions, for financial and physical *PSAs* were also provided in the *ERC CSP Guidelines*. *DUs* may include additional contractual terms and conditions in their *PSAs* 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 *CSPs*.

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 *CSPs* of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*. As at May 4, 2026, 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* 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. In February 2023, the amount was fully refunded. As at May 4, 2026, 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) I-94

Based on *ER I-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 I-94*. Such amount accrued shall be remitted to the trust account of the host *LGUs* and *DUs*, subject to audit by the *DOE*. On October 25, 2025, the *DOE* released Department Circular No. DC2025-10-0023, entitled "Promulgating the Enhanced Policy to Rationalize the Provision of Benefits to Communities Hosting Energy Generation and Resource Development Facilities, Including Generating Facilities with Integrated Energy Storage System Facilities, Amending Rule 29 (A) of the Implementing Rules and Regulations of Republic Act No. 9136". In said Department Circular, *MGSPs* were exempted from from *ER* financial obligations and generation companies' *ER* financial obligation was increased from P0.01 per *kWh* to P0.03 per *kWh*.