COVER SHEET

SEC Registration Number

PW-102

Company Name

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

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

LOPEZ BUILDING, ORTIGAS AVENUE BARANGAY UGONG, PASIG CITY, METRO MANILA, PHILIPPINES

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
40,852	Last Tuesday of May	December 31

CONTACT PERSON INFORMATION

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

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

Contact Person's Address

Lopez Building, Ortigas Avenue, Pasig City

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. **Date of Report:** March 31, 2024

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	1,127,098,705
Debt Securities (Bonds)	PhP2.87 Billion

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

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

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

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

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

Yes [x] No [ ]

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

Yes [x] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The 3M 2024 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 2024 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, 2024

Cc: Disclosure Department
Listings and Disclosure Group
Philippine Stock Exchange

Issuer Compliance and Disclosure Department
Philippine Dealing & Exchange Corp.

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company ("*MERALCO*") and its subsidiaries, collectively referred to as the *"MERALCO Group*" should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and 2023. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (*"PFRS*s*")*. *PFRS* includes statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying unaudited interim consolidated financial statements is presented in Philippine peso, *MERALCO Group'*s functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The exchange rate used to translate U.S. dollar to Philippine peso in this report and in the accompanying unaudited interim consolidated financial statements is US$1.00 to ₱56.24, the closing rate as at March 31, 2024 quoted through the Philippine Dealing System.

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)	Increase (Decrease) Amount	%
Condensed Statements of Financial Position				
Total assets	₱606,215	₱586,042	₱20,173	3
Current assets	176,627	162,759	13,868	9
Cash and cash equivalents	94,523	82,789	11,734	14
Equity attributable to equity holders of the parent	119,276	122,295	(3,019)	(2)
Total debt	100,160	99,446	714	1
Current liabilities	252,700	233,273	19,427	8
Total liabilities	441,699	418,723	22,976	5

	Unaudited			
	Three Months Ended March 31		Increase (Decrease)	
	2024	2023	Amount	%
Condensed Statements of Income				
Revenues	₱104,548	₱105,642	(₱1,094)	(1)
Costs and expenses	93,444	98,384	(4,940)	(5)
Other income, net of expenses	1,063	2,464	(1,401)	(57)
Income before income tax	12,167	9,722	2,445	25
Net income	9,758	8,205	1,553	19
Net income attributable to equity holders of the parent	9,597	8,071	1,526	19
Earnings per share (EPS), attributable to equity holders of the parent	8.51	7.16	1.35	19
Condensed Statements of Cash Flows				
Net cash provided by (used in) operating activities	17,052	(734)	17,786	(2,423)
Net cash provided by (used in) investing activities	(5,028)	4,837	(9,865)	(204)
Net cash used in financing activities	(334)	(2,126)	1,792	(84)
Operational Data				
Number of customers (in thousands):				
Residential	7,279	7,081	198	3
Commercial	584	571	13	2
Industrial	11	11	–	–
Streetlight	5	5	–	–
Electricity sales volume (in *GWh*)	12,307	11,287	1,020	9
System loss (in percentage) :				
MERALCO	5.90	5.62	0.28	5
Clark Electric Distribution Corporation (“*Clark Electric*”)	2.15	1.79	0.36	20

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

Financial KPI	Definition	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Debt to Equity	Total debt / Equity attributable to equity holders of the parent	0.84	0.81
Current Ratio	Current assets / Current liabilities	0.70	0.70

		Unaudited Three Months Ended March 31	
		2024	2023
Core EBITDA	*CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, and provision for income tax	₱17,791	₱15,511
Profit Margin	Net income attributable to equity holders of the parent / Revenues	9%	8%
Return on Equity	Net income attributable to equity holders of the parent / Equity attributable to equity holders of the parent	8%	7%
Asset Turnover	Revenues / Average total assets	18%	19%

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to over 7.9 million customer accounts in 38 cities and 73 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon.

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

- Power

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

  Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and the Clark Electric Distribution Corporation ("*Clark Electric"*) franchise areas in Luzon. Electricity distributed within the *MERALCO* franchise area accounts for over 50% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone (*"CSEZ")* and the sub-zones.

  Shin Clark Power Holdings, Inc. ("*Shin Clark*") through a Joint Venture Agreement ("*JVA*") with *BCDA*, manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac. In accordance with the *JVA*, *BCDA* assigned its franchise to operate the electric distribution system in New Clark City, granted to it by the Congress under Republic Act No. 11420, to Shin Clark Power Corporation ("*Shin Clark Power*" or "Joint Venture Company"). *BCDA*'s assignment of its franchise to *Shin Clark Power*, based on a valuation by a third-party independent appraiser, represents *BCDA*'s contribution to *Shin Clark Power* in exchange for a 10% equity interest in *Shin Clark Power*. *Shin Clark Power* was incorporated and registered with the Securities and Exchange Commission ("*SEC*"). On a Decision dated March 22, 2023, the *ERC* granted *Shin Clark Power* a *CPCN* to operate as a distribution utility.

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

  Power generation – The *MERALCO Group* has a combined group generating capacity of 2,247 *MW* (net) of coal, liquid natural gas, and oil and diesel and renewable plants in the Philippines and Singapore.

  MERALCO PowerGen Corporation *("MGen")* owns 51% interest in San Buenaventura Power Ltd. Co. ("*SBPL*") which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. Global Business Power Corporation *("GBPC")* owns 823.6 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy Corporation ("*Sarangani Energy"*). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

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

  Following *MGreen*'s acquisition of a majority stake in SP New Energy Corporation ("*SPNEC*") in December 2023, *MGreen* further raised its stake in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion *SPNEC* shares in January 2024. Terra Solar Philippines, Inc. ("*Terra Solar*"), a wholly owned subsidiary of *SPNEC,* is developing a 3.5-*GWp* solar power plant facility with a 4,500-*MWh* battery energy storage system.

MGen and Therma NatGas, Inc. ("*TNGP*") have jointly entered into an Investment Agreement to acquire equity interest in Chromite Gas Holdings ("*CGHI*"). *MGen* will acquire 60% interest in *CGHI* while *TNGP* will acquire the balance of 40%.

CGHI intends to invest in two gas-fired power plants owned by San Miguel Global Power Holdings Corp. ("*SMGP*"), the 1,278 *MW* Ilijan power plant, and a new 1,320 *MW* combined cycle power facility that is currently under construction. Together with *SMGP*, *CHGI* will invest in the liquefied natural gas ("*LNG*") import and regasification terminal owned by Linseed Field Corporation.

The transaction is subject to the customary review and approval of the Philippine Competition Commissiion ("*PCC*").

MGreen, through PH Renewables Inc. *("PHRI")*, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation, has energized 67.5 *MWac* of its 75 *MWac* solar plant in Baras, Rizal and has started generating power since March 2023. Phase 2 of *PHRI* solar plant is targeted to be operational by mid-2024. For the three months period ended March 31, 2024, *PHRI* delivered 37 *MW* to *MPower*.

Also, in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*"), a 68 *Mwac* solar plant project in Ilocos Norte was fully energized in February 2023. As of March 31, 2024, the project has delivered a total of 39 *GWh* of commissioning energy.

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

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

Vantage and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*; and *GESC,* a wholly owned subsidiary of *GBPC* are affiliate *RES*s. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC* on November 17, 2017. As at April 29, 2024, the approval of its *RES* licensing is pending with the *ERC.*

- Other Services

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

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

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

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, 2024 and 2023 are discussed below.

	Unaudited			
	For the Three Months Ended March 31, 2024			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱101,363	₱4,015	(₱830)	₱104,548
Costs and expenses	90,949	3,373	(878)	93,444
Other income (expense) - net	1,021	(134)	176	1,063
Net income attributable to equity holders of the parent	9,505	254	(162)	9,597

	Unaudited			
	For the Three Months Ended March 31, 2023			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱102,356	₱4,380	(₱1,094)	₱105,642
Costs and expenses	95,865	3,497	(978)	98,384
Other income (expense) - net	2,660	(172)	(24)	2,464
Net income attributable to equity holders of the parent	7,938	267	(134)	8,071

2024 compared with 2023

REVENUES

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

	Unaudited					
	For the Three Months Ended March 31					
	2024		2023		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱101,363	97	₱102,356	97	(₱993)	(1)
Other services	4,015	4	4,380	4	(365)	(8)
Inter-segment transactions	(830)	(1)	(1,094)	(1)	264	(24)
Total	**₱104,548**	**100**	**₱105,642**	**100**	**(₱1,094)**	**(1)**

Consolidated revenues is almost flat vesus last year as the increase in distribution utility volume growth was offset by lower pass-through charges and energy fees, reflecting lower fuel prices compared with the same period last year.

Other services revenue decreased by 8% from ₱4,380 million to ₱4,015 resulting from lower engineering, procurement and construction ("*EPC*") and telecommunication projects.

Power

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

Revenues of the power segment in 2024 was at ₱101,363 million, ₱993 million or 1% lower compared with 2023 due to lower pass through charges and energy fees resulting from lower generation charge with the decrease in WESM, international coal and Malampaya natural gas prices and as well as lower plant availability of Global Business Power Corporation's ("*GBP*") Cebu Energy Development Corporation ("*CEDC*") power plant. This was offset by the impact of the increase in distribution utility sales volume by 9%.

Generation charge, which accounted for about 63% of the total retail rate, went down by 4%; while transmission charge, comprising 8% of the retail rate, decreased by 3%. With a combined 11% share in the total, subsidies and taxes climbed by 14% due to higher effective taxes and universal charges.

Purchased power costs ("*PPC*") decreased by 3% to Pesos 76.5 billion from Pesos 78.6 billion, consistent with the decline in pass-through revenues, reflecting lower input costs of fuel.

Average *WESM* prices in the *Meralco* franchise area went down to Pesos 4.65 per kWh from an average of Pesos 6.57 per kWh following improved supply situation in the grid during the quarter, even as peak demand during the first quarter was higher by 112 MW compared with a year ago due to decidedly warmer temperatures.

MERALCO's average retail rate increased by less than 4% to ₱10.78 per *kWh* from ₱10.41 per *kWh* mainly due to the completion of the distribution rate true-up ("*DRTU*") refund in May 2023. *MERALCO*'s average distribution charge was at ₱1.47 per *kWh*, 58% higher compared to the distribution charge net of the *DRTU* refund in 2023. Without the effect of the *DRTU* refund, the distribution charge was less than 1% higher.

MERALCO's 12-month moving average ("*12-MMA*") system loss at end-March remained below the indicative regulatory cap at 5.90%, while *Clark Electric*'s 12-*MMA* system loss was at 2.15%.

The following summarizes the customer count of the electricity distribution business as at March 31, 2024 and 2023 and the corresponding electric consumption per customer class for the three months ended March 31, 2024 and 2023:

	No. of Customers *(in thousands)*		**Electricity Sales** *(in GWh)*		**% Change**	
Customer Class	**2024**	**2023**	**2024**	**2023**	**No. of Customers**	**Electricity Sales**
Residential	7,279	7,081	4,144	3,701	3	12
Commercial	584	571	4,678	4,213	2	11
Industrial	11	11	3,448	3,336	–	3
Streetlights	5	5	37	37	–	–
Total	**7,879**	**7,668**	**12,307**	**11,287**	**3**	**9**

Consolidated distribution utility energy sales volumes in the first quarter rose to 12,307 *GWh* from 11,287 *GWh* in 2024 as volumes of *MERALCO* and *Clark Electric* increased by 9% and 7%, respectively.

The robust quarterly sales volume growth was bolstered by a confluence of sales catalysts that include higher temperatures which rose by an average 0.50°C (from 26.71°C to 27.21°C) amid the El Niño phenomenon, one more day in February due to the leap year, and increased momentum of its recovering industrial segment. An approximate 2.5 *GWh* of consumption per day is noted for every degree rise in temperature.

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

Commercial sales volume recorded double-digit growth of 11% to 4,678 *GWh* in the first quarter, from 4,213 *GWh* in the previous year – surpassing pre-pandemic 2020 performance. Growth was headlined by the real estate sector driven by demand for office spaces in central business districts, followed by the retail trade sector as mall operators expanded and repurposed spaces that attracted more customer visits. Hotels, educational institutions, and restaurants had significant consumption upswing due to sustained increase in in-person events, with higher usage of air-conditioning to regulate ambient temperatures.

Residential sales surged by 12% reaching 4,144 *GWh* by the end of March from 3,701 *GWh* a year ago, pushed by prolonged usage of cooling appliances at home as the dry spells associated with El Niño persisted. Industrial sales rebounded to 3,448 *GWh* in the three-month period, 3% higher than 3,336 *GWh* in the same three months in 2023. The semiconductor sector played a significant role in driving the segment into growth territory, as key accounts continued to scale up on operations to expand electric vehicles ("*EV*") chip production. The food and beverage sector similarly experienced higher production as it geared up for the peak summer months, while the plastics sector was propelled by demand for food packaging and construction plastics. Cement plants recovered from production stoppages in January and took advantage of the warm weather for frontload operations and increased production of raw materials. Boost in output from wind and solar farms further increased sales from generation wheeling.

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

Revenues in the first quarter of the power generation business through *MGen* was tempered by the scheduled maintenance outages of San Buenaventura Power Ltd. Co. ("*SBPL*"), Singapore-based PacificLight Power Ltd. ("*PacificLight*"), and *CEDC*. Consequently, total energy delivered by *MGen* settled at 3,229 GWh, 11% lower from a year ago.

<u>Other Services</u>

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

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

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2024, amounted to ₱93,444 million, lower by ₱4,940 million compared with ₱98,384 million in 2023. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2024		**2023**		**Increase/Decrease**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
			(Amounts in millions)			
Power[1]	₱90,949	97	₱95,865	97	(₱4,916)	(5)
Other services	3,373	4	3,497	4	(124)	(4)
Inter-segment transactions	(878)	(1)	(978)	(1)	100	(10)
Total	**₱93,444**	**100**	**₱98,384**	**100**	**(₱4,940)**	**(5)**

[1] *Ibid.*

Power

Costs and expenses of power segment for the three months ended March 31, 2024 amounted to ₱90,949 million, 5% lower compared with ₱95,865 million in 2023. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Three Months Ended March 31					
	2024		2023		Increase/Decrease	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
			(Amounts in millions)			
Purchased power	₱76,462	84	₱78,580	82	(₱2,118)	(3)
Depreciation and amortization	3,985	4	3,616	4	369	10
Salaries, wages and employee benefits	3,315	4	3,081	3	234	8
Coal and fuel	2,756	3	4,566	5	(1,810)	(40)
Contracted services	2,189	2	2,054	2	135	7
Others	2,242	3	3,968	4	(1,726)	(43)
Total	**₱90,949**	**100**	**₱95,865**	**100**	**(₱4,916)**	**(5)**

Purchased power cost ("*PPC*") decreased by 3% to ₱76,462 million from ₱78,580 million consistent with the decline in pass-through revenues. Lower Wholesale Electric Spot Market ("*WESM*") prices, decrease in international coal and Malampaya natural gas prices, and higher dispatch of First Gas-San Lorenzo pushed down the generation charge. These factors more than offset the impact of the peso's depreciation and the higher cost of replacement power for capacity previously provided under the terminated *PSA*s with South Premiere Power Corporation ("*SPPC*") for 670 *MW* and Sual Power Inc. ("*SPI*") and San Miguel Energy Corporation ("*SMEC*") for 330 *MW*.

A decrease in the transmission charge also contributed to the reduction of purchased power cost. The transmission charge decreased due to lower ancillary service charges and the cessation of collection of National Grid Corporation of the Philippines' ("*NGCP*") 3% national franchise tax beginning August 2023.

Coal and fuel are costs incurred by the power generation business, mainly *GPBC* and its subsidiaries. Coal and fuel costs decreased by 40% due to lower coal and fuel prices and scheduled outages of certain power plants, while volume generated and sold was flat compared with last year.

Contracted services increased by 7% due to higher volume of customer related expenses for disconnection, reconnection and relocation and collection services, intensified maintenance of line distribution facilities to prepare for the summer peak period as well as the rainy season and inclusion of expenses of *SPNEC* this year

Other expenses consist of business taxes and permits, provision for expected credit losses, costs of materials, transportation, and other corporate expenses. This also includes reversals of provisions with the settlement of real property taxes, accounting adjustments with respect to *IFRIC* 23 and net of provisions for overrecoveries.

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2024 amounted to ₱3,373 million, 4% lower compared with ₱3,497 million in 2023.

	Unaudited					
	For the Three Months Ended March 31					
	2024		2023		Increase/Decrease	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
			(Amounts in millions)			
Salaries, wages and employee benefits	₱1,194	36	₱1,155	33	₱39	3
Contracted services	619	18	712	20	(93)	(13)
Depreciation and amortization	545	16	438	13	107	24
Others	1,015	30	1,192	34	(177)	(15)
Total	**₱3,373**	**100**	**₱3,497**	**100**	**(₱124)**	**(4)**

The decrease in the cost and expenses of other business segment is mainly due to lower project-related costs of *MIESCOR* resulting from lower *ECP* projects consistent with the decrease in revenue from other services.

Depreciation and amortization expenses for the three months ended March 31, 2024 is higher resulting from acquired/completed *SLB* and *BTS* towers of *MIDC* during the year.

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			
			Increase/Decrease	
	2024	2023	Amount	%
		(Amounts in millions)		
Power[2]	₱1,021	₱2,660	(₱1,639)	(62)
Other services	(134)	(172)	38	(22)
Intersegment transactions	176	(24)	200	(833)
Total	**₱1,063**	**₱2,464**	**(₱1,401)**	**(57)**

Other income, net of expenses for the three months ended March 31, 2024 decreased by ₱1,401 million mainly due to lower share in net earnings of associates and joint ventures, and higher interest and other financial charges. The decrease was mitigated by foreign exchange gain recorded with the depreciation of peso against U.S. dollar and higher yield from investments in interest income.

Power

Other income (expenses) of power segment consists of:

	Unaudited			
	For the Three Months Ended March 31			
			Increase/Decrease	
	2024	2023	Amount	%
		(Amounts in millions)		
Equity in net earnings of associates and joint ventures	₱1,709	₱3,915	(₱2,206)	(56)
Interest and other financial income	889	703	186	26
Interest and other financial charges	(1,133)	(1,047)	(86)	8
Foreign exchange gains (losses)	2	(299)	301	(101)
Others	(446)	(612)	166	(27)
Total	**₱1,021**	**₱2,660**	**(₱1,639)**	**(62)**

The lower equity in net earnings of associates and joint ventures this year was due to scheduled outages of *SBPL* and *PacificLight.*

Interest and other financial income increased by ₱186 million with higher interest rates of short-term placements compared to the same period last year.

Foreign exchange gains increased due to the depreciation of Philippine peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱56.24 as at March 31, 2024 (₱55.37 as at December 31, 2023) compared with ₱54.36 as at March 31, 2023 (₱55.76 as at December 31, 2022).

[2] *Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

	Unaudited					
	For the Three Months Ended March 31					
	2024		2023		Increase/Decrease	
	Amount	**%**	**Amount**	**%**	Amount	**%**
			(Amounts in millions)			
Power	₱9,505	99	₱7,938	98	₱1,567	20
Other services	254	3	267	3	(13)	(5)
Inter-segment transactions	(162)	(2)	(134)	(1)	(28)	21
Total	**₱9,597**	**100**	**₱8,071**	**100**	**₱1,526**	**19**

Net income attributable to equity holders of the parent increased by ₱1,526 million due to higher volume of energy sold this period compared to the same period last year, owing to strong performance of commercial and residential segments and rebound of industrial segment.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2024 Unaudited	December 31, 2023 Audited	Increase (Decrease)	
			Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱281,402**	₱269,839	₱11,563	4
Investments in associates and interests in joint ventures	**37,191**	38,388	(1,197)	(3)
Investment properties	**1,490**	1,493	(3)	–
Intangible assets	**49,537**	53,351	(3,814)	(7)
Deferred tax assets - net	**25,046**	24,633	413	2
Financial and other noncurrent assets	**34,922**	35,579	(657)	(2)
Total Noncurrent Assets	**429,588**	423,283	6,305	1
Current Assets				
Cash and cash equivalents	**94,523**	82,789	11,734	14
Trade and other receivables	**50,625**	48,395	2,230	5
Inventories	**13,506**	11,180	2,326	21
Financial and other current assets	**17,973**	20,395	(2,422)	(12)
Total Current Assets	**176,627**	162,759	13,868	9
Total Assets	**₱606,215**	₱586,042	₱20,173	3
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱119,276**	₱122,295	(₱3,019)	(2)
Non-controlling interests	**45,240**	45,024	216	–
Total Equity	**164,516**	167,319	(2,803)	(2)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**62,807**	62,272	535	2
Customers' deposits - net of current portion	**32,806**	34,128	(1,322)	(4)
Long-term employee benefits	**11,043**	10,263	780	8
Provisions	**10,456**	11,350	(894)	(8)
Refundable service extension costs - net of current portion	**3,987**	4,051	(64)	(2)
Deferred tax liabilities - net	**11,207**	8,691	2,516	29
Other noncurrent liabilities	**56,693**	54,695	1,998	2
Total Noncurrent Liabilities	**188,999**	185,450	3,549	2
Current Liabilities				
Notes payable	**27,883**	27,583	300	1
Trade payables and other current liabilities	**208,914**	191,703	17,211	9
Customers' refund	**2,839**	2,846	(7)	–
Income tax payable	**3,594**	1,550	2,044	132
Current portion of interest-bearing long-term financial liabilities	**9,470**	9,591	(121)	(1)
Total Current Liabilities	**252,700**	233,273	19,427	8
Total Liabilities	**441,699**	418,723	22,976	5
Total Liabilities and Equity	**₱606,215**	₱586,042	₱20,173	3

CHANGES IN FINANCIAL POSITION

Utility Plant, Generation Plant and Others

The ₱11,563 million increase in utility plant, generation plant and others reflects the costs of completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, development of power plant projects and construction of tower assets, totaling ₱15,639 million and fair value adjustment of land from the acquisition of controlling interest in *SPNEC*. This was offset by depreciation and amortization of ₱4,030 million.

Intangible Assets

The decrease in this account was mainly due to the adjustment in the fair value of the identified intangible asset from the acquisition of controlling interest in *SPNEC* which pertains to the existing customer contract of Terra Solar Philippines, Inc. ("*TSPI*") recognized in December 2023.

Trade and Other Receivables

The increase in trade and other receivables balance was mainly driven by higher *kwh* sales and average retail rate per *kwh* in March 2024 compared with December 2023. The average retail rate in March 2024 is ₱10.78 per kwh compared with ₱10.55 per kwh in December 2023.

Trade Payables and Other Current Liabilities

The increase in this account is mainly attributed to the recognition of dividends declared in February 2024 amounting to ₱12,430 million, payable in April 2024 .

2023 compared with 2022

REVENUES

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

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱102,356	97	₱83,272	97	₱19,084	23
Other services	4,380	4	3,568	4	812	23
Inter-segment transactions	(1,094)	(1)	(935)	(1)	(159)	17
Total	**₱105,642**	**100**	**₱85,905**	**100**	**₱19,737**	**23**

Consolidated revenues rose by 23% to ₱105,642 million from ₱85,905 million mainly due to (a) higher generation pass-through charges with persisting increases in global fuel prices, higher spot market prices, and peso depreciation; (b) higher *kWh* sales with the easing of pandemic-related restrictions; and (c) higher contribution of the power generation business driven by increases in volume and fuel prices.

Non-electric revenues, which accounted for 4% of consolidated total revenues, grew by 23% due to increase in business activities of subsidiaries and business expansion initiatives.

Power

Revenues from electricity distribution, *RES* and power generation consist of generation, transmission, system loss, distribution, subsidies and other charges related to electricity distribution and energy trading. *MERALCO* and *Clark Electric* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, *Vantage* and *MeridianX* supply electricity to their respective contestable customers. Revenues of the power generation companies of *GBPC,* Powersource First Bulacan Solar, Inc. ("*First Bulacan*") and PH Renewables, Inc. ("*PHRI*") are included in the power segment. *GBPC* owns coal and oil plants with a net capacity of 970 *MW*, of which 800 *MW* are contracted under *PSA*s with captive and contestable customers and Ancillary Services Procurement Agreements ("*ASPAs*"). *First Bulacan* owns and operates a 80 *MW*dc/50 *MWac* utility scale solar facility located in San Miguel, Bulacan, the largest single operating solar plant in the country, which began commercial operations on May 12, 2021 and has since delivered solar energy to *MERALCO* under an *ERC*-approved *PSA. PHRI* owns a 75 MWac solar plant in Baras, Rizal in partnership with Mitsui & Co., Ltd.'s local unit, Mit-Renewables Philippine Corporation, which has started testing and commissioning in the first quarter of 2023.

Revenues of the power segment in 2023 was at ₱102,356 million, ₱19,084 million or 23% higher compared with 2022.

MERALCO's average retail rate increased by 17% to ₱10.41 per *kWh* from ₱8.89 per *kWh* as generation charges, which accounted for about 68% of total retail rate, went up by 33%. Transmission charges, comprising 8% of the retail rate, increased by 6%.

MERALCO's average distribution charge of ₱0.93 per *kWh*, which accounted for 9% of the retail rate, dropped by 30% following the implementation of distribution rate true-up ("*DRTU*") adjustments which averaged ₱0.53 per *kWh* during the first quarter of 2023.

MERALCO's 12-month moving average ("*12-MMA*") system loss at end-March improved by 0.40 percentage point to 5.62% from 6.02% indicative regulatory cap due to increasing share of commercial and industrial volume compared with higher residential volume in the previous year. In addition, system loss management initiatives also contributed to the lower *SL* rate. *Clark Electric*'s 12-*MMA* system loss was at 1.79% as at March 31, 2023.

The following summarizes the customer count of the electricity distribution business as at March 31, 2023 and 2022 and the corresponding electric consumption per customer class for the three months ended March 31, 2023 and 2022:

	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
Customer Class	**2023**	**2022**	**2023**	**2022**	**No. of Customers**	**Electricity Sales**
Residential	7,081	6,888	3,701	3,808	3	(3)
Commercial	571	559	4,213	3,781	2	11
Industrial	11	11	3,336	3,443	–	(3)
Streetlights	5	5	37	37	–	–
Total	**7,668**	**7,463**	**11,287**	**11,069**	**3**	**2**

Consolidated distribution utility energy sales volumes in the first quarter of 2023 rose to 11,287 *GWh* from 11,069 *GWh* in the same period in 2022 following the easing of pandemic-related restrictions and warmer temperatures.

In terms of the sales mix, residential sales accounted for 33%, commercial sales increased to 37% from 34% in 2022, while industrial sales was at 30% from 31% in 2022.

Demand of residential consumers continue to normalize with the resumption of travel and increasing face-to-face activities in offices, factories, service companies, schools and others. This resulted in residential volume decreasing by 3% to 3,701 *GWh* from 3,808 *GWh*.

Commercial sales volumes grew to 4,213 *GWh* to 3,781 *GWh* amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began face-to-face classes. Full operations of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

The impact of global economic headwinds and inflation was felt by the industrial segment as sales volumes declined by 3% to 3,336 *GWh* from 3,443 *GWh*. Weak demand for consumer electronics globally continued to dampen growth of the semiconductor industry, while plant shutdowns due to maintenance activities and lower production due to high input cost negatively impacted sales from plastics and cement industries.

Meanwhile, consolidated customer count grew at steadily at 3% to 7.7 million by the end of March 2023 from 7.5 million in 2022. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

Other Services

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

Revenue of other services is higher in the first quarter of 2023 compared with 2022 due to new *ECP* projects and leasing of communication towers of *MIESCOR Group*, higher transactions volume of *Bayad*'s bills payment transactions and increase in business activities of subsidiaries following more relaxed quarantine restrictions.

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2023, amounted to ₱98,384 million, higher by ₱18,964 million compared with ₱79,420 million in 2022. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022		Increase/Decrease	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
			(Amounts in millions)			
Power[3]	₱95,865	97	₱77,512	98	₱18,353	24
Other services	3,497	4	2,688	3	809	30
Inter-segment transactions	(978)	(1)	(780)	(1)	(198)	25
Total	**₱98,384**	**100**	**₱79,420**	**100**	**₱18,964**	**24**

**Restated.*

Power

Costs and expenses of power segment for three months ended March 31, 2023 amounted to ₱95,865 million, 24% higher compared with ₱77,512 million in 2022. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022*		Increase/Decrease	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
			(Amounts in millions)			
Purchased power	₱78,580	82	₱61,551	79	₱17,029	28
Coal and fuel	4,566	5	3,466	5	1,100	32
Depreciation and amortization	3,616	4	3,130	4	486	16
Salaries, wages and employee benefits	3,081	3	3,111	4	(30)	(1)
Contracted services	2,054	2	1,760	2	294	17
Others	3,968	4	4,494	6	(526)	(12)
Total	**₱95,865**	**100**	**₱77,512**	**100**	**₱18,353**	**24**

**Restated.*

Purchased power cost ("*PPC*") increased by 28% to ₱78.6 billion from ₱61.6 billion due to the increase in Malampaya gas prices, depreciation of the Peso, and increase in purchases from the Wholesale Electricity Spot Market ("*WESM*") following the suspension by South Premiere Power Corporation ("*SPPC*") since December 2022 of its Power Supply Agreement ("*PSA*") with *MERALCO*. The average Malampaya natural gas price increased to US$ 10.08 per *GJ* versus US$ 8.71 per *GJ* a year ago. Due to persisting Malampaya gas supply restrictions that began in March 2021 and the 15-day Malampaya maintenance shutdown in February 2023, *First Gas* natural gas plants were compelled to continue using more expensive alternative fuel to ensure continued supply to *MERALCO*. The depreciation of the Peso against the US dollar also contributed to the higher *PPC*. Average Wholesale Electricity Spot Market ("*WESM*") prices, on the other hand, which peaked at ₱37.97 per *kWh* on March 21, 2023, averaged at ₱6.58 per *kWh*. Peak demand recorded during the three-month period was lower by 151 *MW* compared with a year ago due to relatively cooler temperatures.

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

[3] *Ibid.*

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2023 amounted to ₱3,497 million, 30% higher compared with ₱2,688 million in 2022.

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
			(Amounts in millions)			
Salaries, wages and employee benefits	₱1,155	33	₱1,074	40	₱81	8
Contracted services	712	20	570	21	142	25
Depreciation and amortization	438	13	149	6	289	194
Others	1,192	34	895	33	297	33
Total	**₱3,497**	**100**	**₱2,688**	**100**	**₱809**	**30**

The increase in the cost and expenses of other business segment reflects the costs of increasing business activities for the three months ended March 31, 2023 compared with the same period in 2022, consistent with the increase in revenues of other business segment. These costs pertain to (i) project costs of *Miescor* group and *MServ*, and (ii) major costs of *Radius* and *Bayad*.

Depreciation and amortization expenses for the three months ended March 31, 2023 include ₱199 million depreciation expense of *MIDC* related to the acquired telecom towers and related passive infrastructure.

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			
			Increase/Decrease	
	2023	2022	Amount	%
		(Amounts in millions)		
Power[4]	₱2,660	₱1,682	₱978	58
Other services	(172)	44	(216)	(491)
Intersegment transactions	(24)	(8)	(16)	200
Total	**₱2,464**	**₱1,718**	**₱746**	**43**

Other income, net of expenses for the three months ended March 31, 2023 increased by ₱746 million mainly due to higher share in net earnings of associates and joint ventures and higher yield from financial investments. The increase was mitigated by higher interest and financial charges and foreign exchange losses due to appreciation of Philippine peso against US dollar between December 31, 2022 and March 31, 2023.

[4] *Ibid.*

Power

Other income (expenses) of power segment consists of:

	Unaudited			
	For the Three Months Ended March 31			
			Increase/Decrease	
	2023	**2022**	**Amount**	**%**
		(Amounts in millions)		
Interest and other financial income	₱703	₱413	290	70
Interest and other financial charges	(1,047)	(998)	(49)	5
Equity in net earnings of associates and joint ventures	3,915	2,105	1,810	86
Foreign exchange gains (losses)	(299)	218	(517)	(237)
Others	(612)	(56)	(556)	(331)
Total	**₱2,660**	**₱1,682**	**₱978**	**58**

Interest and other financial income increased by ₱290 million with higher interest rates of short-term placements during the period.

The higher share in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight Power. PacificLight Power*'s operations in the first quarter of 2023 resulted in total equity in net earnings of ₱5.4 billion compared with ₱3.0 billion same period last year. The increase in the results of operations of *PacificLight Power* was attributable to the higher margins generated from the spot market and 2% growth in demand.

The three months ended March 31, 2023 resulted in foreign exchange losses due to the appreciation of Philippine peso against the U.S. dollar since December 31, 2022. The exchange rate of U.S. dollar is ₱54.36 as at March 31, 2023 (₱55.76 as at December 31, 2022) compared with is ₱51.74 as at March 31, 2022 (₱51.00 as at December 31, 2021).

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					
	2023		**2022***		**Increase/Decrease**	
	Amount	**%**	**Amount**	**%**	Amount	**%**
			(Amounts in millions)			
Power	₱7,938	98	₱6,013	94	₱1,925	32
Other services	267	4	464	7	(197)	(42)
Inter-segment transactions	(134)	(2)	(96)	(1)	(38)	40
Total	**₱8,071**	**100**	**₱6,381**	**100**	**₱1,690**	**27**

**Restated.*

The higher net income attributable to equity holders of the parent is largely due to significant increase in contribution of power generation companies.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2023 Unaudited	December 31, 2022 Audited	Increase (Decrease)	
			Amount	%
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱244,119**	₱243,323	₱796	–
Investments in associates and interests in joint ventures	**33,464**	31,888	1,576	5
Investment properties	**1,494**	1,495	(1)	–
Intangible assets	**21,511**	21,691	(180)	(1)
Deferred tax assets - net	**22,654**	22,657	(3)	–
Financial and other noncurrent assets	**42,132**	43,920	(1,788)	(4)
Total Noncurrent Assets	**365,374**	364,974	400	–
Current Assets				
Cash and cash equivalents	**57,946**	55,832	2,114	4
Trade and other receivables	**49,276**	54,683	(5,407)	(10)
Inventories	**10,832**	10,629	203	2
Financial and other current assets	**29,154**	33,143	(3,989)	(12)
Total Current Assets	**147,208**	154,287	(7,079)	(5)
Total Assets	**₱512,582**	₱519,261	(₱6,679)	(1)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱105,464**	₱109,664	(₱4,200)	(4)
Non-controlling interests	**14,712**	14,445	267	2
Total Equity	**120,176**	124,109	(3,933)	(3)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**68,258**	68,757	(499)	(1)
Customers' deposits - net of current portion	**32,246**	31,590	656	2
Long-term employee benefits	**3,282**	2,893	389	13
Provisions	**12,541**	12,657	(116)	(1)
Refundable service extension costs - net of current portion	**4,614**	4,653	(39)	(1)
Deferred tax liabilities - net	**5,383**	5,427	(44)	(1)
Other noncurrent liabilities	**64,089**	63,450	639	1
Total Noncurrent Liabilities	**190,413**	189,427	986	1
Current Liabilities				
Notes payable	**28,419**	29,491	(1,072)	(4)
Trade payables and other current liabilities	**161,203**	163,902	(2,699)	(2)
Customers' refund	**2,895**	2,905	(10)	–
Income tax payable	**203**	92	111	121
Current portion of long-term employee benefits	**3,750**	3,750	–	–
Current portion of interest-bearing long-term financial liabilities	**5,523**	5,585	(62)	(1)
Total Current Liabilities	**201,993**	205,725	(3,732)	(2)
Total Liabilities	**392,406**	395,152	(2,746)	(1)
Total Liabilities and Equity	**₱512,582**	₱519,261	(₱6,679)	(1)

Utility Plant, Generation Plant and Others
The ₱796 million increase in utility plant, generation plant and others reflects the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, development of power plant projects and construction of tower assets, totaling to about ₱5,033 million. This was offset by the depreciation and amortization of ₱3,648 million.

Investments in Associates and Interests in Joint Ventures
Investments in associates and interest in joint ventures increased with the combined share in net earnings of associates and joint ventures amounting to ₱3,915 million, net of dividends declared of ₱2,332 million.

Financial and Other Noncurrent Assets
The decrease was due to the redemption of certain *FVOCI* financial assets, offset by recognition of under recoveries of pass-through charges resulting from increasing generation and transmission charges during the period.

Trade and Other Receivables
The decrease in trade and other receivables balance was mainly attributed to less billing days in March 2023 compared with December 2022.

Financial and Other Current Assets
The increase in this account represents proceeds from the redemption of *FVOCI* assets which were invested in short-term placements.

Interest-bearing long-term financial liabilities
The decrease in this account was due to settlement of interest bearing loans amounting to ₱565 million.

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

Other Noncurrent Liabilities
Other noncurrent liabilities pertain to liabilities for customer-funded assets, generation and transmission charge over recoveries resulting from the lag in the billings and recovery from customers, and estimated liabilities for regulatory and tax matters, among others.

Trade Payables and Other Current Liabilities
Trade payables and other current liabilities substantially represent purchased power costs in March 2023 due the following month. The December 2022 balance of purchased power included amounts pertaining to November 2022 supply month which were settled in January 2023. This was offset by the declaration of dividends of ₱12,430 million.

LIQUIDITY AND CAPITAL RESOURCES

The following show the cash flows for the three months ended March 31, 2024 and 2023 as well as the capitalization and other selected consolidated financial data as at March 31, 2024 and December 31, 2023:

	Unaudited For the Three Months Ended March 31	
	2024	**2023**
Cash Flows		
Net cash provided by (used in) operating activities	**₱17,052**	(₱734)
Net cash provided by (used in) investing activities	**(5,028)**	4,837
Net cash used in financing activities	**(334)**	(2,126)
Net increase in cash and cash equivalents	**11,690**	1,977
Capital Expenditures	**9,435**	5,107

	March 31, 2024 (Unaudited)	**December 31, 2023 (Audited)**
	(Amounts in millions)	
Capitalization		
Interest-bearing long-term financial liabilities		
Current	**₱9,470**	₱9,591
Noncurrent	**62,806**	62,272
Notes payable	**27,883**	27,583
Equity attributable to equity holders of the parent	**119,276**	122,295
Other Selected Financial Data		
Total assets	**606,215**	586,042
Utility plant, generation plant and others	**281,402**	269,839
Cash and cash equivalents	**94,523**	82,789

Debt Financing

The ₱7,000 million 12-year Puttable Bond is the 12-year note of the ₱18,000 million Puttable Bonds issued in December 2013. This 12-year Bond includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0% and puttable in year 10 for the 12-year note. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

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

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

The communication towers and the acquired intangibles of *MIDC*, with aggregate carrying value of ₱16,176 million as at March 31, 2024 are pledged as securities for its long-term debt.

The power plant complex of *PHRI* and the generation plant and equipment of *First Bulacan*, with aggregate carrying value of ₱5,736 million as at March 31, 2024 are pledged as securities for their long-term debt.

The solar power plants of *SP Calatagan* and *SP Tarlac* of were used as collateral to secure their respective long-term debts.

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 obligation. *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at March 31, 2024, the *MERALCO Group* is in compliance with all of the covenants of its loan agreements.

Equity Financing

As at March 31, 2024 and December 31, 2023, *MERALCO*'s capital stock consists of (*amounts in millions except par value and number of shares*):

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

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,465 million and ₱1,467 million as at March 31, 2024 and 2023, respectively. Total unclaimed dividends amounted to ₱248 million as at March 31, 2024 and December 31, 2023. Interest is no longer accrued from the time such preferred shares were called for redemption.

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

The following were the cash dividends declared on common shares for the three months ended March 31, 2024 and 2023 (*amounts in millions except per share data*):

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
February 26, 2024	March 27, 2024	April 24, 2024	₱11.24	₱12,663
February 27, 2023	March 29, 2023	April 26, 2023	11.03	12,430

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:

- *MERALCO* Franchise renewal
- 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

MERALCO Franchise Renewal

MERALCO's franchise expires on June 28, 2028. While *MERALCO* has delivered more than what its franchise obligation calls for, there may still be parties who will continue to raise issues in the pursuit of promoting competition, lowering costs of electricity and improving service delivery. Meralco has filed all documentary requirements for the franchise extension on February 20, 2024. Also, two (2) House Bills on *MERALCO*'s franchise renewal were filed and underwent First Reading and referral to the House Committee on Legislative Franchises, as follows: (a) House Bill No. 9793 by Congressman Jose Ma. Salceda, and (b) House Bill 9813 by Congressman Rufus Rodriguez.

Regulatory Decisions Affecting the Distribution Utilities' Tariff

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RY*s 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAP*s for each of the *RYs*.

On April 29, 2022, *MERALCO* received an Order from the *ERC* dated March 8, 2022, which resolved the true-up value of *MERALCO*'s regulatory asset base for the 3rd *RP*. On such basis, the *ERC* adjusted the *MAP*s for *RY*s 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed *MERALCO* to implement the refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh. MERALCO* implemented the refund beginning its May 2022 billing. In a Decision dated June 16, 2022, the interim approval of the *ERC* was rendered permanent and *MERALCO* was directed to continue implementing the refund. The amount has been fully refunded in 2022.

On July 10, 2015, the *ERC* provisionally approved an interim average rate *("IAR")* of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the *IAR* but directed *MERALCO*, as well as other *DU*s, to refund any remaining amount pertaining to regulatory reset costs for the previous *RP*s.

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

Distribution Rate True-Up ("DRTU") Applications

On January 27, 2021, the *ERC* approved *MERALCO*'s application to refund to its customers₱13,886 million of over-recoveries ("*DRTU*") representing the difference between the Actual Weighted Average Tariff ("*AWAT*") for the period July 1, 2015 to November 2020 and the then *IAR* of ₱1.3810 per *kWh*, as provisionally approved by the *ERC* on July 10, 2015.

Thereafter, there were three (3) other *DRTU* refunds ordered: (a) *DRTU* 2 totaling ₱4,837 million representing the difference between the *AWAT* for the period December 2020 to December 2021 and the then IAR of ₱1.3810 per *kWh*; (b) *DRTU* 3 of ₱7,755 million related to 3*RP* asset true-up adjustments; and (c) *DRTU* 4 amounting to ₱21,769 million based on *ERC* approved revised and final *IAR* of ₱1.3522 per *kWh*.

MERALCO implemented the foregoing refunds in 2022. The amounts were fully refunded in the May 2023 billing. However, in a letter dated June 14, 2023, *MERALCO* informed the *ERC* that the implementation of the refunds resulted in an over-refund of ₱860 million and proposed the recovery of such over-refund based on a fixed rate per *kWh* consumption in 12 months. As at April 29, 2024, the *ERC* has not responded to *MERALCO*'s letter.

Regulatory Reset Process Application

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2026) based on *ERC*-promulgated *RDWR*.

On September 28, 2023, *MERALCO* filed an Urgent Omnibus Motion to: (a) withdraw the Application; (b) allow *MERALCO* to re-file its 5th *RP* Application to cover the period from *RY* 2025-2028 and (c) consider *RY* 2023 and *RY* 2024 as lapsed period and use ₱1.3522 per *kWh* as the final rate during this period. As at April 29, 2024, *MERALCO* is still awaiting the *ERC*'s resolution on the Urgent Omnibus Motion.

CAPEX

Absent the final rules governing the 4th *RP* and 5th *RP* rate setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RY*s beginning July 1, 2015 until June 30, 2022. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at April 29, 2024, *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*.

3rd and 4th RP PBR Reset for Clark Electric

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

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately. As at April 29, 2024, the applications remain pending with the *ERC*.

Recovery of Development Investments, New Businesses and Significant Capital Expenditures

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

- 2 x 600 *MW* (net) coal-fired power plant in Atimonan Quezon
- 110 *MWdc*/90*MWac* floating solar facility in Laguna de Bay
- *Greenergy* for the development of a 40 *MWac* solar power plant in Cordon, Isabela
- 3.5-GWp solar power plant with a 4,500-MWhr battery energy storage system of Terra Solar

On August 11, 2022, *MIDC* entered into a Sale and Leaseback Agreement with Globe Telecom, Inc. (*"Globe"*) to acquire 2,180 telecom towers and the related passive infrastructure for a total consideration of ₱26.2 billion. Under the Master Lease Agreement, *Globe* shall be the anchor tenant of the towers for an initial period of 15 years. In addition, Globe has commissioned *MIDC* to construct 900 additional build-to-suit towers over the next four (4) years on which *Globe* will be the anchor tenant.

As at March 31, 2024 and 2023, *MIDC* acquired 1,348 towers and 860 towers, respectively, from *Globe* and recognized the following identifiable assets:

	2024	2023
	(Amounts in millions)	
Telecommunication towers and passive equipment	**₱4,829**	₱2,601
Acquired network location intangibles	**8,398**	5,661
Build-to-suit contract intangibles	**2,949**	2,058
Total assets acquired	**₱16,176**	₱10,320

Acquired network location intangibles represent the value to *MIDC* of the benefits from leasing the excess capacity on acquired towers to other mobile network operators. The build-to-suit contract intangibles pertain to the contractual commitment of *Globe* to engage *MIDC* in building additional towers to be leased by *Globe*.

MGreen, through PHRI, has energized 67.5 MWac of its 75 MWac solar plant in Baras, Rizal and has started generating power since March 2023. Phase 2 of PHRI solar plant is targeted to be operational by mid-2024.

MGreen, in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("Vena Energy"), has a 68 MWac solar plant project in Ilocos Norte was fully energized in February 2023.

On December 27, 2023, *MGreen* completed the acquisition of primary and redeemable voting preferred shares of *SPNEC*. *SPNEC* is set to develop 3,500 MW (gross) solar facilities with an accompanying 4,000 MWh battery storage system.

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

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

Commercial sales volume recorded double-digit growth of 11% to 4,678 *GWh* in the first quarter, from 4,213 *GWh* in the previous year – surpassing pre-pandemic 2020 performance. Growth was headlined by the real estate sector driven by demand for office spaces in central business districts, followed by the retail trade sector as mall operators expanded and repurposed spaces that attracted more customer visits. Hotels, educational institutions, and restaurants had significant consumption upswing due to sustained increase in in-person events, with higher usage of air-conditioning to regulate ambient temperatures.

Residential sales surged by 12% reaching 4,144 *GWh* by the end of March from 3,701 *GWh* a year ago, pushed by prolonged usage of cooling appliances at home as the dry spells associated with El Niño persisted. Industrial sales rebounded to 3,448 *GWh* in the three-month period, 3% higher than 3,336 *GWh* in the same three months in 2023. The semiconductor sector played a significant role in driving the segment into growth territory, as key accounts continued to scale up on operations to expand electric vehicles ("*EV*") chip production. The food and beverage sector similarly experienced higher production as it geared up for the peak summer months, while the plastics sector was propelled by demand for food packaging and construction plastics. Cement plants recovered from production stoppages in January and took advantage of the warm weather for frontload operations and increased production of raw materials. Boost in output from wind and solar farms further increased sales from generation wheeling.

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

Power Supply and Demand Management

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

Below is the summary of *MERALCO* and *Clark Electric*'s electricity suppliers and the respective amounts of power purchased for the three months period ended March 31, 2024 and 2023. The details of the relevant *IPP*s and *PSA*s are disclosed and discussed in Note 30 to the unaudited interim consolidated financial statements:

The amounts of purchased power costs including transmission and ancillary charges for the three months ended March 31, 2024 and 2023, follow:

	Unaudited	
	For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
First Gas Power Corporation ("*FGPC*") and FGP Corp. ("*FGP*")	**₱17,561**	₱17,049
South Premiere Power Corporation ("*SPPC*")	**12,581**	1,683
NGCP	**10,542**	10,027
IEMOP	**9,823**	17,476
QPPL	**4,639**	4,955
SBPL	**4,307**	7,980
Therma Luzon, Inc. ("*TLI*")	**4,079**	877
San Miguel Energy Corporation ("*SMEC*")	**2,833**	3,970
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**2,638**	4,036
First NatGas Power Corp. ("*FNPC*")	**2,461**	3,452
AC Energy Philippines, Inc. ("*AC Energy*")	**2,329**	2,389
Southwest Luzon Power Generation Corporation	**582**	1,329
Energy Development Corporation ("*EDC*")	**496**	624
NSEC	**315**	8
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**176**	176
Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")	**115**	106
Others	**1,050**	2,483
	₱76,527	₱78,620

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

On April 18, 2022, *SPI* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom had impacted *SPI* and *SPPC*'s capability to perform their obligations under the respective *PSA*s in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, *SPI* and *SPPC* (joined by *MERALCO*) filed Joint Motions for Price Adjustment with the *ERC*. On June 27, 2022 and July 22, 2022, *SPI*, *SPPC* and *MERALCO* filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the *ERC* conducted a clarificatory hearing with *SPI, SPPC* and *MERALCO* to clarify several issues in connection with the Joint Motions for Price Adjustment. On October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, *SPI* and *SPPC* notified *MERALCO* that it will continue with its obligations under their respective baseload *PSA*s with *MERALCO* under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, *SPI* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction ("*WPI*") with the *CA*, assailing the *ERC* Orders dated September 29, 2022. On November 25, 2022, the *CA* issued a *TRO* for the *SPPC* case, hence, after the *TRO* bond was posted by *SPPC*, on December 7, 2022, *SPPC* stopped accepting *MERALCO* nominations. On January 25, 2023, the *CA* issued a *WPI* for the *SPPC* case, which shall remain in effect until the main case is finally decided. Meanwhile, for the *SPI* case, on January 13, 2023, the *CA* denied *SPI*'s prayer for *TRO* and *WPI*. On February 10, 2023 and February 13, 2023, *ERC* and *MERALCO*, respectively, filed its Motion for Reconsideration of the *CA*'s issuance of *WPI* for the *SPPC* case. On April 3, 2023, the *CA* promulgated its Resolution denying the Motions for Reconsideration filed by *ERC* and *MERALCO* vis-à-vis the *CA*'s issuance of *WPI* for the *SPPC* case. On June 22, 2023, the *ERC* filed with the *SC* a Petition for Certiorari with prayer for *TRO*/*WPI*, assailing the *CA*'s issuance of *WPI* for the *SPPC* case. As of April 29, 2024, the Supreme Court has not issued a *TRO*/*WPI* or Resolution directing *MERALCO* to comment. On July 14, 2023, *MERALCO* received the *CA*'s (13th Division) Joint Decision dated June 27, 2023 (the "Joint Decision"). In the Joint Decision, the *CA*, among others: (a) annulled/set aside the *ERC* Orders which: (i) denied the Joint Motions for Price Adjustment and (ii) directed *MERALCO* to exhaust all options to preserve the *PSA*s; (b) granted *SPPC*'s and *SPI*'s Motions for Price Adjustment (for the period of January 2022 to May 2022), without prejudice to any further requests for price adjustments for June 2022 onwards; and (c) made permanent the Preliminary Injunction issued in favor of *SPPC*. On July 17, 2023, *SPI* informed *MERALCO* of its position that the *CA*'s Joint Decision dissolving the *ERC* Order as immediately executory. Hence, for *SPI*, it will cease supply to *MERALCO* effective immediately. On the same day, *MERALCO* replied that it reserves its right to pursue available legal remedies and to ask *SPI* for time to seek replacement emergency power supply. On July 18, 2023, *SPI* informed *MERALCO* that is only amenable to grant a grace period of five (5) days, or until July 23, 2023, in order for *MERALCO* to seek replacement emergency power supply. Starting on December 7, 2022 and July 24, 2023, *SPPC* and *SPI*, respectively, have ceased supplying energy under its baseload *PSA*s with *MERALCO*. Subsequently, *SPI* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances dated August 18, 2023 claiming additional adjustment. In *MERALCO*'s letters to *SPI* and *SPPC*, both dated January 30, 2024, *MERALCO* advised *SPI* and *SPPC* to avail itself of legal remedies available to it under the law considering that it finds no basis under contract to join *SPI* and *SPPC* in the filing with the *ERC* since the *PSA*s had already been terminated. In a Resolution dated December 28, 2023, the *CA* denied the Motions for Reconsideration ("*MR*") filed by the and Respondent-Intervenor *NASECORE*. Finding no merit in the arguments, the *CA* ruled that the grounds raised by *ERC* and *NASECORE* in their respective *MR*s had already been thoroughly considered by the *CA* in its Joint Decision and it had clearly provided the basis for its rulings, thus, the *MR*s were denied. On February 28, 2024, the *ERC* elevated the matter with the *SC* by filing a Petition for Review on Certiorari. As at April 29, 2024, the *SC* has not issued an order directing respondents *SPPC, SPI, MERALCO* and *NASECORE* to submit their respective comments to the petition.

On October 11, 2023 and (revised on) February 1, 2024, *AC Energy* issued to *MERALCO* a Notice of *CIC*, claiming that the abrupt and extraordinary surge in coal prices in 2022, which worsened due to the Russia and Ukraine conflict and other geopolitical and economic factors related to and/or emanating therefrom had impacted *AC Energy*'s financial capability to perform its obligations under the *PSA* in terms of unexpected surge or increase in fuel cost. Thus, on February 29, 2024, *AC Energy* (joined by *MERALCO*) filed a Joint Motion for Price Adjustment with the *ERC* for its 2019 baseload *PSA* with *MERALCO*, involving ₱618 million. As at April 29, 2024, the *ERC* has yet to act on the Joint Motion for Price Adjustment.

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

Competition

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

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

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

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

On December 27, 2023, *MGreen* completed the acquisition of 50.5% voting equity interest of *SPNEC* consisting of the 15.7 billion common and 19.4 billion redeemable voting preferred shares subscription price.

An agreement was executed by and among *MGreen, 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.

On March 1, 2024, *MGen* and Therma NatGas Power, Inc. ("*TNGP*") have jointly entered into an Investment Agreement to acquire equity interest in Chromite Gas Holdings ("*CGHI*"). *MGen* will acquire 60% interest in *CGHI* while *TNGP* will acquire the balance of 40%. *CGHI* intends to invest in two gas-fired power plants owned by San Miguel Global Power Holdings Corp. ("*SMGP*"), the 1,278 *MW* Ilijan power plant, and a new 1,320 *MW* combined cycle power facility that is currently under construction. The transaction is subject to the customary review and approval of the Philippine Competition Commission ("*PCC*").

(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")*

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

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

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

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

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

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

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

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

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. Power Sector Assets and Liabilities Management Corporation ("*PSALM*") likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the Settlement Agreement. The *OSG* filed a Motion for Reconsideration. As at April 29, 2024, the case remains pending before the *SC*.

2. Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at April 29, 2024, *MERALCO* is awaiting further action of the *SC* on the matter.

3. *RPT* Assessments

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

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, *ERC* issued Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes". Under such resolution, the *ERC* approved 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*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s during the years prior to the Resolution to address tax arrearages; (ii) *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at April 29, 2024, the Petition is pending with the *ERC*.

4. *LFT* Assessments of Municipalities

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

5. *SC* Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*'s ruling filed by certain consumer and civil society groups before the Court of Appeals ("*CA*"). On July 22, 2004, the *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC*. Further, the *CA* opined that the *ERC* should have asked the Commission on Audit

("*COA*") to audit the books of *MERALCO*. The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

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

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

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

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

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

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

MERALCO, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DU*s filed their respective motions for leave to intervene and to file their motions for reconsideration. As at April 29, 2024, the case is pending before the *SC*.

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

There are various outstanding contingent assets and liabilities which are not reflected in the accompanying consolidated financial statements. Refer to Note 29, *Contingencies and Legal Proceedings* and Note 30, *Significant Contracts and Commitments* to the 2023 Unaudited interim consolidated cinancial statements for the updates on the Company's financial obligations.

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

1. Retail Competition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion.

On November 4, 2013, *MERALCO* filed its reply. As at April 29, 2024, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM's* *MR*. On October 27, 2015, *MERALCO* received *PSALM's* Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at April 29, 2024, *MERALCO* is still awaiting further action of the *SC* on the Petition.

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

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

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC's* Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at April 29, 2024, the Joint Motion to Dismiss is pending resolution by the *ERC*.

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

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at April 29, 2024, the Petition is pending resolution by the *ERC*.

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

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

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

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

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DU*s in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., Team (Philippines) Energy Corporation, PanAsia Energy, Inc. ("*PanAsia*"), and *SPI*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

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

In a letter dated September 25, 2023, *MERALCO* filed a letter with the *ERC* on its proposed implementation of the recovery of the generation charges pertaining to the December 2013 supply month. On January 4, 2024, *MERALCO, IEMOP* and the *ERC* metto discuss *MERALCO*'s proposed implementation of the Decision. As directed by the *ERC*, *MERALCO* and *IEMOP* have completed the reconciliation of the final amount to be recovered, and have sent a joint letter dated March 12, 2024 to the *ERC*. As at April 29, 2024, the same is pending with the *ERC*.

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

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

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

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

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

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs. In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

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

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

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

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

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

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at April 29, 2024, *MERALCO* is awaiting further action by the *ERC* on the matter.

7. Ombudsman Case Against Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudman dismissed the cases.

On January 5, 2024, *MERALCO* received an Order dated January 2, 2024 from the Office of the Ombudsman directing *MERALCO*'s Chairman and *CEO* to file a counter-affidavit, together with the affidavit/s of supporting witnesses and other supporting documents, on the case filed by a certain consumer group against *ERC* and *MERALCO* seeking (a) indictment of *MERALCO*'s Chairman and *CEO* which alleged that there is a violation of certain provisions of *R.A. 3019* and *PD 269*, and (b) a finding that the *ERC* Chairperson is guilty of, among other things, gross misconduct and grave abuse of authority. In said case, the consumer group alleged that there is no basis for *MERALCO* to participate in, and purchase energy at, the *WESM*, given that, among other things, the *WESM* was created to cater to the contestable market. On February 6, 2024, *MERALCO* has filed the relevant counter-affidavit and supporting affidavit to the Office of the Ombudsman. On March 18, 2024, *MERALCO* received the reply-affidavit filed by the consumer group. As at April 29, 2024, *MERALCO* is awaiting further action by the Ombusdman on the matter.

8. *SC Decision on the ₱0.167 per kWh Refund*

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

On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at April 29, 2024, *MERALCO* continues to process the refund claims of eligible customers.

In the meantime, in a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at April 29, 2024, *MERALCO* is awaiting further action of the *ERC* on the matter.

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

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, onNovember 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCC*s"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCC*s amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCC*s amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. An *MR* was filed by *MERALCO* and the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these have been submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at April 29, 2024, the case 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*.

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

MERALCO Group sales for the three months ended March 31, 2024 and 2023 are 12,307 *GWh* and 11,287 *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, 2024, other than those already disclosed in this report and in the unaudited interim 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, 2024 and 2023.

Financial Highlights and Ratios[5] of Major Subsidiaries
As at and for the Three Months Ended March 31, 2024 and 2023
(Amounts in million pesos except for financial ratios and % change)

	Clark Electric			*MGen*			*MIESCOR*			*e-MVI*			*CIS*		
	2024	**2023**	**% change**	**2024**	**2023**	**% change**	**2024**	**2023**	**% change**	**2024**	**2023**	**% change**	**2024**	**2023**	**% change**
Percentage of ownership	65%	65%		100%	100%		100%	100%		100%	100%		100%	100%	
Condensed Statements of Financial Position															
Total assets	₱4,082	₱4,007	2	₱194,983	₱129,988	50	₱30,143	₱22,641	33	₱5,869	₱6,370	(8)	₱7,485	₱4,612	62
Current assets	1,601	1,773	(10)	36,231	25,495	42	11,070	9,608	15	963	1,134	(15)	7,281	4,310	69
Cash and cash equivalents	1,296	1,355	(4)	21,852	11,898	84	1,238	1,778	(30)	297	269	10	2,962	1,946	52
Equity	2,619	2,419	8	75,772	58,731	29	8,793	6,425	37	1,106	2,963	(63)	1,145	1,008	14
Total debt[6]	-	–	-	46,241	45,822	1	8,226	4,897	68	707	793	(11)	-	–	-
Current liabilities	501	507	(1)	24,030	11,617	107	7,723	7,576	2	3,955	2,540	56	6,239	3,519	77
Financial Ratios															
Debt-to-equity ratio	-	–	-	0.61	0.78	(22)	0.94	0.76	23	0.64	0.27	139	-	–	-
Current ratio	3.20	3.50	(9)	1.51	2.19	(31)	1.43	1.27	13	0.24	0.45	(45)	1.17	1.22	(5)
Condensed Statements of Income															
Revenues	881	832	6	6,877	7,533	(9)	1,989	1,922	3	611	593	3	541	514	5
Costs and expenses	797	762	5	5,490	6,818	(19)	1,980	1,887	5	551	507	9	507	495	2
Net income	130	72	81	2,325	3,761	(38)	(151)	(181)	(17)	42	61	(31)	39	22	77
Financial Ratios															
Profit margin	14.8%	8.7%	71	33.8%	49.9%	(32)	(7.6%)	(9.4%)	(19)	6.9%	10.3%	(33)	7.2%	4.3%	68
Return on equity	5.0%	3.0%	67	3.1%	6.4%	(52)	(1.7%)	(2.8%)	(39)	3.8%	2.1%	84	3.4%	2.2%	56
Asset turnover	0.22	0.23	(1)	0.04	0.06	(29)	0.08	0.13	(42)	0.10	0.11	(9)	0.09	0.13	(31)

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

ANNEX – Aging of Trade and Other Receivables

As at March 31, 2024

(Amounts in millions)

	T o t a l	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**
Trade receivables	₱45,403	₱28,394	₱1,051	₱410	₱15,548
Other trade receivables	6,673	2,785	542	421	2,925
Gross trade receivables	**52,076**	**31,179**	**1,593**	**831**	**18,473**
Non-trade receivables	7,210	4,243	2,233	15	719
Total receivables	**59,286**	**35,422**	**3,826**	**846**	**19,192**
Allowance for expected credit losses	**(8,661)**	**(136)**	**(399)**	**(742)**	**(7,384)**
Net receivables	**₱50,625**	**₱35,286**	**₱3,427**	**₱104**	**₱11,808**

Manila Electric Company and Subsidiaries

Consolidated Financial Statements
as at March 31, 2024 (Unaudited) and December 31, 2023 (Audited)
And

For the Three Months Ended March 31, 2024 and 2023 (Unaudited)

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	**March 31, 2024 (Unaudited)**	**December 31, 2023 (Audited)**
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	*7 and 10*	**₱281,402**	₱269,839
Investments in associates and interests in joint ventures	*8 and 23*	**37,191**	38,388
Investment properties	*9*	**1,490**	1,493
Intangible assets	*7 and 10*	**49,537**	53,351
Deferred tax assets – net	*28*	**25,046**	24,633
Financial and other noncurrent assets	*2, 11, 15, 26, 27 and 30*	**34,922**	35,579
Total Noncurrent Assets		**429,588**	423,283
Current Assets			
Cash and cash equivalents	*12 and 27*	**94,523**	82,789
Trade and other receivables	*13, 24 and 27*	**50,625**	48,395
Inventories	*14*	**13,506**	11,180
Financial and other current assets	*11, 15, 23 and 27*	**17,973**	20,395
Total Current Assets		**176,627**	162,759
Total Assets		**₱606,215**	₱586,042
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	*16*	**₱11,273**	₱11,273
Additional paid-in capital		**4,111**	4,111
Equity reserve		**(111)**	(111)
Employee stock purchase plan	*16*	**1,049**	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("*FVOCI*")	*11*	**579**	490
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**3,375**	3,418
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(31)**	(29)
Share in other comprehensive income and cumulative translation adjustments of associates	*8*	**306**	307
Cumulative translation adjustments of subsidiaries		**56**	52
Treasury shares	*16*	**(11)**	(11)
Retained earnings	*16*	**98,680**	101,746
Equity Attributable to Equity Holders of the Parent		**119,276**	122,295
Non-controlling Interests	*3 and 16*	**45,240**	45,024
Total Equity		**164,516**	167,319

(Forward)

	Note	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*17 and 27*	**₱62,807**	₱62,272
Customers' deposits - net of current portion	*18, 22 and 27*	**32,806**	34,128
Long-term employee benefits	*26*	**11,043**	10,263
Provisions	*19, 22 and 29*	**10,456**	11,350
Refundable service extension costs - net of current portion	*22 and 27*	**3,987**	4,051
Deferred tax liabilities - net	*28*	**11,207**	8,691
Other noncurrent liabilities	*2, 5, 7, 24 and 29*	**56,693**	54,695
Total Noncurrent Liabilities		**188,999**	185,450
Current Liabilities			
Notes payable	*21 and 27*	**27,883**	27,583
Trade payables and other current liabilities	*16, 22, 23, 27 and 29*	**208,914**	191,703
Customers' refund	*2, 20 and 27*	**2,839**	2,846
Income tax payable		**3,594**	1,550
Current portion of interest-bearing long-term financial liabilities	*17 and 27*	**9,470**	9,591
Total Current Liabilities		**252,700**	233,273
Total Liabilities		**441,699**	418,723
Total Liabilities and Equity		**₱606,215**	₱586,042

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

		Unaudited For the Three Months Ended March 31	
	Note	**2024**	2023
		(Amounts in millions, except per share data)	
REVENUES			
Sale of electricity	*6, 23, 24, 30 and 32*	**₱101,363**	₱102,356
Sale of other services	*23*	**3,185**	3,286
		104,548	105,642
COSTS AND EXPENSES			
Purchased power	*24 and 30*	**76,527**	78,620
Depreciation and amortization	*7, 9, 10 and 25*	**4,530**	4,054
Salaries, wages and employee benefits	*25 and 26*	**4,286**	3,962
Coal and fuel		**2,756**	4,566
Contracted services		**2,237**	2,097
Taxes, fees and permits		**924**	862
Power plant operations and maintenance cost		**584**	395
Other expenses	*23 and 25*	**1,600**	3,828
		93,444	98,384
OTHER INCOME (EXPENSES)			
Equity in net earnings of associates and joint ventures	*8*	**1,709**	3,915
Interest and other financial charges	*17, 18 and 21*	**(1,325)**	(1,197)
Interest and other financial income	*11 and12*	**936**	738
Foreign exchange gains (losses)		**8**	(304)
Others	*2, 5,7,8, 23, 30 and 32*	**(265)**	(688)
		1,063	2,464
INCOME BEFORE INCOME TAX		**12,167**	9,722
PROVISION FOR (BENEFIT FROM) INCOME TAX	*28*		
Current		**1,496**	1,654
Deferred		**913**	(137)
		2,409	1,517
NET INCOME		**₱9,758**	₱8,205
Attributable To			
Equity holders of the Parent	*31*	**₱9,597**	₱8,071
Non-controlling interests		**161**	134
		₱9,758	₱8,205
Earnings Per Share Attributable to Equity Holders of the Parent	*31*		
Basic		**₱8.51**	₱7.16
Diluted		**8.51**	7.16

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	Note	Unaudited For the Three Months Ended March 31 2024	2023
		(Amounts in millions)	
NET INCOME		**₱9,758**	₱8,205
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to profit or loss in subsequent periods:			
Unrealized fair value gains on fair value through other comprehensive (“*FVOCI*”) financial assets	*11*	**49**	25
Cumulative translation adjustments of subsidiaries		**4**	(10)
Share in cumulative translation adjustments of associates		**–**	4
Net other comprehensive income that will be reclassified to profit or loss in subsequent periods		**53**	19
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**(57)**	151
Income tax effect		**14**	(38)
		(43)	113
Unrealized fair value gains on equity securities at *FVOCI*		**45**	27
Income tax effect		**(5)**	(3)
		40	24
Share in other comprehensive income of associates		**(1)**	–
Share in remeasurement adjustments on associates’ retirement liabilities	*8*	**(2)**	3
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		**(6)**	140
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		**47**	159
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱9,805**	₱8,364
Total Comprehensive Income Attributable To			
Equity holders of the Parent		**₱9,644**	₱8,230
Non-controlling interests		**161**	134
		₱9,805	₱8,364

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, 2024 AND 2023

	Equity Attributable to Equity Holders of the Parent													
	Common Stock (Note 16)	Additional Paid-in Capital	Equity Reserve	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains (Losses) on Financial Assets at *FVOCI* (Note 11)	Remeasure-ment Adjustments on Retirement and Other Post-Employment Liabilities (Note 26)	Share in Remeasure-ment Adjustments on Associates' Retirement Liabilities (Note 8)	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	Non-controlling Interests (Note 3 and 6)	Total Equity
	(Amounts in millions)													
At January 1, 2024	**₱11,273**	**₱4,111**	**(₱111)**	**₱1,049**	**₱490**	**₱3,418**	**(₱29)**	**₱307**	**₱52**	**(₱11)**	**₱101,746**	**₱122,295**	**₱45,024**	**₱167,319**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,597**	**9,597**	**161**	**9,758**
Other comprehensive income (loss)	**–**	**–**	**–**	**–**	**89**	**(43)**	**(2)**	**(1)**	**4**	**–**	**–**	**47**	**–**	**47**
Total comprehensive income (loss)	**–**	**–**	**–**	**–**	**89**	**(43)**	**(2)**	**(1)**	**4**	**–**	**9,597**	**9,644**	**161**	**9,805**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,663)**	**(12,663)**	**–**	**(12,663)**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**55**	**55**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,663)**	**(12,663)**	**55**	**(12,608)**
At March 31, 2024	**₱11,273**	**₱4,111**	**(₱111)**	**₱1,049**	**₱579**	**₱3,375**	**(₱31)**	**₱306**	**₱56**	**(₱11)**	**₱98,680**	**₱119,276**	**₱45,240**	**₱164,516**
At January 1, 2023	₱11,273	₱4,111	(₱111)	₱1,049	₱311	₱7,282	(₱16)	(₱30)	₱51	(₱11)	₱85,755	₱109,664	₱14,445	₱124,109
Net income	–	–	–	–	–	–	–	–	–	–	8,071	8,071	134	8,205
Other comprehensive income (loss)	–	–	–	–	49	113	3	4	(10)	–	–	159	–	159
Total comprehensive income (loss)	–	–	–	–	49	113	3	4	(10)	–	8,071	8,230	134	8,364
Dividends	–	–	–	–	–	–	–	–	–	–	(12,430)	(12,430)	–	(12,430)
Others	–	–	–	–	–	–	–	–	–	–	–	–	133	133
	–	–	–	–	–	–	–	–	–	–	(12,430)	(12,430)	133	(12,297)
At March 31, 2023	₱11,273	₱4,111	(₱111)	₱1,049	₱360	₱7,395	(₱13)	(₱26)	₱41	(₱11)	₱81,396	₱105,464	₱14,712	₱120,176

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

		Unaudited	
		For the Three Months Ended March 31	
	Note	**2024**	2023
		(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱12,167**	₱9,722
Adjustments for:			
Depreciation and amortization	*7, 9 and 10*	**4,530**	4,054
Equity in net earnings of associates and joint ventures	*8*	**(1,709)**	(3,915)
Interest and other financial charges	*17, 18 and 21*	**1,325**	1,197
Provision (reversal of provision) for probable losses and expenses from claims – net of settlement	*2 and 29*	**1,202**	(3,622)
Interest and other financial income	*11 and12*	**(936)**	(738)
Others		**478**	724
Operating income before working capital changes		**17,057**	7,422
Decrease (increase) in:			
Trade and other receivables		**(3,443)**	2,522
Inventories		**(2,377)**	(203)
Financial and other current assets		**(91)**	108
Increase (decrease) in:			
Trade payables and other current liabilities		**3,779**	(11,698)
Customers' deposits		**(1,164)**	525
Customers' refund		**(7)**	(10)
Long-term employee benefits		**3,298**	600
Net cash flows provided by (used in) operating activities		**17,052**	(734)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Utility plant and others	*7*	**(9,268)**	(4,908)
Financial assets at *FVOCI*	*11*	**(5,433)**	(10,214)
Short-term investments		**(1,144)**	(227)
Investments in associates and interests in joint ventures	*8*	**(146)**	16
Intangible assets	*10*	**(99)**	(74)
Debt securities at amortized cost	*11*	**–**	(980)
Proceeds from maturity of:			
Financial assets at *FVOCI*		**5,446**	10,227
Debt securities at amortized cost		**3,461**	8,289
Short-term investments		**216**	195
Dividends received from associates and joint ventures		**3,047**	2,332
Interest and other financial income received		**986**	749
Increase in minority interests		**56**	132
Proceeds from disposal of utility plant and others		**6**	153
Increase in financial and other noncurrent assets		**(2,156)**	(853)
Net cash provided by (used in) investing activities		**(5,028)**	4,837

(Forward)

	Note	Unaudited For the Three Months Ended March 31 2024	2023
		(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Interest-bearing long-term financial liabilities	*17*	**₱1,122**	₱–
Notes payable	*21*	**542**	200
Payments of:			
Interest and other financial charges		**(1,025)**	(1)
Dividends	*16*	**(641)**	(433)
Interest-bearing long-term financial liabilities	*17*	**(669)**	(565)
Notes payable		**(332)**	(1,272)
Increase (decrease) in other noncurrent liabilities		**669**	(55)
Net cash used in financing activities		**(334)**	(2,126)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,690**	1,977
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**82,789**	55,832
NET UNREALIZED FOREIGN EXCHANGE GAINS		**44**	137
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*12*	**₱94,523**	₱57,946

See accompanying 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 unregulated and regulated segments of the energy supply chain; engineering design services; construction and consulting services; payment fulfilment and bills collection services; after-the-meter and energy management services; insurance and reinsurance; rail-related operations; leasing and management of communication towers and infrastructure, and telecommunication and information technology services.

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

MERALCO holds a 25-year congressional franchise under Republic Act ("*RA*") No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. The Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity ("*CPCN*") for the operation of electric service within its franchise area, which shall be valid within the franchise period.

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

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

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

MERALCO Group's participation in retail electricity supply ("*RES*") is directly through the local *RES* units, *MPower* and *Cogent Energy,* and indirectly through affiliate *RES* entities, Vantage Energy Solutions and Management, Inc. ("*Vantage*"), MeridianX Inc. ("*MeridianX*"), Phoenix Power Solutions, Inc. ("*Phoenix Power*") and Global Energy Supply Corporation ("*GESC*"). Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric,* is awaiting issuance of license by the *ERC*.

MERALCO PowerGen Corporation ("*MGen*") is *MERALCO*'s power generation investment vehicle. Global Business Power Corporation ("*GBPC*"), which has a total of 823.6 *MW* of coal and diesel capacities, is a wholly owned subsidiary of *MGen.* Through MGen Renewable Energy, Inc. ("*MGreen*"), *MGen* operates and engages in the development, construction and operation of solar-powered generation facilities. Following *MGreen*'s acquisition of a majority stake in SP New Energy Corporation ("*SPNEC*") in December 2023, *MGreen* further raised its stake in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion *SPNEC* shares in January 2024. Through *SPNEC*, *MGreen* is set to develop 3,500 *MW* (gross) solar facilities with an accompanying 4,000 *MWh* battery energy storage system. *MGen* also holds a combined 58% interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"), which owns and operates a 2 x 400 *MW* liquefied natural gas plant in Jurong Island, Singapore.

MERALCO's related businesses include engineering design services; construction and consulting services; payment fulfilment and bills collection services; after-the-meter and energy management services; insurance and reinsurance; rail-related operations; leasing and management of communication towers and infrastructure, and telecommunication and information technology services.

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, 2024 and December 31, 2023, *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*'s combined direct and indirect ownership interests in *MERALCO* totaled 47.46% while *JG Summit* has 26.37% direct ownership interest in *MERALCO.* The balance of *MERALCO*'s common shares is 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.

The consolidated financial statements were approved and authorized for issue by the *BOD* on April 29, 2024.

2. Rate Regulations

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

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

Performance-Based Regulations ("*PBR*")

MERALCO

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

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

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

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

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

On April 29, 2022, *MERALCO* received an Order from the *ERC* dated March 8, 2022, which resolved the true-up value of *MERALCO*'s regulatory asset base for the 3rd *RP*. On such basis, the *ERC* adjusted the *MAP*s for *RY*s 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed *MERALCO* to implement the refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh*. *MERALCO* implemented the refund beginning its May 2022 billing. In a Decision dated June 16, 2022, the interim approval of the *ERC* was rendered permanent and *MERALCO* was directed to continue implementing the refund. The amount has been fully refunded in 2022.

Interim Average Rate beginning RY 2016

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

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

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

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 ("*PFRSs*") as it may prejudice the position of *MERALCO*.

Distribution Rate True-Up ("DRTU") Applications

On January 27, 2021, the *ERC* approved *MERALCO*'s application to refund to its customers ₱13,886 million of over-recoveries ("*DRTU 1*") representing the difference between the Actual Weighted Average Tariff ("*AWAT*") for the period July 1, 2015 to November 2020 and the then *IAR* of ₱1.3810 per *kWh*, as provisionally approved by the *ERC* on July 10, 2015.

Thereafter, there were three (3) other *DRTU* refunds ordered: (a) *DRTU* 2 totaling ₱4,837 million representing the difference between the *AWAT* for the period December 2020 to December 2021 and the then *IAR* of ₱1.3810 per *kWh*; (b) *DRTU* 3 of ₱7,755 million related to 3rd *RP* asset true-up adjustments; and (c) *DRTU* 4 amounting to ₱21,769 million based on *ERC* approved revised and final *IAR* of ₱1.3522 per *kWh*.

MERALCO implemented the foregoing refunds in 2022. The amounts were fully refunded in the May 2023 billing. However, in a letter dated June 14, 2023, *MERALCO* informed the *ERC* that the implementation of the refunds resulted in an over-refund of ₱860 million and proposed the recovery of such over-refund based on a fixed rate per *kWh* consumption in 12 months. As at April 29, 2024, the *ERC* has not responded to *MERALCO*'s letter.

CAPEX

Absent the final rules governing the 4th *RP* and 5th *RP* rate setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RY*s beginning July 1, 2015 until June 30, 2022. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at April 29, 2024, *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

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2026) based on *ERC*-promulgated *RDWR*.

On September 28, 2023, *MERALCO* filed an Urgent Omnibus Motion to: (a) withdraw the Application; (b) allow *MERALCO* to re-file its 5th *RP* Application to cover the period from *RY* 2025-2028 and (c) consider *RY* 2023 and *RY* 2024 as lapsed period and use ₱1.3522 per *kWh* as the final rate during this period. As at April 29, 2024, *MERALCO* is still awaiting the *ERC*'s action on the Urgent Omnibus Motion.

Clark Electric

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

PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern the reset of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately. As at April 29, 2024, the applications remain pending with the *ERC*.

Clark Electric recognized provisions for any resulting over-recoveries. The movements in and the balance of the "Provision for probable losses and expenses from claims" account in the consolidated statements of financial position include these provisions, consistent with the limited disclosure as allowed in "*PFRS*s" as it may prejudice the position of *Clark Electric*.

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

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

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

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

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

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

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

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

MERALCO, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) additional *DU*s filed their respective Motions for Leave to intervene and to file their motions for reconsideration. As at April 29, 2024, the case is pending before the *SC*.

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

MERALCO

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

On various dates, the *ERC* provisionally approved *MERALCO*'s applications for net over-recoveries of generation, transmission, net lifeline subsidy, *SL* and net senior citizens discount totalling ₱657.4 million (February 2011 to October 2013) and ₱6,927 million (January 2014 to December 2016). As at April 29, 2024, hearings are still ongoing.

Separately, *MERALCO* also filed for recovery of net under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at April 29, 2024, the *ERC* has not acted on such application.

Further, on September 1, 2020, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of ₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021. In 2022, the amounts have been fully refunded/recovered.

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 under-recoveries of ₱229 million and net local franchise tax over-recoveries of ₱27 million from January 2021 to December 2022. The initial hearings were conducted on August 24 and 31, 2023.

On August 29, 2023, *MERALCO* received a copy of the Decision dated March 8, 2023 regarding the Power Supply Agreement ("*PSA*") between *MERALCO* and Panay Energy Development Corporation ("*PEDC*"). In the Decision, the *ERC* directed that the recovery of *PEDC*'s actual fuel losses due to Change in Circumstances ("*CIC*") from April 2 to September 25, 2022, amounting to ₱884 million be included in the *ERC*'s evaluation of *MERALCO*'s true-up confirmation.

In compliance with the aforesaid Decision, on October 3, 2023, *MERALCO* filed a Motion for Leave to Admit Attached Supplemental Application with the *ERC*. The Supplemental Application prayed that *MERALCO* be allowed to recover the additional amount of ₱884 million pertaining to the recovery of the *CIC* claims of *PEDC*. As at April 29, 2024, the *ERC* has yet to act on *MERALCO*'s motion.

Clark Electric

Clark Electric filed an application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss 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 also completed *ERC* orders to refund/collect over- and under-recoveries related to generation, transmission and system loss charges covering the years 2014 to 2019.

On May 31, 2023, *Clark Electric* filed its True-up Application covering the years 2020-2022 with the *ERC*. Hearings were conducted on August 24 and 31, 2023. As at April 29, 2024, the application remains pending with the *ERC*.

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

On January 31, 2017, *MERALCO* filed an Application seeking the *ERC*'s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the *ERC* provisionally approved the recovery of the incremental fuel cost through a staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at April 29, 2024, 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 first hearing was conducted on May 26, 2014. 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 *SC* Decision dated August 3, 2021, it 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 with the issuance by the *SC* of its Resolution dated October 11, 2022 which denied the motions for reconsideration filed by the *ERC* and the petitioners. 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 *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 April 29, 2024, the same is pending with the *ERC*.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchased power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred *PPA* under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at April 29, 2024, the *MR* is still pending resolution by the *ERC*.

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

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

SC Decision on the ₱0.167 per kWh Refund

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

Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in an interest-bearing bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at April 29, 2024, *MERALCO* continues to process the refund claims of eligible customers.

In a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit was completed and as at April 29, 2024, *MERALCO* is awaiting further action of the *ERC* on the matter.

See Note 20 – Customers' Refund.

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

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

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

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*. *MERALCO* implemented the directive to set to zero the *DSM* charges of lifeline consumers in its October 2020 billing subject to the resolution of its Motion for Partial Reconsideration. As at April 29, 2024, the Motion for Partial Reconsideration remains pending with the *ERC*.

3. Statement of Compliance

Statement of Compliance

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

Basis of Consolidation

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

			2024		2023	
			Percentage of Ownership			
Subsidiaries	Place of Incorporation	Principal Business Activity	Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. ("*CIS*")	Philippines	e-Transactions	**100**	**–**	100	–
Customer Frontline Solutions, Inc. ("*CFSI*")	Philippines	Tellering services	**–**	**95**	–	95
CIS Bayad Center, Inc. ("*Bayad*")	Philippines	Bills payment collection	**–**	**95**	–	95
Meralco Energy, Inc. ("*MServ*")	Philippines	Energy systems management	**100**	**–**	100	–
eMeralco Ventures, Inc. ("*e-MVI*")	Philippines	e-Business development	**100**	**–**	100	–
Paragon Vertical Corporation ("*Paragon*")	Philippines	Information technology *("IT")* and multi-media services	**–**	**100**	–	100
Radius Telecoms, Inc. ("*Radius*")	Philippines	Telecommunication services	**–**	**100**	–	100
MGen	Philippines	Development of power generation plants	**100**	**–**	100	–
Calamba Aero Power Corporation[1]	Philippines	Power generation	**–**	**100**	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	**–**	**100**	–	100
Atimonan One Energy, Inc. ("*A1E*") [2]	Philippines	Power generation	**–**	**100**	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	**–**	**100**	–	100
MPG Asia Limited ("*MPG Asia*")	British Virgin Islands	Holding company	**–**	**100**	–	100
Solvre, Inc. [1]	Philippines	Retail electricity supplier	**–**	**100**	–	100
MGreen	Philippines	Renewable energy	**–**	**100**	–	100
LagunaSol Corporation ("*LagunaSol*") [1]	Philippines	Renewable energy	**–**	**100**	–	100
Nortesol III Inc. ("*NorteSol*") [1]	Philippines	Renewable energy	**–**	**70**	–	70
Powersource First Bulacan Solar, Inc. ("*First Bulacan*")	Philippines	Renewable energy	**–**	**60**	–	60
Greentech Solar Energy, Inc. *("GSEI")*	Philippines	Renewable energy	**–**	**100**	–	100
CACI Power Corporation	Philippines	Power generation	**–**	**60**	–	60
PH Renewables Inc. ("*PHRI*")	Philippines	Power generation	**–**	**60**	–	60
Greenergy For Global Inc. ("*Greenergy*")	Philippines	Renewable energy	**–**	**57**	–	57
MGreen International Limited ("*MGreen International*")	British Virgin Islands	Holding company	**–**	**100**	–	100
SPNEC [3]	Philippines	Development of power generation plants	**–**	**53.7**	–	50.5
Terra Nueva, Inc. ("*TNI*")	Philippines	Real estate	**–**	**53.7**	–	50.5
Solar Philippines Calatagan Corporation ("*SPCC*")	Philippines	Renewable energy	**–**	**34.3**	–	34.3
Solar Philippines Tarlac Corporation ("*SPTC*")	Philippines	Renewable energy	**–**	**53.7**	–	50.5
Terra Solar Philippines, Inc. ("*TSPI*")	Philippines	Renewable energy	**–**	**53.7**	–	50.5
GBPC	Philippines	Holding company	**–**	**100**	–	100
ARB Power Ventures, Inc.	Philippines	Holding company	**–**	**100**	–	100
Toledo Power Company ("*TPC*")	Philippines	Power generation	**–**	**100**	–	100
Toledo Holdings Corporation	Philippines	Real estate		**100**		100
Global Trade Energy Resources Corp.	Philippines	Trading of coal	**–**	**100**	–	100
Panay Power Holdings Corporation	Philippines	Holding company	**–**	**89**	–	89
PEDC	Philippines	Power generation	**–**	**89**	–	89
Panay Power Corporation	Philippines	Power generation	**–**	**89**	–	89
GBH Power Resources, Inc.	Philippines	Power generation	**–**	**100**	–	100

Subsidiaries	Place of Incorporation	Principal Business Activity	2024 Percentage of Ownership Direct	2024 Indirect	2023 Direct	2023 Indirect
Global Formosa Power Holdings, Inc.	Philippines	Holding company	**–**	**93**	–	93
Cebu Energy Development Corporation ("*CEDC*")	Philippines	Power generation	**–**	**52**	–	52
GESC	Philippines	Retail electricity supplier	**–**	**100**	–	100
Mindanao Energy Development Corporation	Philippines	Power generation	**–**	**100**	–	100
Global Hydro Power Corporation	Philippines	Power generation	**–**	**100**	–	100
Global Luzon Energy Development Corporation ("*GLEDC*")	Philippines	Power generation	**–**	**57**	–	57
Lunar Power Core, Inc.	Philippines	Holding company	**–**	**57**	–	57
Global Renewable Power Corporation	Philippines	Renewable energy	**–**	**100**	–	100
MSpectrum, Inc. ("*Spectrum*")	Philippines	Renewable energy	**100**	**–**	100	–
Vantage	Philippines	Retail electricity supplier	**100**	**–**	100	–
Meralco Financial Services Corporation ("*Finserve*")	Philippines	Property management and leasing	**100**	**–**	100	–
Lighthouse Overseas Insurance Limited ("*LOIL*")	Bermuda	Insurance	**100**	**–**	100	–
MRAIL, Inc. ("*MRail*")	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	100	–
MIESCOR [2]	Philippines	Engineering, construction and consulting services	**100**	**–**	100	–
Miescor Builders Inc. ("*MBI*")	Philippines	Electric transmission and distribution operation and maintenance services	**–**	**100**	–	100
Miescor Logistics Inc. ("*MLI*")	Philippines	General services, manpower/maintenance	**–**	**100**	–	100
Miescor Infrastructure Development Corporation ("*MIDC*")	Philippines	Construction and leasing of communication towers and other infrastructure	**–**	**51**	–	51
Clark Electric	Philippines	Power distribution	**65**	**–**	65	–
Clarion Energy Management Inc. ("*Clarion*") [1]	Philippines	Retail electricity supplier	**–**	**65**	–	65
Comstech	Philippines	Management of power distribution	**60**	**–**	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	**–**	**60**	–	60
Greater Pampanga Power Corp. [1]	Philippines	Power distribution	**–**	**60**	–	60
Meridian Power Ventures Limited ("*MPV Limited*") [1]	Hongkong	Investment holdings	**100**	**–**	100	–
Shin Clark	Philippines	Holding company	**60**	**–**	60	–
Shin Clark Power	Philippines	Power distribution	**–**	**54**	–	54
Phoenix Power [1]	Philippines	Retail electricity supplier	**100**	**–**	100	–
Movem Electric, Inc. ("*Movem*")	Philippines	Maintenance and operation of transport service networks	**100**	**–**	100	–

[1] *Has not started commercial operations.*
[2] *MIESCOR Retirement Fund has less than 1% equity interest in MIESCOR.*
[3] *Subscription Agreement between MGen, SPNEC and SPPHI, gives MGen an option to transfer some or all of the subsidiaries of SPPHI, but in any case, excluding SPNEC, SPTC, SPCC, TNI and TSPI*

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.

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 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) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies *MERALCO*'s share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

Business Combination

On October 12, 2023, *MGreen* signed a Memorandum of Agreement with *SPNEC*, and the latter's parent company, Solar Philippines Power Project Holdings, Inc. ("*SPPPHI*") to secure a right to subscribe to common and redeemable voting preferred shares of *SPNEC* for a total consideration of ₱15.9 billion.

On the same date, an agreement was executed by and among *MGreen, 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.

On December 27, 2023, *MGreen* completed the acquisition of 50.5% voting equity interest of *SPNEC* with the full payment of the common and redeemable voting preferred shares subscription price.

The details of the purchase consideration are as follows:

	Amounts in millions
Cash paid	₱15,894
Liabilities	11,206
Total purchase consideration	₱27,100

The recognized liabilities related to *SPNEC* acquisition pertain to the put option agreements.

The assets and liabilities of *SPNEC* recognized in the consolidated statement of financial position as at December 31, 2023 were based on a provisional assessment of their fair values while *MERALCO* sought an independent valuation of the assets owned by *SPNEC.* The valuation of the assets and liabilities is ongoing as of April 29, 2024.

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

	Amounts in millions
Generation plant and others	₱20,001
Deposits for land acquisition	3,696
Intangible assets	29,347
Deferred tax assets	10
Cash and cash equivalents	10,041
Trade and other receivables	286
Inventories	75
Other assets	1,418
Interest-bearing long-term financial liabilities	(3,097)
Deferred tax liabilities	(3,532)
Trade and other payables	(453)
Other liabilities	(1,094)
Net identifiable assets	56,698
Less: Non-controlling interests	3,034
Net assets	53,664
Equity interest acquired	50.5%
Net assets acquired	₱27,100

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

Following *MGreen*'s acquisition of a majority stake in *SPNEC* in December 2023, *MGreen* further raised its stake in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion shares of *SPNEC* in January 2024.

4. **Material Accounting Policies, Changes and Improvements**

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous year except with respect to the adoption of *Amendments to PAS 1, Classification of Liabilities as Current or Non-current* which was effective beginning January 1, 2024.

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

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

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

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

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. Costs include the cost of replacing part of such utility plant, generation plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

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

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

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

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Power plant machinery and equipment	3-25 years
Communication towers, 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 (includes *ROU* assets)	2-45 years

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Investments in Associates and Interests in Joint Ventures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss from the derecognition of the investment properties is recognized in the consolidated statement of income in the period these are disposed or retired.

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

Intangible Assets

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

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 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 *MERALCO Group* uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

Impairment of Nonfinancial Assets

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

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior year. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial Recognition and Measurement

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

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

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

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

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

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at *FVOCI* with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at *FVOCI* with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at *FVPL*

Financial Assets at Amortized Cost (Debt Instruments)

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

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

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

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

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

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are 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, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32*, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right to receive payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

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

Derecognition

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

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

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

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

Modification of Financial Assets

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

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

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

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

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

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

Impairment of Financial Assets

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

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

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

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

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

For trade receivables and contract assets, *MERALCO* applies a simplified approach in calculating *ECLs*. Therefore, *MERALCO* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. *MERALCO* has established a provision matrix that is based on its current credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In determining the *ECL*s of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors as well as the economic environment was considered.

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

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

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

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; 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, the *MERALCO Group* assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The *MERALCO Group* considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

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

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

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

Financial Liabilities

Initial Recognition and Measurement

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

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

The *MERALCO Group*'s financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade 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 by the *MERALCO Group* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of 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 profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.

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

Derecognition

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

Exchange or Modification of Financial Liabilities

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

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

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

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

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Inventories

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

Value-Added Tax ("VAT")

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

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

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

Provisions

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

Retirement Benefits

MERALCO and certain subsidiaries have distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO*'s retirement plan provides for post-retirement benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

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

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

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent 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 the *MERALCO Group*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

Termination Benefits

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

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

Employee Leave Entitlements

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

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

Long-term Incentive Plan

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

Revenue Recognition

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

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

Sale of Electricity

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

Revenue from Contracts with Customers - Recognized Over Time

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

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

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

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

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

Sale of Services

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

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

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

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

Coal Sales

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

Service Fees

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

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, communication tower assets and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is presented as part of Sales of other services in the consolidated statement of income.

Contract Assets

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

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

Contract Liabilities

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

The following are considered as contract liabilities:

Assets Funded by Customers

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

Net Over-recoveries of Pass-through Charges

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

Cost and Expense Recognition

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

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

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

Lease Liabilities

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

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

Short-term Leases and Leases of Low-value Assets

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

Leases

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

Company as Lessee

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

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

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

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

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

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

Company as Lessor

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

Foreign Currency-Denominated Transactions and Translations

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

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

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

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Contingencies

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

Events After the Reporting Date

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

5. Significant Judgments, Accounting Estimates and Assumptions

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

Judgments

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

Determination of Functional Currency

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

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

Uncertain Tax Position

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

Operating Lease Commitments

As Lessor

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

As Lessee

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

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

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

Arrangement that Contains a Lease

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

Principal versus Agent

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

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

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

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

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

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

MERALCO, through *MGen*, has a total of 58% direct and indirect interest in *PacificLight and PacificLight Renewables Pte Ltd ("PLP Renewables"). MERALCO's* investments in *PacificLight* and *PLP Renewables* are accounted for as associates since their relevant and significant activities and policies require the majority votes of the *BOD* and *MGen* does not hold the majority of the *BOD*.

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

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

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

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

Acquisitions

The *MERALCO Group* evaluates each investment under *PFRS 3* to determine whether to treat an acquisition as an asset acquisition or a business combination. For those transactions treated as asset acquisitions, the purchase price is allocated to the assets acquired, with no recognition of goodwill. For those acquisitions that meet the definition of a business combination, *MERALCO Group* apply the acquisition method of accounting where assets acquired and liabilities assumed are recorded at fair value at the date of each acquisition, and the results of operations are included with our results from the dates of the respective acquisitions. When determining the fair value of tangible assets acquired, 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.

The *MERALCO Group* determines the date when control is obtained which is when *MERALCO Group* effectively obtains power to direct the relevant activities of the acquiree. *MGreen* assessed that the control in *SPNEC* was obtained on December 27, 2023, with the election of *MGreen*'s nominees as directors and key officers of *SPNEC.*

Contingencies

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

See *Note 29 – Contingencies and Legal Proceedings*.

Estimates and Assumptions

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

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

The *MERALCO Group* estimates the useful lives of utility plant, generation plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant, generation plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any 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 ₱4,030 million and ₱3,647 million for the three months ended March 31, 2024 and 2023, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱281,402 million and ₱269,839 million as at March 31, 2024 and December 31, 2023, respectively.

Total depreciation of investment properties amounted to ₱1 million for each of the three months ended March 31, 2024 and 2023. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,490 million and ₱1,493 million as at March 31, 2024 and December 31, 2023, respectively.

Total amortization of intangible assets with finite lives amounted to ₱499 million and ₱406 million for the three months ended March 31, 2024 and 2023, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱49,537 million and ₱53,351 million as at March 31, 2024 and December 31, 2023, respectively.

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

Impairment of Nonfinancial Assets

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

Determining the recoverable amount of utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and 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 or reversal of previously recognized impairment loss could have material adverse impact on the *MERALCO Group*'s consolidated financial position and financial performance.

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

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

Account	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
	(Amounts in millions)	
Utility plant, generation plant and others	**₱281,402**	₱269,839
Intangible assets	**49,537**	53,351
Investments in associates and interests in joint ventures	**37,191**	38,388
Investment properties	**1,490**	1,493
Receivable from the *BIR*	**181**	181

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

Realizability of Deferred Income Tax Assets

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

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

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Recognized deferred income tax assets	**₱32,822**	₱32,433
Unrecognized deferred income tax assets	**2,361**	2,737

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

Provision for ECL of Receivables and Contract Assets

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

MERALCO provides *ECL* on certain identified trade receivables which have been the subject of disputes from customers. In determining the *ECL*s of trade receivables, *MERALCO* considers the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors, and taking into account the economic environment. 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.

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

*ECL*s for trade and other receivables amounted to ₱582 million and ₱603 million for the three months ended March 31, 2024 and 2023, respectively. Trade and other receivables, net of allowance for *ECL*, amounted to ₱50,625 million and ₱48,395 million as at March 31, 2024 and December 31, 2023, 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 ₱13,506 million and ₱11,180 million as at March 31, 2024 and December 31, 2023, 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 ₱418 million and ₱291 million for the three months ended March 31, 2024 and 2023, respectively.

Retirement and other post-employment benefit liabilities as at March 31, 2024 and December 31, 2023 amounted to ₱9,244 million and ₱8,823 million, respectively.

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

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

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

Provisions

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

The *MERALCO Group*, in consultation with its external and internal legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies and actions relating to these proceedings.

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, 2024 and December 31, 2023, provisions and other noncurrent liabilities is presented net of the effect of the time value of money of ₱3,747 million and ₱4,497 million, respectively.

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

Revenue Recognition

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

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

Revenues from sale of electricity also considers variable considerations included in the transaction price resulting from historical refunds to customers. The refund liability related to these variable considerations are included as part of "Trade payables and other liabilities" and "Other noncurrent liabities" accounts in the consolidated statement of financial position. As at March 31, 2024 and December 31, 2023, the balance of refund liability amounted to ₱11,564 million and ₱9,591 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* are recognized based on the output method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from Contracts with Customers

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

Identifying Performance Obligations

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

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

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

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

Determining Method to Estimate Variable Consideration and Assessing the Constraint

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

Factors such as the following are considered:
a. high susceptibility to factors outside the Group's influence;
b. timing of the resolution of the uncertainty; and
c. having a large number and broad range of possible outcomes.

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

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

Allocation of Variable Consideration

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

Revenue Recognition

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

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

Identifying Methods for Measuring Progress of Revenue Recognized Over Time

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

The *MGen* Group determined that the output method is the 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 are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

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

- Power

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

  Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and the *Clark Electric* franchise areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 50% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone and the sub-zones.

  Shin Clark through a Joint Venture Agreement ("*JVA*") with *BCDA*, manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac. In accordance with the *JVA*, *BCDA* assigned its franchise to operate the electric distribution system in New Clark City, granted to it by the Congress under Republic Act No. 11420, to Shin Clark Power Corporation ("*Shin Clark Power*" or "Joint Venture Company"). *BCDA*'s assignment of its franchise to *Shin Clark Power*, based on a valuation by a third-party independent appraiser, represents *BCDA*'s contribution to *Shin Clark* in exchange for a 10% equity interest in *Shin Clark Power*. *Shin Clark Power* was incorporated and registered with the Securities and Exchange Commission ("*SEC*"). On March 22, 2023, the *ERC* granted *Shin Clark Power* a *CPCN* to operate as a *DU*.

  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 2,247 *MW* (net) of coal, liquid natural gas, renewable and diesel plants in the Philippines and Singapore.

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

  GBPC owns 823.6 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest interest in Sarangani Energy Corporation ("*Sarangani Energy*"). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

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

Following *MGreen*'s acquisition of a majority stake in *SPNEC* in December 2023, *MGreen* further raised its stake in the listed renewable energy company to 53.7% from 50.5% with the acquisition of additional 2.17 billion *SPNEC* shares in January 2024. Terra Solar Philippines, Inc. ("*Terra Solar*"), a wholly owned subsidiary of *SPNEC*, is developing a 3.5-*GWp* solar power plant facility with a 4,500-*MWh* battery energy storage system.

MGen and Therma NatGas, Inc. ("*TNGP*") have jointly entered into an Investment Agreement to acquire equity interest in Chromite Gas Holdings ("*CGHI*"). *MGen* will acquire 60% interest in *CGHI* while *TNGP* will acquire the balance of 40%.

CGHI intends to invest in two gas-fired power plants owned by San Miguel Global Power Holdings Corp. ("*SMGP*"), the 1,278 *MW* Ilijan power plant, and a new 1,320 *MW* combined cycle power facility that is currently under construction. Together with *SMGP*, *CHGI* will invest in the liquefied natural gas ("*LNG*") import and regasification terminal owned by Linseed Field Corporation.

The transaction is subject to the customary review and approval of the Philippine Competition Commissiion ("*PCC*").

MGreen, through *PHRI*, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation, has energized 67.5 *MWac* of its 75 *MWac* solar plant in Baras, Rizal and has started generating power since March 2023. Phase 2 of *PHRI* solar plant is targeted to be operational by mid-2024. As of March 31, 2024, *PHRI* delivered 37 *MW* to *MPower*.

Also, in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*"), a 68 *MWac* solar plant project in Ilocos Norte was fully energized in February 2023. As of March 31, 2024, the project has delivered a total of 39 *GWh* of commissioning energy.

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

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

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

Vantage and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*; and *GESC,* a wholly owned subsidiary of *GBPC* are affiliate *RES*s. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its

RES licensing to *ERC* on November 17, 2017. As at April 29, 2024, the approval of its *RES* licensing is pending with the *ERC.*

- Other Services

  The other services segment is involved principally in electricity-related services, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy, construction and leasing of communication towers and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI*, *MLI* and *MIDC* (collectively known as "*MIESCOR Group*"), *CIS*, *Bayad* and *CFSI* (collectively referred to as "*CIS Group*"), *e-MVI*, *Paragon* and *Radius* (collectively referred to as "*e-MVI Group*")*, Comstech, MRail*, *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 for the period, (ii) consolidated net earnings before interest, taxes, and depreciation and amortization ("consolidated *EBITDA*"); and (iii) consolidated core net income ("*CCNI*"). Net income is measured consistent with reported net income in the consolidated statement of income.

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

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

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

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

		Power		**Other Services**		**Inter-segment Transactions**		**Total**	
		For the Three Months Ended March 31							
	Note	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
		(Amounts in Millions)							
Revenues		**₱101,363**	₱102,356	**₱4,015**	₱4,240	**(₱830)**	(₱954)	**₱104,548**	₱105,642
Segment results		**₱14,243**	₱9,313	**₱1,134**	₱1,007	**₱–**	₱–	**₱15,377**	₱10,320
Depreciation and amortization	*7, 8 and 10*	**(3,985)**	(3,616)	**(545)**	(438)	**–**	–	**(4,530)**	(4,054)
Interest and other financial income	*24*	**889**	703	**47**	35	**–**	–	**936**	738
Equity in net earnings of associates and joint ventures	*8*	**1,709**	3,915	**–**	–	**–**	–	**1,709**	3,915
Interest and other financial charges	*24*	**(1,132)**	(1,047)	**(193)**	(150)	**–**	–	**(1,325)**	(1,197)
Provision for income tax - net	*27*	**(2,218)**	(1,329)	**(191)**	(188)	**–**	–	**(2,409)**	(1,517)
Net income attributable to non-controlling interests		**–**	–	**–**	–	**(161)**	(134)	**(161)**	(134)
Net income attributable to equity holders of the Parent		**₱9,506**	₱7,939	**₱252**	₱266	**(₱161)**	(₱134)	**₱9,597**	₱8,071
CCNI		**₱9,825**	₱8,786	**₱258**	₱261	**₱–**	₱–	**₱10,083**	₱9,047

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

The following table shows the reconciliation of *EBITDA* to net income:

	Unaudited For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
EBITDA	**₱17,102**	₱14,557
Deduct:		
Depreciation and amortization	**(4,530)**	(4,054)
Interest and other financial expenses net of income and foreign exchange gains and losses, and others	**(405)**	(781)
Income before income tax	**12,167**	9,722
Provision for income tax - net	**(2,409)**	(1,517)
Net income	**9,758**	8,205
Net income for the period attributable to non-controlling interests	**(161)**	(134)
Net income for the period attributable to equity holders of the Parent	**₱9,597**	₱8,071

The following table shows the reconciliation of the *CCNI* to net income:

	Unaudited For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
Net income for the period attributable to equity holders of the Parent	**₱9,597**	₱8,071
Add (deduct) non-core items, net of tax:		
Non-core expenses	**501**	721
Foreign exchange gains (losses)	**(15)**	255
CCNI	**₱10,083**	₱9,047

7. Utility Plant, Generation Plant and Others

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

		March 31, 2024 (Unaudited)									
	Note	**Land**	**Power Plant Machinery and Equipment**	**Sub-transmission and Distribution**	**Communication Towers, Buildings and Improvements**	**Data Transmission Cables and Communi-cation Equipment**	**Office Furniture, Fixtures and Other Equipment**	**Transportation Equipment**	**Others**	**Construction in Progress**	**Total**
		(Amounts in millions)									
Cost:											
Balance at beginning of period		**₱28,639**	**₱52,482**	**₱232,407**	**₱16,485**	**₱7,429**	**₱5,978**	**₱5,200**	**₱11,724**	**₱43,779**	**₱404,123**
Additions		**230**	**–**	**948**	**1,985**	**24**	**8**	**32**	**83**	**6,087**	**9,397**
Transfers from construction in progress		**–**	**–**	**167**	**344**	**41**	**14**	**–**	**99**	**(665)**	**–**
Disposals/retirements		**–**	**–**	**(921)**	**(1)**	**(43)**	**(249)**	**(31)**	**–**	**–**	**(1,245)**
Reclassifications and others	*10*	**6,242**	**(1,711)**	**–**	**1,263**	**–**	**(1)**	**–**	**(11)**	**–**	**5,782**
Balance at end of period		**35,111**	**50,771**	**232,601**	**20,076**	**7,451**	**5,750**	**5,201**	**11,895**	**49,201**	**418,057**
Less accumulated depreciation and amortization:											
Balance at beginning of period		**–**	**7,753**	**99,041**	**4,944**	**3,288**	**4,073**	**3,246**	**5,231**	**–**	**127,576**
Depreciation and amortization		**–**	**785**	**2,390**	**168**	**180**	**162**	**98**	**247**	**–**	**4,030**
Disposals/retirements		**–**	**–**	**(915)**	**–**	**(44)**	**(249)**	**(31)**	**–**	**–**	**(1,239)**
Reclassifications		**–**	**(793)**	**(4)**	**459**	**(181)**	**(1)**	**(6)**	**183**	**–**	**(343)**
Balance at end of period		**–**	**7,745**	**100,512**	**5,571**	**3,243**	**3,985**	**3,307**	**5,661**	**–**	**130,024**
Less allowance for impairment losses:											
Balance at beginning of period		**–**	**292**	**–**	**–**	**–**	**–**	**–**	**–**	**6,416**	**6,708**
Reversal for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(77)**	**(77)**
Balance at end of period		**–**	**292**	**–**	**–**	**–**	**–**	**–**	**–**	**6,339**	**6,631**
Net book value		**₱35,111**	**₱42,734**	**₱132,089**	**₱14,505**	**₱4,208**	**₱1,765**	**₱1,894**	**₱6,234**	**₱42,862**	**₱281,402**

		December 31, 2023 (Audited)									
	Note	Land	Power Plant Machinery and Equipment	Sub-transmission and Distribution	Communication Towers, Buildings and Improvements	Data Transmission Cables and Communi-cation Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						(Amounts in millions)					
Cost:											
Balance at beginning of period		₱18,807	₱41,335	₱222,878	₱15,707	₱5,007	₱5,378	₱4,919	₱9,464	₱36,558	₱360,053
Additions		41	–	1,256	688	310	323	409	1,566	21,556	26,149
Effect of consolidation of *SPNEC* (see *Note 3)*		9,788	8,542	–	3	–	3	1	535	2,729	21,601
Transfers from construction in progress		3	2,553	11,048	207	1,944	322	10	267	(16,354)	–
Disposals/retirements		–	–	(2,684)	(8)	–	–	(110)	(22)	–	(2,824)
Reclassifications	*10*	–	52	(91)	(112)	168	(48)	(29)	(86)	(710)	(856)
Balance at end of period		28,639	52,482	232,407	16,485	7,429	5,978	5,200	11,724	43,779	404,123
Less accumulated depreciation and amortization:											
Balance at beginning of period		–	3,534	92,909	4,083	2,631	3,546	2,995	4,089	–	113,787
Depreciation and amortization		–	2,602	8,852	876	686	556	385	813	–	14,770
Effect of consolidation of *SPNEC* (see *Note 3)*		–	1,503	–	–	–	1	1	81	–	1,586
Disposals/retirements		–	–	(2,684)	(4)	–	–	(110)	(19)	–	(2,817)
Reclassifications		–	114	(36)	(11)	(29)	(30)	(25)	267	–	250
Balance at end of period		–	7,753	99,041	4,944	3,288	4,073	3,246	5,231	–	127,576
Less allowance for impairment losses:											
Balance at beginning of period		–	292	–	–	–	–	–	–	2,651	2,943
Effect of consolidation of *SPNEC* (see *Note 3)*		–	–	–	–	–	–	–	–	14	14
Charge for the period		–	–	–	–	–	–	–	–	3,751	3,751
Balance at end of period		–	292	–	–	–	–	–	–	6,416	6,708
Net book value		₱28,639	₱44,437	₱133,366	₱11,541	₱4,141	₱1,905	₱1,954	₱6,493	₱37,363	₱269,839

As at March 31, 2024 and December 31, 2023, the net book values of customer-funded assets included in “Utility plant, generation plant and others” account amounted to ₱6,025 million and ₱6,021 million, respectively. The corresponding liabilities to customers in the same amounts as at March 31, 2024 and December 31, 2023 are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

MIDC recognized *ROU* assets and corresponding lease liabilities covering the lease agreements transferred from Globe Telecom, Inc (“*Globe*”) and for the agreements entered by *MIDC* for build-to-suit sites. As at March 31, 2024 and December 31, 2023, lease liabilities amounted to ₱2,261 million and ₱2,497 million, respectively.

The communication towers and the acquired intangibles of *MIDC*, with aggregate carrying value of ₱16,176 million as at March 31, 2024 are pledged as securities for its long-term debt.

The power plant complex of *PHRI* and the generation plant and equipment of *First Bulacan*, with aggregate carrying value of ₱5,736 million as at March 31, 2024 are pledged as securities for their long-term debt.

The solar power plants of *SP Calatagan* and *SP Tarlac* of were used as collateral to secure their respective long-term debts.

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

As at March 31, 2024, the capitalized site preparation expenses for the development of ultra-supercritical pulverized coal-fired power generation plant of *A1E* amounted to ₱12,702 million. Allowance for impairment loss amounted to ₱6,571 million and ₱2,651 million as at March 31, 2024 and December 31, 2023, respectively, related to the design and materials for a coal technology, given the planned change in plant configuration from coal to liquified natural gas power plant.

Construction in progress pertains to both electric capital projects (“*ECP*s”) and non-*ECP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Non-*ECP*s mainly represent construction of *MGen*’s power plant projects, *MIDC*’s communication towers and *Radius*’ network expansion projects. Total interest capitalized amounted to ₱168 million and ₱132 million based on average capitalization rate of 6% and 5% for the three months ended March 31, 2024 and 2023, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

	Place of Incorporation	Principal Activity	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
			Percentage of Ownership	
Associates				
FPM Power Holdings Limited (“*FPM Power*”)/ *PacificLight Power*	British Virgin Islands/ Singapore	Investment and holding company/ Power generation	**58**	58
Alsons Thermal Energy Corporation (“*ATEC*”)	Philippines	Power generation	**50**	50
Redondo Peninsula Energy Inc. (“*RP Energy*”)	Philippines	Power generation	**47**	47

(Forward)

	Place of Incorporation	Principal Activity	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
			Percentage of Ownership	
Aclara Meters Philippines, Inc. ("*Aclara Meters*")	Philippines	Sale of metering products and services	**35**	35
PLP Renewables	British Virgin Islands	Investment and holding company	**58**	58
Power Distribution Services Ghana Limited ("*PDS Ghana*")	Ghana	Distribution of power	**30**	30
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	**25**	25
AF Payments	Philippines	Electronic payment clearing and settlement system operator	**10**	10
Joint Ventures				
SBPL	Philippines	Power generation	**51**	51
MRail-DESCO Joint Venture ("*MDJV*")	Philippines	Maintenance of mass transit system	**51**	51
Pure Meridian Hydropower Corporation ("*Pure Meridian*")	Philippines	Renewable energy	**50**	50
Nuevo Solar Energy Corporation ("*NSEC*")	Philippines	Power generation	**50**	50
First Balfour-MRail Joint Venture ("*FBMJV*")	Philippines	Maintenance of mass transit system	**49**	49
MPioneer Insurance Inc. ("*MPioneer*")	Philippines	Insurance	**35**	35
Rockwell Business Center Joint Venture ("*RBC JV*")	Philippines	Real estate	**30**	30
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	**25**	25
AF Payments	Philippines	Electronic payment clearing and settlement system operator	**10**	10

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Acquisition cost:		
Balance at beginning of period	**₱33,458**	₱33,464
Additions (return of capital)	**11**	(6)
Balance at end of period	**33,469**	33,458
Accumulated equity in net earnings:		
Balance at beginning of period	**5,283**	3,890
Equity in net earnings for the period	**1,709**	11,479
Dividends received	**(3,047)**	(10,106)
Reclassification	**133**	20
Balance at end of period	**4,078**	5,283
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of period	**(29)**	(16)
Share in actuarial losses	**(2)**	(13)
Balance at end of period	**(31)**	(29)
Share in cumulative translation adjustments:		
Balance at beginning of period	**(22)**	(30)
Cumulative translation adjustments	**–**	8
Balance at end of period	**(22)**	(22)

(Forward)

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Share in other comprehensive income:		
Balance at beginning of period	**₱329**	₱–
Cumulative translation adjustments	**(1)**	329
Balance at end of period	**328**	329
Allowance for impairment loss:		
Balance at beginning of period	**(631)**	(5,420)
Reversals – net of provisions	–	4,941
Reclassification	–	(152)
Balance at end of period	**(631)**	(631)
	₱37,191	₱38,388

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Associates:		
FPM Power/PacificLight Power	**₱15,541**	₱16,184
ATEC	**10,065**	9,910
Indra Philippines	**436**	420
RP Energy	**119**	119
Aclara Meters	**72**	97
PLP Renewables	**49**	45
Joint ventures:		
SBPL	**9,016**	9,909
RBC JV	**815**	643
NSEC	**622**	619
MPioneer	**398**	384
MDJV	**58**	58
	₱37,191	₱38,388

FPM Power/PacificLight Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia* (a wholly-owned subsidiary of *MGen)* and 60%-owned by First Pacific Company Limited ("*First Pacific*"). *FPM Power* has a 70% equity interest in *PacificLight Power*, which owns and operates a 2 x 400 *MW LNG*-fired power plant in Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

On July 1, 2021, *MGen* through *MPG Asia* acquired the 30% stake in *PacificLight Power* of Petronas International Power Corporation's, bringing its combined direct and indirect interest to 58%.

In December 2023, *MGen* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the improvement in market condition in Singapore resulting in *PacificLight Power*'s positive operating results. The recoverable amount of *MGen*'s 40% share in *FPM Power* as at December 31, 2023 was calculated using the cash flow projections of *PacificLight Power.*

Consequently, *MGen* reversed the remaining allowance for impairment loss of ₱4,941 million in 2023.

ATEC

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

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.

RP Energy

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

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology LLC. *Aclara Meters* serves the Philippine market for American National Standard Institute ("*ANSI*")-type Watt-hour meters.

PLP Renewables

PLP Renewables is 58%-owned by *MERALCO* through *MGreen International* (a wholly-owned subsidiary of *MGreen).* *PLP Renewables* has a 37% equity interest in *PacificMedco Solar Energy Pte Ltd*, which is a company incorporated and domiciled in Singapore with the purpose of importing renewable energy to Singapore by building large-scale solar *PV* plant in Bulan Island, Indonesia and transmitting the energy via subsea cable to Jurong Island, Singapore.

SBPL

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

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

RBC JV

RBC JV is a joint venture between Rockwell Land Corporation ("*Rockwell Land*") and *MERALCO* for a pre-agreed cooperation period, pursuant to which *Rockwell Land* built and manages three (3) Business Process Outsourcing-enabled buildings on a non-regulatory asset base property of

MERALCO. Investment in *RBC JV* represents *MERALCO's* 30% interest in the joint venture, while *Rockwell Land* has 70% interest in *RBC JV*.

NSEC

NSEC, a joint venture between *MGreen* and *Vena Energy*, owns and operates a 68 *MWac* solar power plant in Currimao, Ilocos Norte. The power plant was fully energized by mid-February 2023.

MPioneer

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

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation ("*REDC*") entered into a joint venture through, *Pure Meridian*, for the development of mini-hydroelectric power projects. The development of the mini-hydroelectric power projects is suspended. With the suspension of the development of its projects, *MERALCO* recognized impairment on the carrying amount of its investment in *Pure Meridian*.

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 March 31, 2024, *MDJV* is still in the process of liquidation.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* operates and maintains an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operates and maintains the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment in prior years on the carrying amount of its investment in *AF Payments*. Management reviews the recoverable amount of the investment in *AF Payments.* The valuation analysis involved discounting estimates of free cash flows based on the most recent financial budgets and forecasts using the discount rate of 11.9%. The forecast period covers the remaining service concession agreement term until December 2025. As at March 31, 2024, the investment in *AF Payments* is fully impaired.

The condensed statements of financial position of material associates follow:

	March 31, 2024 (Unaudited)		
	ATEC	***FPM Power / PacificLight Power***	***Indra Philippines***
	(Amounts in millions)		
Current assets	**₱3,776**	**₱16,453**	**₱2,819**
Noncurrent assets	**33,172**	**40,858**	**281**
Current liabilities	**(3,808)**	**(14,503)**	**(1,075)**
Noncurrent liabilities	**(9,534)**	**(12,275)**	**(281)**
Non-controlling interests	**(3,477)**	**–**	**–**
Net assets	**₱20,129**	**₱30,533**	**₱1,744**

	December 31, 2023 (Audited)		
	ATEC	*FPM Power / PacificLight Power*	*Indra Philippines*
	(Amounts in millions)		
Current assets	₱3,227	₱15,061	₱2,554
Noncurrent assets	33,995	44,197	295
Current liabilities	(4,105)	(15,442)	(865)
Noncurrent liabilities	(9,457)	(12,175)	(301)
Non-controlling interests	(3,840)	–	–
Net assets	₱19,820	₱31,641	₱1,683

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

	For the Three Months Ended March 31 (Unaudited)					
	2024			2023		
	ATEC	***FPM Power / PacificLight Power***	***Indra Philippines***	*ATEC*	*FPM Power / PacificLight Power*	*Indra Philippines*
	(Amounts in millions)					
Revenues	**₱2,386**	**₱18,973**	**₱780**	₱2,937	₱28,085	₱784
Costs and expenses	**(1,837)**	**(16,640)**	**(717)**	(2,351)	(22,631)	(725)
Net income (loss)	**549**	**2,333**	**63**	586	5,454	59
Non-controlling interests	**(129)**	**–**	**–**	(139)	–	–
Net income (loss) attributable to equity holders of the parent	**420**	**2,333**	**63**	447	5,454	59
Other comprehensive income	**–**	**–**	**–**	–	–	–
Total comprehensive income (loss)	**₱420**	**₱2,333**	**₱63**	₱447	₱5,454	₱59
Dividends received	**₱–**	**₱1,833**	**₱–**	₱–	₱2,318	₱–

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, 2024 (Unaudited)		
	ATEC	***FPM Power / PacificLight Power***	***Indra Philippines***
	(Amounts in millions, except % of ownership)		
Net assets of associates	**₱20,129**	**₱30,533**	**₱1,744**
Proportionate ownership in associates (%)	**50**	**58**	**25**
	10,065	**17,709**	**436**
Fair value adjustment	**–**	**(2,168)**	**–**
	₱10,065	**₱15,541**	**₱436**

	December 31, 2023 (Audited)		
	ATEC	*FPM Power / PacificLight Power*	*Indra Philippines*
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱19,820	₱31,641	₱1,683
Proportionate ownership in associates (%)	50	58	25
	9,910	18,352	420
Fair value adjustment	–	(2,168)	–
	₱9,910	₱16,184	₱420

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

	For the Three Months Ended March 31 (Unaudited)	
	2024	2023
	(Amounts in millions)	
Share in net income	**₱–**	₱25
Share in other comprehensive income	**(1)**	2
Share in total comprehensive income	**(₱1)**	₱27
Dividends received	**₱32**	₱–

Joint Ventures

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

	March 31, 2024 (Unaudited)	
	RBC JV	***SBPL***
	(Amounts in millions)	
Cash and cash equivalents	**₱790**	**₱3,519**
Current assets, excluding cash and cash equivalents	**311**	**6,722**
Noncurrent assets	**2,093**	**42,613**
Trade payables	**(121)**	**(414)**
Current liabilities, excluding trade payables	**(334)**	**(4,689)**
Noncurrent liabilities	**(22)**	**(30,073)**
Net assets	**₱2,717**	**₱17,678**

	December 31, 2023 (Audited)	
	RBC JV	*SBPL*
	(Amounts in millions)	
Cash and cash equivalents	₱630	₱4,314
Current assets, excluding cash and cash equivalents	349	6,042
Noncurrent assets	1,671	43,473
Trade payables	(130)	(40)
Current liabilities, excluding trade payables	(356)	(4,316)
Noncurrent liabilities	(21)	(30,044)
Net assets	₱2,143	₱19,429

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

	For the Three Months Ended March 31 (Unaudited)			
	2024		2023	
	RBC JV	***SBPL***	*RBC JV*	*SBPL*
	(Amounts in millions)			
Revenues	**₱237**	**₱4,690**	₱256	₱8,182
Costs and expenses, excluding depreciation	**10**	**(3,140)**	(39)	(6,139)
Depreciation	**(53)**	**(383)**	(54)	(369)
Other income (expense) – net	**15**	**(662)**	5	(823)
Benefit from (provision for) income tax - net	**–**	**4**	(9)	2
Net income	**₱209**	**₱509**	₱159	₱853
Dividends received	**₱30**	**₱1,153**	₱14	₱–

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, 2024 (Unaudited)	
	RBC JV	***SBPL***
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	**₱2,717**	**₱17,678**
Proportionate ownership in joint ventures (%)	**30**	**51**
	₱815	**₱9,016**

	December 31, 2023 (Audited)	
	RBC JV	*SBPL*
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	₱2,143	₱19,429
Proportionate ownership in joint ventures (%)	30	51
	₱643	₱9,909

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

	For the Three Months Ended March 31 (Unaudited)	
	2024	2023
	(Amounts in millions)	
Share in net income	**₱14**	₱92
Share in other comprehensive income (loss)	**(1)**	1
Share in total comprehensive income	**₱13**	₱93
Dividends received	**₱–**	₱–

9. **Investment Properties**

The movements in investment properties are as follows:

	March 31, 2024 (Unaudited)		
	Land	**Buildings and Improvements**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of period	**₱1,428**	**₱211**	**₱1,639**
Others	**–**	**(2)**	**(2)**
Balance at end of period	**1,428**	**209**	**1,637**
Less accumulated depreciation:			
Balance at beginning of period	**–**	**146**	**146**
Depreciation	**–**	**1**	**1**
Balance at end of period	**–**	**147**	**147**
	₱1,428	**₱62**	**₱1,490**

	December 31, 2023 (Audited)		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of period	₱1,428	₱209	₱1,637
Additions	–	2	2
Balance at end of period	1,428	211	1,639
Less accumulated depreciation:			
Balance at beginning of period	–	142	142
Depreciation	–	4	4
Balance at end of period	–	146	146
	₱1,428	₱65	₱1,493

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties as at March 31, 2024 and December 31, 2023 are as follows (amounts in millions):

Land	₱5,087
Buildings and improvements	138

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. As of March 31, 2024, thre is no significant change in the fair value of the investment properties.

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

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

a. Market Data or Comparative Approach

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

b. Depreciated Replacement Cost Approach

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

10. **Intangible Assets**

The movements of intangible assets are as follows:

	March 31, 2024 (Unaudited)						
	Software	**Franchise**	**Land and Leasehold Rights**	**Customer Contracts**	**Acquired Network Location**	**Build-to-suit Contracts**	**Total**
			(Amounts in millions)				
Cost:							
Balance at beginning of period	**₱8,047**	**₱63**	**₱551**	**₱43,222**	**₱8,398**	**₱2,949**	**₱63,230**
Additions	**–**	**–**	**9**	**–**	**67**	**23**	**99**
Reclassification	**(90)**	**–**	**–**	**(3,376)**	**–**	**–**	**(3,466)**
Balance at end of period	**7,957**	**63**	**560**	**39,846**	**8,465**	**2,972**	**59,863**
Less accumulated amortization:							
Balance at beginning of period	**5,740**	**–**	**441**	**3,327**	**275**	**96**	**9,879**
Amortization	**129**	**–**	**8**	**262**	**74**	**26**	**499**
Reclassification	**(41)**	**–**	**(11)**	**–**	**–**	**–**	**(52)**
Balance at end of period	**5,828**	**–**	**438**	**3,589**	**349**	**122**	**10,326**
	₱2,129	**₱63**	**₱122**	**₱36,257**	**₱8,116**	**₱2,850**	**₱49,537**

	December 31, 2023 (Audited)						
	Software	Franchise	Land and Leasehold Rights	Customer Contracts	Acquired Network Location	Build-to-suit Contracts	Total
			(Amounts in millions)				
Cost:							
Balance at beginning of period	₱7,511	₱63	₱558	₱13,875	₱5,661	₱2,058	₱29,726
Additions	490	–	19	–	2,737	891	4,137
Effect of consolidation of *SPNEC* (see *Note 3)*	–	–	–	29,347	–	–	29,347
Reclassification	46	–	(26)	–	–	–	20
Balance at end of period	8,047	63	551	43,222	8,398	2,949	63,230
Less accumulated amortization:							
Balance at beginning of period	5,308	–	401	2,276	36	14	8,035
Amortization	424	–	39	1,051	247	90	1,851
Reclassification	8	–	1	–	(8)	(8)	(7)
Balance at end of period	5,740	–	441	3,327	275	96	9,879
	₱2,307	₱63	₱110	₱39,895	₱8,123	₱2,853	₱53,351

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

MIDC entered into a Sale and Leaseback Agreement with *Globe* where *MIDC* shall acquire 2,180 telecom towers and related passive infrastructure for a pre-agreed consideration. Under the Master Lease Agreement, *Globe* shall be the anchor tenant of the towers for an initial period of 15 years. *Globe* also has commissioned *MIDC* to construct 900 additional build-to-suit towers over the next four (4) years on which *Globe* shall be the anchor tenant.

As at March 31, 2024 and December 31, 2023, *MIDC* acquired 1,348 towers and 1,194 towers, respectively, from *Globe* and recognized the following identifiable assets:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Telecommunication towers and passive equipment	**₱4,829**	₱2,981
Acquired network location intangibles	**8,398**	8,398
Build-to-suit contract intangibles	**2,949**	2,949
Total assets acquired	**₱16,176**	₱14,328

Acquired network location intangibles represent the value to *MIDC* of the benefits from leasing the excess capacity on acquired towers to other mobile network operators. The build-to-suit contract intangibles pertain to the contractual commitment of *Globe* to engage *MIDC* in building additional towers to be leased by *Globe*.

11. Financial and Other Noncurrent Assets

This account consists of:

	Note	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*15 and 27*	**₱9,806**	₱9,858
Financial assets at *FVOCI*	*27*	**4,481**	4,375
Advance payments to a supplier	*27 and 30*	**33**	228
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	*2 and 24*	**10,199**	10,434
Rental deposits		**4,007**	4,239
Deferred input *VAT*		**3,144**	3,487
Finance lease		**896**	894
Construction bond		**157**	158
Receivable from the *BIR*		**181**	181
Others		**2,018**	1,725
		₱34,922	₱35,579

Debt Securities at Amortized Cost

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

	March 31, 2024 (Unaudited)			December 31, 2023 (Audited)		
	Current Portion (see *Note 15*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 15*)	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱1,652**	**₱9,394**	**₱11,046**	₱2,162	₱9,389	₱11,551
Private debt securities	**2,481**	**412**	**2,893**	5,371	469	5,840
	₱4,133	**₱9,806**	**₱13,939**	₱7,533	₱9,858	₱17,391

Financial Assets at *FVOCI*

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Investments in debt securities - corporate bonds and others	**₱2,325**	₱2,255
Investments in shares of stock and club shares	**2,156**	2,120
	₱4,481	₱4,375

Interest income from debt and equity securities amounted to ₱161 million and ₱276 million for the three months ended March 31, 2024 and 2023, 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, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Balance at beginning of period	**₱490**	₱311
Unrealized fair value gains on fair value changes on:		
Debt securities	**49**	88
Equity securities	**40**	91
Balance at end of period	**₱579**	₱490

Net Under-Recoveries of Pass-through Charges

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

Allowance for *ECL* on net under -recoveries of pass-through charges amounted to ₱2,645 million as at March 31, 2024 and December 31, 2023.

See *Note 13 - Trade and Other Receivables*.

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 ("*EVAT Law*"), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. Under the Tax Reform for Acceleration and Inclusion ("*TRAIN*") Law, input *VAT* on capital goods purchased after December 31, 2021 shall berecognized outright and may be claimed as input tax credits against output tax. The deferred input *VAT* as of December 31, 2021 shall continue to be amortized.

Finance Lease

Spectrum entered into several bilateral *PSA*s to lease out solar power generation systems to its customers under a finance lease arrangement for periods ranging from 10 to 28 years.

Spectrum recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease arrangements is recognized under “Other income (expense)” account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

12. Cash and Cash Equivalents

This account consists of:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Cash on hand and in banks	**₱38,549**	₱30,104
Cash equivalents	**55,974**	52,685
	₱94,523	₱82,789

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up of to three (3) months depending on *MERALCO Group*’s immediate cash requirements and earn interest at the prevailing short-term investment rates.

Interest income on cash in banks and cash equivalents amounted to ₱735 million and ₱430 million for the three months ended March 31, 2024 and 2023, respectively.

As at March 31, 2024 and December 31, 2023, cash and cash equivalents include bank accounts totaling ₱5,485 million and ₱5,531 million, respectively, equivalent to unpaid *SC* refund, meter deposits, *RES* bill deposits and over-recoveries of pass-through charges which *MERALCO* set aside in compliance with regulatory requirements.

13. Trade and Other Receivables

This account consists of:

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Trade:			
Electricity sold	*23 and 27*	**₱38,448**	₱38,688
Energy generated	*27*	**6,955**	6,729
Service contracts		**2,352**	1,448
Unbilled receivables	*24*	**4,321**	3,028
Nontrade	*23 and 27*	**7,210**	6,705
		59,286	56,598
Less allowance for expected credit losses		**8,661**	8,203
		₱50,625	₱48,395

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

	March 31, 2024 (Unaudited)			
	Balance at Beginning of Period	**Provisions**	**Write-offs**	**Balance at End of Period**
	(Amounts in millions)			
Trade:				
Electricity sold	**₱5,557**	**₱559**	**₱–**	**₱6,116**
Energy generated	**1,276**	**(2)**	**–**	**1,274**
Other trade receivables	**916**	**21**	**(124)**	**813**
Nontrade receivables	**454**	**4**	**–**	**458**
	₱8,203	**₱582**	**(₱124)**	**₱8,661**

	December 31, 2023 (Audited)				
	Balance at Beginning of Year	Provisions	Write-offs	Effect of Consolidation of *SPNEC*	Balance at End of Year
	(Amounts in millions)				
Trade:					
Electricity sold	₱4,769	₱788	₱–	₱–	₱5,557
Energy generated	1,108	99	–	69	1,276
Other trade receivables	786	147	(17)	–	916
Nontrade receivables	452	2	–	–	454
	₱7,115	₱1,036	(₱17)	₱69	₱8,203

	March 31, 2024 (Unaudited)					December 31, 2023 (Audited)				
	Trade					Trade				
	Electricity Sold	**Energy Generated**	**Other Receivables**	**Nontrade Receivables**	**Total**	Electricity Sold	Energy Generated	Other Receivables	Nontrade Receivables	Total
					(Amounts in millions)					
Individually impaired	**₱4,147**	**₱–**	**₱813**	**₱458**	**₱5,418**	₱3,733	₱–	₱916	₱454	₱5,103
Collectively impaired	**1,969**	**1,274**	**–**	**–**	**3,243**	1,824	1,276	–	–	3,100
	₱6,116	**₱1,274**	**₱813**	**₱458**	**₱8,661**	₱5,557	₱1,276	₱916	₱454	₱8,203

Trade Receivables – Electricity Sold

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* as *DU* consist of generation, transmission and *SL* charges, which represent 63%, 8% and 4%, respectively, of the total billed amount in 2024 and 66%, 6% and 5%, respectively, of the total billed amount in 2023. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 27 – Financial Assets and Financial Liabilities.*

Trade Receivables – Energy Generated

Trade receivables – Energy generated represent non-interest-bearing outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the *WESM* by power generation subsidiaries. Normal credit term is 15 to 30 days from the date of receipt of billing.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Finserve*, *Comstech, eSakay* and *Spectrum* for construction, engineering, consulting and related manpower, light rail maintenance, telecommunications and data transport, e-transactions and bills collection, tellering and e-business development, energy systems management and harnessing renewable energy to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

See *Note 11 – Financial and Other Noncurrent Assets*.

14. Inventories

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Materials and supplies:		
At cost	**₱14,445**	₱12,142
At net realizable value ("*NRV*")	**13,506**	11,180
Materials and supplies at lower of cost or *NRV*	**₱13,506**	₱11,180

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱939 million and ₱962 million as at March 31, 2024 and December 31, 2023, respectively. No item of inventory has been written off for the three months ended March 31, 2024 and 2023.

See *Note 25 – Expenses and Income.*

15. Financial and Other Current Assets

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*11 and 27*	**₱4,133**	₱7,533
Short-term investments		**939**	11
Current portion of advance payments to a supplier	*27*	**200**	197
Nonfinancial assets:			
Input *VAT*		**4,807**	5,155
Prepayments		**4,659**	4,386
Prepaid tax		**2,099**	2,029
Others		**1,136**	1,084
		₱17,973	₱20,395

16. Equity

Common Stock

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(In millions, except par value)	
Authorized number of shares- ₱10 par value per share	**1,250**	1,250
Issued and outstanding - number of shares	**1,127**	1,127

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

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 40,852 and 40,960 shareholders of *MERALCO*'s common shares as at March 31, 2024 and December 31, 2023, 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 ₱76,853 million and ₱75,067 million as at March 31, 2024 and

December 31, 2023, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting period.

The following are the cash dividends declared on common shares for the three months ended March 31, 2024 and 2023:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
February 26, 2024	March 27, 2024	April 24, 2024	₱11.24	₱12,663
February 27, 2023	March 29, 2023	April 26, 2023	11.03	12,430

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*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities - long-term debt	**₱62,807**	₱62,272
Current portion of interest-bearing financial liabilities:		
Long-term debt	**8,005**	8,126
Redeemable preferred stock	**1,465**	1,465
	9,470	9,591
	₱72,277	₱71,863

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, 2024 and December 31, 2023. 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, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
MERALCO		
₱10.0 Billion Term Loan	**₱9,900**	₱9,900
₱7.2 Billion Note	**3,960**	3,960
12-year Puttable Bonds	**2,868**	2,868
MGen Group		
₱18.0 Billion Term Loan	**16,740**	16,740
₱11.6 Billion Term Loan	**9,891**	10,132
₱5.8 Billion Term Loan	**4,350**	4,350
₱4.5 Billion Term Loan	**3,450**	3,535
₱3.0 Billion Term Loan	**2,804**	2,804
₱2.7 Billion Term Loan	**2,650**	2,350
₱3.5 Billion Term Loan	**2,530**	2,692
₱2.2 Billion Term Loan	**1,860**	1,936
₱3.4 Billion Term Loan	**1,199**	1,199
₱1.5 Billion Term Loan	**307**	307
Radius		
₱700 Million Term Loan	**700**	700
$2.9 Million Medium-Term Loan	**17**	38
₱30 Million Term Loan	**15**	9
MServ		
₱600 Million Term Loan	**330**	420
MIESCOR		
₱7.6 Billion Term Loan	**7,557**	6,749
₱375 Million Term Loan	**241**	241
Total long-term debt	**71,369**	70,930
Less unamortized debt issue costs	**818**	808
	70,551	70,122
Redeemable Preferred Stock	**1,465**	1,465
Fair value adjustment in relation to the purchase of *GBPC*	**261**	276
	72,277	71,863
Less current portion	**9,470**	9,591
Long-term portion of interest-bearing financial liabilities	**₱62,807**	₱62,272

The scheduled maturities of the outstanding long-term debt at nominal values as at March 31, 2024 are as follows:

	Amount in millions
Less than one (1) year	₱8,193
One (1) year up to two (2) years	7,503
More than two (2) years up to three (3) years	5,009
More than three (3) years up to four (4) years	4,912
More than four (4) years up to five (5) years	4,581
More than five (5) years	41,171
	₱71,369

MERALCO

₱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.

₱7.2 Billion Note

The remaining outstanding amount of *MERALCO*'s ₱7,200 million, 10-year Fixed Rate Note Facility is due in April 2024.

12-year Puttable Bonds

The 12-year Puttable Bond is the balance of the total ₱18,000 million Puttable Bonds issued in December 2013, puttable on the 10th year. On December 13, 2023, *MERALCO* redeemed ₱4,132 million Puttable Bonds.

MGen Group

₱18 Billion Term Loan

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

₱11.6 Billion Term Loan

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

₱5.8 Billion Term Loan

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

₱4.5 Billion Term Loan

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

₱3.0 Billion Term Loan

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

₱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.

₱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.

₱2.2 Billion Term Loan

Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*") has a ₱2,225 million, 12-year term loan due in July 2031. The principal and related interest are payable semi-annually.

₱3.4 Billion Term Loan

Solar Philippines Calatagan Corporation ("*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.

₱1.5 Billion Term Loan

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

Radius

₱700 Million Term Loan

Radius has a ₱700 million, 7-year term loan. The principal and interest are payable quarterly until August 2029.

$2.9 Million Medium-Term Loan

Radius has a $2.9 million, medium-term loan. The principal is payable quarterly until July 2024.

₱30 Million Term Loan

Radius' ₱21 million and ₱9 million loans are payable quarterly until May 2024 and November 2024, respectively.

MServ

₱600 Million Term Loan

MServ obtained a ₱600 million, 10-year fixed rate term loan. The principal is payable based on pre-agreed amortization until 2027 while the related interest is payable semi-annually.

MIESCOR

₱7,557 Million Term Loan

MIDC drew ₱7,557 million out of the total ₱27,000 million floating rate term loan facility. The principal and related interest are payable quarterly until October 2037.

₱375 Million Term Loan

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

eSakay

₱27 Million Term Loan Facility

eSakay has a ₱27 million, seven (7)-year fixed rate term loan, with principal amount payable until November 2026. On August 15, 2023, *MERALCO* sold its 100% equity interest in eSakay to On-Us Solutions, Inc.

The annual interest rates of the interest-bearing financial liabilities range from 4.50% to 7.96% as at March 31, 2024 and December 31, 2023.

Debt Covenants

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

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 obligation. *GBPC* and *MIDC* are prohibited from entering into merger or consolidation with other corporation, unless *GBPC* and *MIDC* are the surviving entities. *MIDC*'s loan agreement requires *MIDC* to mortgage certain real properties and for its shareholders to pledge the shares of stocks in *MIDC* as security for the loans. *First Bulacan* has restriction on 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.

As at March 31, 2024 and December 31, 2023, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱810 million and ₱747 million for the three months ended March 31, 2024 and 2023, respectively.

Unamortized Debt Issue Costs

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

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Balance at beginning of period		**₱808**	₱964
Additions		**25**	–
Amortization charged to interest and other financial charges	*24*	**(15)**	(195)
Effect of consolidation of *SPNEC*	*3*	**–**	39
Balance at end of period		**₱818**	₱808

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, 2024 (Unaudited)	December 31, 2023 (Audited)
Balance at beginning of period	**146,510,496**	146,662,341
Redemptions	**(21,150)**	(151,845)
Balance at end of period	**146,489,346**	146,510,496

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement*,* which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR,* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. Customers' Deposits

This account consists of:

	March 31, 2024 (Unaudited)			December 31, 2023 (Audited)		
	Current Portion (see *Note 22*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 22*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,603**	**₱32,806**	**₱35,409**	₱2,463	₱34,128	₱36,591
Meter deposits	**317**	**–**	**317**	317	–	317
	₱2,920	**₱32,806**	**₱35,726**	₱2,780	₱34,128	₱36,908

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the *DU* are required to pay a deposit, equivalent to the estimated monthly bill calculated based on applied load. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

Under the amended *DSOAR,* which became effective on April 1, 2010, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation by the *ERC.*

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

On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the provisions on bill deposits in the Magna Carta be declared as illegal and void and that *MERALCO* and other *DU*s be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO*.

MERALCO filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG*.

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by the *OSG* and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC*, *MERALCO*, and *COA* dated November 10, 2020. As at April 29, 2024, the case is still pending before the *SC*.

The following are the movements of the bill deposits account:

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Balance at beginning of period		**₱36,591**	₱34,515
Additions		**1,002**	3,428
Refunds		**(2,184)**	(1,352)
Balance at end of period		**35,409**	36,591
Less portion maturing within one period	*22*	**2,603**	2,463
Noncurrent portion of bill deposits and related interests		**₱32,806**	₱34,128

Interest expense on bill deposits amounted to ₱5 million for each of the three months ended March 31, 2024 and 2023.

Meter Deposits

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

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

MERALCO implemented refund of said deposits to its customers based on *ERC* Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

In July 2016, *MERALCO* deposited the amount equivalent to the unclaimed meter deposits in a single savings account. As at April 29, 2024, the matter is still pending with the *ERC*.

19. Provisions

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

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Balance at beginning of period		**₱71,669**	₱63,321
Provisions for the period – net		**656**	7,573
Settlements		**(191)**	(10,299)
Reclassifications	*22*	**–**	11,074
Balance at end of period		**72,134**	71,669
Less current portion	*22*	**61,678**	60,319
Noncurrent portion of provisions		**₱10,456**	₱11,350

The balance of provisions represents estimated amount of losses, over-recoveries and claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

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. *MERALCO* continues to process refunds as the eligible customers present their required supporting documents until the *ERC* directs otherwise and approves *MERALCO*'s proposed scheme on how the unclaimed refund shall be utilized for purposes of reducing the distribution rates of consumers.

In 2021, the *ERC* through its appointed consultant conducted an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at April 29, 2024, *MERALCO* is awaiting further action of the *ERC* on the matter.

See *Note 2 – Rate Regulations*.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks normally due within one (1) year. Annual interest rates were up to 6.55% and 4.00% as at March 31, 2024 and December 31, 2023, respectively.

Interest expense on notes payable amounted to ₱295 million and ₱286 million for the three months ended March 31, 2024 and 2023, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Trade accounts payable	*23 and 24*	**₱72,570**	₱75,983
Provisions	*2, 19 and 29*	**61,678**	60,319
Taxes		**19,036**	20,602
Accrued expenses:			
Services		**3,138**	3,750
Employee benefits		**2,369**	3,190
Interest	*17*	**1,198**	729
Others		**1,952**	1,807
Current portions of:			
Bill deposits and related interests	*18*	**2,603**	2,463
Deferred income		**2,431**	976
Meter deposits and related interests	*18*	**317**	317
Refundable service extension costs		**1,777**	1,777
Dividends payable on:			
Common stock	*16*	**15,241**	3,219
Redeemable preferred stock	*17*	**248**	248
Payable to customers		**6,115**	5,363
Universal charges payable	*32*	**3,116**	2,801
Lease liability		**2,485**	2,679
Payroll related remittances		**603**	652
Regulatory fees payable		**417**	340
FiT-All payable	*32*	**367**	197
Other current liabilities		**11,253**	4,291
		₱208,914	₱191,703

Trade Accounts Payable

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

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

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

Taxes

Taxes represent pass-through *VAT*, output *VAT*, withholding taxes and energy taxes payable. Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, “Right to Extension of Lines and Facilities”, requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at March 31, 2024 and December 31, 2023, the noncurrent portion of refundable service extension costs of ₱3,987 million and ₱4,051 million, respectively, is presented as “Refundable service extension costs - net of current portion” account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DU*s. These are charges imposed to recover stranded debts, stranded contract costs of *NPC*, stranded contract costs of eligible contracts of *DU*s, missionary electrification and environment charges. *DU*s remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts credited to customers’s bills or paid by customers in advance and which are being applied to their current consumption.

23. Related Party Transactions

The *MERALCO Group* has approval process and limits on the amount and extent of related party transactions.

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant period. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. (“*PLDT*”)

MERALCO has a pole attachment contract with *PLDT* similar to pole attachment contracts of *MERALCO* with third parties/ telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable positions exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups with operations within the franchise area, namely, *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries and affiliates. The rates charged to related parties 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. and Digitel Mobile Philippines, Inc., for its fixed and wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Lease Agreement with Robinsons Land Corporation ("RLC")

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

Purchase of Goods and Services

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

PSAs

As discussed in Note 30, *MERALCO* has long-term *PSAs* with *SBPL* and *NSEC*.

Following is a summary of related party transactions for the three months ended March 31, 2024 and 2023 and the outstanding balances as at March 31, 2024 and December 31, 2023:

	Amount of Transactions		Outstanding Receivable (Liability)			
	For the Three Months Ended March 31					
Category	**2024**	2023	**March 31, 2024**	December 31, 2023	Terms	Conditions
	(Amounts in millions)					
Sale of electricity:						
JG Summit Group	**₱994**	₱1,195	**₱1,834**	**₱856**	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**302**	410	**69**	**69**	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**146**	134	**47**	**45**	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**239**	210	**(117)**	**(293)**	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – *Aclara Meters*	**58**	82	**(14)**	(7)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - *Colinas Verdes Hospital Managers*	**59**	53	**(14)**	**(9)**	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**173**	171	**779**	**6**	Advance payment	Unsecured, no impairment

Category	Amount of Transactions For the Three Months Ended March 31 2024	2023	Outstanding Receivable (Liability) March 31, 2024	December 31, 2023	Terms	Conditions
	(Amounts in millions)					
Purchases of wireline and wireless services - *PLDT Group*	**₱37**	₱18	**(₱18)**	(₱2)	30-day; noninterest-bearing	Unsecured
Lease of office premises - *RLC*	**14**	39	**–**	–	30-day; noninterest-bearing	Unsecured
Puchases of insurance premium - *MPioneer*	**277**	262	**(2)**	(4)	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	**52**	32	**–**	–	None	None
Purchases of power:						
SBPL	**4,307**	7,980	**(2,060)**	(2,641)	30-day; noninterest-bearing	Unsecured
NSEC	**315**	8	**(43)**	–	30-day; noninterest-bearing	Unsecured

Transaction with MERALCO Retirement Benefits Fund (“*Retirement Fund*”)

*MERALCO’*s Retirement *Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy.* The fair value of *RP Energy*’s common shares cannot be reliably measured as these are not traded in the financial market. As at March 31, 2024 and December 31, 2023, the fair value of the total assets being managed by the *Fund* amounted to ₱30.6 billion and ₱30.9 billion, respectively.

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

Compensation of Key Management Personnel

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

	Unaudited For the Three Months Ended March 31 2024	2023
	(Amounts in millions)	
Short-term employee benefits	**₱296**	₱271
Long-term employee incentives and retirement benefits	**92**	70
Total compensation to key management personnel	**₱388**	₱341

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

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

As at March 31, 2024, 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, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Contract assets:			
Unbilled receivables	*13*	**₱4,321**	₱3,028
Under-recoveries of pass-through charges - net	*11*	**10,199**	10,434
Contract liabilities:			
Non-refundable liability related to asset funded by customers		**905**	898
Over-recoveries from transmission, lifeline subsidy and *SL* charges - net		**1,500**	931

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱38 million and ₱36 million for the three months ended March 31, 2024 and 2023, respectively.

Purchased Power

The details of purchased power are as follows:

	Unaudited For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
Generation costs	**₱65,997**	₱68,604
Transmission costs	**10,530**	10,016
	₱76,527	₱78,620

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

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

The details of purchased power follow:

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	Unaudited For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
First Gas Power Corporation ("*FGPC*") and FGP Corp. ("*FGP*")	**₱17,561**	₱17,049
South Premiere Power Corporation ("*SPPC*")	**12,581**	1,683
NGCP	**10,542**	10,027
IEMOP	**9,959**	17,476
QPPL	**4,639**	4,955
SBPL	**4,307**	7,980
Therma Luzon, Inc. ("*TLI*")	**4,079**	877
San Miguel Energy Corporation ("*SMEC*")	**2,833**	3,970
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**2,507**	4,036
First NatGas Power Corp. ("*FNPC*")	**2,461**	3,452
AC Energy Philippines, Inc. ("*AC Energy*")	**2,329**	2,389
Southwest Luzon Power Generation Corporation	**537**	1,329
Energy Development Corporation ("*EDC*")	**496**	624
NSEC	**373**	8
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**176**	176
Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")	**115**	106
Others	**1,032**	2,483
	₱76,527	₱78,620

Generation and transmission costs are net of company use amounting to ₱128 million and ₱115 million for the three months ended March 31, 2024 and 2023, respectively.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at March 31, 2024 and December 31, 2023, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱1,035 million and ₱769 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**Unaudited**	
		For the Three Months Ended March 31	
		2024	2023
		(Amounts in millions)	
Salaries, wages and related employee benefits		**₱3,868**	₱3,671
Retirement benefits	*26*	**389**	265
Other post-employment benefits	*26*	**29**	26
		₱4,286	₱3,962

Depreciation and Amortization

	Note	**Unaudited**	
		For the Three Months Ended March 31	
		2024	2023
		(Amounts in millions)	
Utility plant, generation plant and others	*7*	**₱4,030**	₱3,647
Intangible assets	*10*	**499**	406
Investment properties	*9*	**1**	1
		₱4,530	₱4,054

Other Expenses

		Unaudited For the Three Months Ended March 31	
	Note	**2024**	2023
		(Amounts in millions)	
Materials used	*14*	**₱598**	₱958
Rent and utilities		**428**	370
Insurance		**172**	166
Transportation and travel		**128**	114
Advertising		**83**	44
Communication	*22*	**54**	46
Others		**137**	2,130
		₱1,600	₱3,828

26. Long-term Employee Benefits

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Retirement benefits liability	**₱7,591**	**₱7,177**
Long-term incentives	**1,799**	**1,440**
Other post-employment benefits	**1,653**	**1,646**
	₱11,043	**₱10,263**

Defined Benefit Retirement Plans

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

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

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

	Unaudited For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
Current service costs	**₱257**	₱223
Net interest costs	**111**	25
Net retirement benefits expense	**₱368**	₱248

Retirement Benefits Liability

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Defined benefit obligation	**₱38,165**	₱38,029
Fair value of plan assets	**(30,574)**	(30,852)
Net retirement benefits liability	**₱7,591**	₱7,177

Changes in the net retirement benefits liability are as follows:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Retirement benefits liability at beginning of period	**₱7,177**	₱1,571
Net retirement benefits expense	**368**	1,006
Amounts recognized in *OCI*	**57**	4,835
Contributions by employer	**(11)**	(235)
Net retirement benefits liability at end of period	**₱7,591**	₱7,177

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Defined benefit obligation at beginning of period	**₱38,029**	₱33,143
Interest costs	**551**	2,126
Current service costs	**257**	911
Benefits paid	**(729)**	(2,669)
Actuarial losses due to:		
Changes in financial assumptions	**57**	3,961
Experience adjustments	**–**	557
Defined benefit obligation at end of period	**₱38,165**	₱38,029

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Fair value of plan assets at beginning of period	**₱30,852**	₱31,572
Interest income	**440**	2,031
Contributions by employer	**11**	235
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**–**	(317)
Benefits paid	**(729)**	(2,669)
Fair value of plan assets at end of period	**₱30,574**	₱30,852

The Board of Trustees ("*BoT*") of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, none of whom are beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach of investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT* periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amount in millions)	
Investments quoted in active markets:		
Government securities	**₱11,042**	₱10,404
Bonds and commercial notes	**8,192**	8,892
Marketable equity securities	**7,530**	7,256
Real property	**1,927**	1,927
Receivables	**1,389**	1,503
Cash and cash equivalents	**494**	869
Others	**–**	1
Fair value of plan assets	**₱30,574**	₱30,852

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	
	2024	2023
	(Amounts in millions)	
Interest costs	**₱25**	₱23
Current service costs	**4**	3
	₱29	₱26

Other Long-term Post-employment Benefits Liability

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Balance at beginning of period	**₱1,646**	₱1,316
Interest costs	**25**	94
Current service costs	**4**	11
Benefits paid	**(22)**	(92)
Actuarial losses due to change in assumptions	**–**	317
Balance at end of period	**₱1,653**	₱1,646

Actuarial Assumptions

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

Annual discount rate	**6.05%-6.13%**
Future range of annual salary increases	**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	₱4,690
One (1) year up to five (5) years	17,913
More than five (5) years up to 10 years	16,038
More than 10 years up to 15 years	14,633
More than 15 years up to 20 years	16,474
More than 20 years	34,818

Risk

The *Retirement Fund* is exposed to the following risks:

<u>Credit Risk</u>
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*.

<u>Share Price Risk</u>
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.

<u>Liquidity Risk</u>
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 ₱21 million and ₱17 million for the three months ended March 31, 2024 and 2023, 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	
	2024	2023
	(Amounts in millions)	
Expense recognized for defined benefit plans	**₱368**	₱248
Expense recognized for defined contribution plan	**21**	17
Retirement benefits expense	**₱389**	₱265

Long-term Incentive Plan ("*LTIP*")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO Group*'s achievement of specified metrics approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as employees' attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at amortized cost. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Material Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at March 31, 2024				
Noncurrent				
Financial and other noncurrent assets	**₱9,839**	**₱4,481**	**₱–**	**₱14,320**
Current				
Cash and cash equivalents	**94,523**	**–**	**–**	**94,523**
Trade and other receivables	**46,336**	**–**	**–**	**46,336**
Financial and other current assets	**5,272**	**–**	**–**	**5,272**
Total Financial Assets	**₱155,970**	**₱4,481**	**₱–**	**₱160,451**
Liabilities as at March 31, 2024				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱62,807**	**₱62,807**
Customers' deposits - net of current portion	**–**	**–**	**32,806**	**32,806**
Refundable service extension costs - net of current portion	**–**	**–**	**3,987**	**3,987**
Current				
Notes payable	**–**	**–**	**27,883**	**27,883**
Trade payables and other current liabilities	**–**	**–**	**106,781**	**106,781**
Customers' refund	**–**	**–**	**2,839**	**2,839**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**9,470**	**9,470**
Total Financial Liabilities	**₱–**	**₱–**	**₱246,573**	**₱246,573**

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2023				
Noncurrent				
Financial and other noncurrent assets	₱10,086	₱4,375	₱–	₱14,461
Current				
Cash and cash equivalents	82,789	–	–	82,789
Trade and other receivables	45,390	–	–	45,390
Financial and other current assets	7,741	–	–	7,741
Total Financial Assets	₱146,006	₱4,375	₱–	₱150,381
Liabilities as at December 31, 2023				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱62,272	₱62,272
Customers' deposits - net of current portion	–	–	34,128	34,128
Refundable service extension costs - net of current portion	–	–	4,051	4,051
Current				
Notes payable	–	–	27,583	27,583
Trade payables and other current liabilities	–	–	101,516	101,516
Customers' refund	–	–	2,846	2,846
Current portion of interest-bearing long-term financial liabilities	–	–	9,591	9,591
Total Financial Liabilities	₱–	₱–	₱241,987	₱241,987

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, 2024 (Unaudited)		December 31, 2023 (Audited)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Debt securities at amortized cost	**₱13,939**	**₱13,399**	₱17,391	₱17,007
Financial assets at *FVOCI*	**4,481**	**4,481**	4,375	4,375
Financial assets at amortized cost - Advance payments to a supplier	**233**	**233**	425	395
	₱18,653	**₱18,113**	₱22,191	₱21,777
Financial liabilities				
Financial liabilities carried at amortized cost - Interest-bearing-long-term financial liabilities	**₱70,812**	**₱72,704**	₱70,398	₱72,157

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 5.81% and 6.39% as at December 31, 2023 and 2022, respectively.

Financial Assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt Securities at Amortized Cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amounts of bill deposits approximate their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 5.60% to 6.10% and 5.43% to 5.88% as at March 31, 2024 and December 31, 2023, 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, 2024 (Unaudited)				December 31, 2023 (Audited)			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Advance payments to a supplier	**₱–**	**₱233**	**₱–**	**₱233**	₱–	₱395	₱–	₱395
Financial assets at *FVOCI*	**4,481**	**–**	**–**	**4,481**	4,375	–	–	4,375
Debt securities at amortized cost	**13,399**	**–**	**–**	**13,399**	17,007	–	–	17,007
	₱17,880	**₱233**	**₱–**	**₱18,113**	₱21,382	₱395	₱–	₱21,777
Financial liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱72,704**	**₱–**	**₱72,704**	₱–	₱72,157	₱–	₱72,157

For the three months ended March 31, 2024 and 2023, 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 *GBPC* and its subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and its subsidiaries' loans which bear fixed interest rates are subject to repricing after a minimum of five (5) years for *CEDC* and *PEDC* and seven (7) years for *TPC*.

The following table sets out the maturity profile of the financial instruments that are exposed to interest rate risk (exclusive of debt issuance costs):

	Within 1 Year	Over 1–2 Years	Over 2–3 Years	Over 3–4 Years	Over 4–5 Years	More than 5 Years	Total
				(Amounts in millions)			
March 31, 2024 (Unaudited)	**₱1,085**	**₱1,124**	**₱1,264**	**₱1,350**	**₱1,387**	**₱20,326**	**₱26,536**
December 31, 2023 (Audited)	1,084	1,086	1,237	1,344	1,368	20,662	26,781

Floating interest rate of bank loans is repriced at intervals of less than one year. The other financial liabilities of the *MERALCO Group* that are not included in the foregoing have fixed interest rate and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the three months ended March 31, 2024 and 2023 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.

	March 31, 2024 (Unaudited)		December 31, 2023 (Audited)	
	Increase (Decrease) in Basis Points	**Effect on Income before Income Tax**	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
		(Amounts in millions)		
Floating rate loans from various banks	**+75**	**(₱199)**	+75	(₱201)
	(75)	**199**	(75)	201

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, 2024 and December 31, 2023, translated to Philippine peso at ₱56.24 and ₱55.37 to US$1, respectively.

	March 31, 2024 (Unaudited)		December 31, 2023 (Audited)	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$132**	**₱7,429**	$110	₱6,118
Debt securities at amortized cost	**4**	**225**	4	221
Financial assets at *FVOCI*	**32**	**1,815**	32	1,754
Advance payments to a supplier	**4**	**200**	7	395
Short-term investments	**22**	**1,277**	46	2,531
	194	**10,946**	199	11,019
Financial liabilities:				
Trade payables and other liabilities	**(5)**	**(308)**	(12)	(684)
Interest-bearing long-term financial liabilities	**–**	**–**	(1)	(38)
	(5)	**(308)**	(13)	(722)
	$189	**₱10,638**	$186	₱10,297

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

	March 31, 2024 (Unaudited)		December 31, 2023 (Audited)	
	Appreciation (Depreciation) of U.S. Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets and financial liabilities	**+5**	**₱532**	+5	₱515
	–5	**(532)**	–5	(515)

Foreign exchange gain or loss for the period is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances as at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in world prices or index of the commodity. The exposure of *MERALCO* and *Clark Electric* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *Clark Electric*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The *MERALCO Group* is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are groupings of contract status (e.g. active, terminated, etc.). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* customer segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECL*s involved significant estimation. The amount of *ECL*s is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

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

GBPC and 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*"), consumer price index ("*CPI*") and unemployment rate in the locations in which they sell their services 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 ₱500,000 per bank account.

The *MERALCO Group* invests only in quoted debt securities with very low credit risk. The *MERALCO Group*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

MERALCO, Clark Electric and *Shin Clark,* as *DU*s, requires their captive customers to pay bill deposit equivalent to their estimated monthly bill. Such deposit is updated annually based on the historical 12-month average bill. The bill deposits serve to guarantee payment of bills by a customer.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱38,491**	₱29,892
Cash equivalents	**55,974**	52,685
Trade and other receivables:		
Electricity sold	**32,332**	33,131
Energy generated	**5,681**	5,453
Service contracts	**1,571**	555
Nontrade receivables	**6,752**	6,251
Other current financial assets:		
Debt securities at amortized cost	**4,133**	7,533
Current portion of advance payments to a supplier	**200**	197
Short-term investments	**939**	11
Other noncurrent financial assets:		
Debt securities at amortized cost	**9,806**	9,858
Financial assets at *FVOCI*	**4,481**	4,375
Advance payments to a supplier	**33**	228
	₱160,393	₱150,169

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, 2024 (Unaudited)					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
			(Amounts in millions)			
Cash in banks and cash equivalents	**₱94,465**	**₱–**	**₱–**	**₱–**	**₱–**	**₱94,465**
Trade and other receivables:						
Electricity sold	**5,296**	**3,325**	**14,093**	**9,618**	**6,116**	**38,448**
Energy generated	**5,680**	**–**	**–**	**1**	**1,274**	**6,955**
Service contracts	**219**	**–**	**–**	**1,352**	**781**	**2,352**
Nontrade receivables	**4,243**	**–**	**–**	**2,509**	**458**	**7,210**
Financial and other current assets:						
Debt securities at amortized cost	**4,133**	**–**	**–**	**–**	**–**	**4,133**
Current portion of advance payments to a supplier	**200**	**–**	**–**	**–**	**–**	**200**
Short-term investments	**939**	**–**	**–**	**–**	**–**	**939**
Financial and other noncurrent assets:						
Debt securities at amortized cost	**9,806**	**–**	**–**	**–**	**–**	**9,806**
Financial assets at *FVOCI*	**4,481**	**–**	**–**	**–**	**–**	**4,481**
Advance payments to a supplier	**33**	**–**	**–**	**–**	**–**	**33**
	₱129,495	**₱3,325**	**₱14,093**	**₱13,480**	**₱8,629**	**₱169,022**

	December 31, 2023 (Audited)					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
			(Amounts in millions)			
Cash in banks and cash equivalents	₱82,577	₱–	₱–	₱–	₱–	₱82,577
Trade and other receivables:						
Electricity sold	7,342	3,065	12,958	9,766	5,557	38,688
Energy generated	5,452	–	–	1	1,276	6,729
Service contracts	332	–	–	223	893	1,448
Nontrade receivables	5,203	–	–	1,048	454	6,705
Financial and other current assets:						
Debt securities at amortized cost	7,533	–	–	–	–	7,533
Current portion of advance payments to a supplier	197	–	–	–	–	197
Short-term investments	11	–	–	–	–	11
Financial and other noncurrent assets:						
Debt securities at amortized cost	9,858	–	–	–	–	9,858
Financial assets at *FVOCI*	4,375	–	–	–	–	4,375
Advance payments to a supplier	228	–	–	–	–	228
	₱123,108	₱3,065	₱12,958	₱11,038	₱8,180	₱158,349

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, 2024 (Unaudited)				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
	(Amounts in millions)				
Notes payable	**₱901**	**₱27,314**	**₱–**	**₱–**	**₱28,215**
Trade payables and other current liabilities	**102,084**	**–**	**–**	**–**	**102,084**
Customers' refund	**2,839**	**–**	**–**	**–**	**2,839**
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	**1,713**	**2,999**	**19,316**	**8,179**	**32,207**
Floating rate borrowings	**293**	**1,259**	**13,044**	**37,195**	**51,791**
Redeemable preferred stock	**1,465**	**–**	**–**	**–**	**1,465**
Customers' deposits	**826**	**2,094**	**7,048**	**25,758**	**35,726**
Refundable service extension costs	**345**	**1,432**	**3,303**	**684**	**5,764**
Non-refundable liability related to asset funded by customers	**127**	**127**	**127**	**524**	**905**
Total undiscounted financial liabilities	**₱110,593**	**₱35,225**	**₱42,838**	**₱72,340**	**₱260,996**

	December 31, 2023 (Audited)				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱265	₱27,685	₱–	₱–	₱27,950
Trade payables and other current liabilities	96,959	–	–	–	96,959
Customers' refund	2,846	–	–	–	2,846
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	4,594	3,151	19,482	8,193	35,420
Floating rate borrowings	526	1,738	12,846	37,009	52,119
Redeemable preferred stock	1,465	–	–	–	1,465
Customers' deposits	970	1,810	7,342	26,786	36,908
Refundable service extension costs	345	1,432	3,303	748	5,828
Non-refundable liability related to asset funded by customers	127	127	127	517	898
Total undiscounted financial liabilities	₱108,097	₱35,943	₱43,100	₱73,253	₱260,393

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 ₱2,603 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2023.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions, except debt to equity ratio)	
Long-term debt	**₱70,812**	₱70,398
Notes payable	**27,883**	27,583
Redeemable preferred stock	**1,465**	1,465
Debt (a)	**₱100,160**	₱99,446
Equity attributable to the holders of the parent (b)	**₱119,276**	₱122,241
Debt to equity ratio(a)/(b)	**0.84**	0.81

28. **Income Taxes and Local Franchise Taxes**

Income Taxes

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

	Note	**March 31, 2024 (Unaudited)**	December 31, 2023 (Audited)
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*19 and 22*	**₱26,166**	₱26,097
Unfunded retirement benefits cost and unamortized past service cost	*26*	**2,721**	2,639
Allowance for expected credit losses	*13*	**1,525**	1,385
Accrued employee benefits	*26*	**916**	819
Allowance for excess of cost over net realizable value of inventories	*14*	**117**	117
Decommissioning liability		**91**	99
Others		**1,286**	1,277
		32,822	32,433
Deferred income tax liabilities:			
Fair value of net assets from acquisitions	*3*	**11,081**	7,294
Revaluation increment in utility plant, generation plant and others	*7,9 and 16*	**5,390**	5,408
Actuarial gains	*26*	**995**	995
Capitalized interest		**877**	858
Capitalized duties and taxes deducted in advance		**356**	364
Others		**284**	1,572
		18,983	16,491
		₱13,839	₱15,942

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Deferred income tax assets – net	**₱25,046**	₱24,633
Deferred income tax liabilities – net	**(11,207)**	(8,691)
	₱13,839	₱15,942

Provision for (benefit from) income tax consists of:

	Unaudited	
	For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
Current	**₱1,496**	₱1,654
Deferred	**913**	(137)
	₱2,409	₱1,517

Deferred income tax charged directly to *OCI* amounted to ₱9 million (benefit) and ₱41 million (expense) for the three months ended March 31, 2024 and 2023, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, for the three months ended March 31, 2024 and 2023, and provision for income tax as shown in the consolidated statements of income is as follows:

	Unaudited	
	For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
Income tax computed at statutory tax rate	**₱3,042**	₱2,431
Income tax effects of:		
Interest income subjected to lower final tax rate	**(227)**	(179)
Nondeductible interest expense	**57**	45
Nontaxable income	**(122)**	(141)
Equity in net earnings of associates and joint ventures	**(427)**	(979)
Unrecognized deferred tax assets	**(126)**	56
Others	**212**	284
	₱2,409	₱1,517

MERALCO adopted the optional standard deductions ("*OSD*") in 2023 in lieu of itemized deductions beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

MERALCO's net deferred tax assets which were not recognized as at March 31, 2024 and December 31, 2023 are as follows:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
	(Amounts in millions)	
Deferred tax assets:		
Net operating loss carryover ("*NOLCO*")	**₱2,050**	₱2,426
Provisions for various claims	**311**	311
	₱2,361	₱2,737

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of *NOLCO* of *MGen* amounting to ₱8,199 million and ₱9,704 million as at March 31, 2024 and December 31, 2023, 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 ₱8,199 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2020	December 31, 2025	₱813
December 31, 2021	December 31, 2026	1,743
December 31, 2022	December 31, 2025	3,594
December 31, 2023	December 31, 2026	1,642
March 31, 2024	December 31, 2027	407
		₱8,199

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("*IRR*") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DU*s, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

29. **Contingencies and Legal Proceedings**

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* effectively overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCC*s"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCC*s amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCC*s amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at March 31, 2024 and December 31, 2023, the amount of unissued *TCC*s of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

See *Note 11 – Financial and other Noncurrent Assets.*

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. An *MR* was filed by *MERALCO* and the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these have been submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at April 29, 2024, the case is pending resolution by the *SC*.

LFT Assessments of Municipalities

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

RPT Assessments

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

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, 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*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s during the years prior to the Resolution to address tax arrearages; and (ii) *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at April 29, 2024, the Petition is pending with the *ERC*.

See Note 19 – Provisions.

Mediation with NPC

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

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

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

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

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

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

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

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

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

The parties have filed their respective memoranda. 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. As at April 29, 2024, the case remains pending before the *SC*.

Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at April 29, 2024, *MERALCO* is awaiting further action of the *SC* on the matter.

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

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

PSALM to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

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

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

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

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

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at April 29, 2024, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM's MR*. On October 27, 2015, *MERALCO* received *PSALM's* Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at April 29, 2024, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SPI and Sem-Calaca

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

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC's* Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at April 29, 2024, the Joint Motion to Dismiss is pending resolution by the *ERC*.

Petition for Dispute Resolution with NPC on Premium Charges

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

₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at April 29, 2024, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

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

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

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

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DU*s in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., Team (Philippines) Energy Corporation, PanAsia Energy, Inc. ("*PanAsia*"), and *SPI*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

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

In a letter dated September 25, 2023, *MERALCO* filed a letter with the *ERC* on its proposed implementation of the recovery of the generation charges pertaining to the December 2013 supply month. On January 4, 2024, *MERALCO, IEMOP* and the *ERC* met to discuss *MERALCO*'s proposed implementation of the Decision. As directed by the *ERC*, *MERALCO* and *IEMOP* have completed the reconciliation of the final amount to be recovered, and have sent a joint letter dated March 12, 2024 to the *ERC*. As at April 29, 2024, the same is pending with the *ERC*.

ERC IU Complaint

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

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

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

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

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

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

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

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribune that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the

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

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

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

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

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at April 29, 2024, *MERALCO* is awaiting further action by the *ERC* on the matter.

Ombudsman Cases Against MERALCO Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated

September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudman dismissed the cases.

On January 5, 2024, *MERALCO* received an Order dated January 2, 2024 from the Office of the Ombudsman directing *MERALCO*'s Chairman and *CEO* to file a counter-affidavit, together with the affidavit/s of supporting witnesses and other supporting documents, on the case filed by a certain consumer group against *ERC* and *MERALCO* seeking (a) indictment of *MERALCO*'s Chairman and *CEO* which alleged that there is a violation of certain provisions of *R.A. 3019* and *PD 269*, and (b) a finding that the *ERC* Chairperson is guilty of, among other things, gross misconduct and grave abuse of authority. In said case, the consumer group alleged that there is no basis for *MERALCO* to participate in, and purchase energy at, the *WESM*, given that, among other things, the *WESM* was created to cater to the contestable market. On February 6, 2024, *MERALCO* has filed the relevant counter-affidavit and supporting affidavit to the Office of the Ombudsman. On March 18, 2024, *MERALCO* received the reply-affidavit filed by the consumer group. As at April 29, 2024, *MERALCO* is awaiting further action by the Ombusdman on the matter.

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*

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

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

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

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

Following information from *FGPC* and *FGP* on use of *LNG* as an alternative reliable fuel for the Gas Plants upon expiration of the Gas Sale and Purchase Agreements ("*GSPAs*") of *FGPC* and *FGP* with its Gas Suppliers and to ensure safe, adequate, and reliable supply of fuel throughout the terms of the *PPA*s, *MERALCO* sought confirmation from the *ERC* that the use and recovery from customers of attendant costs of *LNG* of the Gas Plants are allowed. On February 12, 2024, *MERALCO* received a letter from *ERC* informing the former that it is constrained to give clearance with reminder that *MERALCO* may file a separate application to the extent that it finds that the fuel arrangement impacts the previous decision on the matter. On February 19, 2024, *MERALCO* filed an *Omnibus Motion* with the *ERC* praying for confirmation/approval of pass-through/recovery and payment of: (a) *LNG* costs during test and commissioning, (b) *LNG* costs during commercial operations, and (c) Malampaya natural gas costs under the New *GSPA*. Following said *Omnibus Motion,* and upon request of *ERC* to be provided information/documents to aid it in its evaluation of the *Omnibus Motion, MERALCO*, *FGPC* and *FGP* filed several pleadings submitting the information/documents requested by *ERC.* On March 26, 2024, *MERALCO* received an order from the *ERC* (a) allowing use of *LNG* only in case of fuel supply event of force majeure, subject to payment of and recovery from customers based only landed fuel cost, and (b) directing filing of separate application for approval (i) of costs other than the landed fuel cost, and (ii) if *LNG* will be used as primary fuel. The *ERC* likewise stated in its order that pending the filing and the necessary approval by *ERC*, the charges provided in the new *GSPA*, cannot be charged to the consumers and, as such, the rates under the Old *GSPA* shall be applied. On April 2, 2024, *MERALCO* received an order from *ERC* directing submission of additional information/documents from *MERALCO, FGPC* and *FGP.* On April 11, 2024, *MERALCO* received the *Motion for Clarification* of even date filed by *FGPC* and *FGP.* On April 17, 2024, *MERALCO* submitted its *Compliance with Manifestation* with *ERC.* On April 18, 2024, *MERALCO* received the *Submission with Motion for Confidential Treatment of Information* filed by *FGPC* and *FGP.* On April 23, 2024, *MERALCO* filed its Opposition with Motion to Set for Clarificatory Hearing the Motion for Clarification filed by *FGPC* and *FGP*. As at April 29, 2024, parties await further action by the *ERC* on the Motion for Clarification and Opposition (either through an order resolving the issues or setting the case for clarificatory hearing). Meanwhile, parties are simultaneously preparing the separate application directed to be filed by *ERC.*

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. The *PPA* is for a period of 25 years from the start of commercial operations up to May 31, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement ("*TLA*") and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. In January 2018, *QPPL* began repayment of the amount advanced by *MERALCO*. As at December 31, 2023, the remaining amount for repayment by *QPPL* is US$7.125 million. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See *Note 11 – Financial and other Noncurrent Assets.*

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity ("*MEQ*") provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the *U.S.* and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	(In million kwh)	*(In Millions)*
2025	10,757	₱18,719
2026	4,054	6,393
2027	3,376	5,361

PSAs with Privatized Plants and *IPPAs*

MERALCO has a *PSA* with *MPPCL* which was approved by the *ERC* on December 17, 2012, and entered into Supplemental Agreement on April 8, 2016, for the extension of the term of the *PSA* for an additional period of three (3) years up to December 25, 2022.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the *PSA* for five days or until December 30, 2020. Hearings have been completed. As at April 29, 2024, the case, including the motion, is still pending approval of the *ERC*.

The *ERC,* for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA,* as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP.* In its letter dated

July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at April 29, 2024, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

Philippine Power and Development Company ("*Philpodeco*")

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

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco.* This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption from the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that "*xxx [u]nder Section 45(b) of Republic Act No. 9136, ERC is the sole authority mandated to review and approve PSAs*." On May 15, 2020, the *PSA* with *Philpodeco* expired. As at April 29, 2024, the case is pending decision by the *ERC*.

Bacavalley Energy Inc. ("*BEI*")

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

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

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 15, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 15, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for the extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at April 29, 2024, the contract term has expired and the case is pending decision by the *ERC*.

Pangea Green Energy Philippines, Inc. ("*PGEP*")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP,* a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at April 29, 2024, the contract term has expired and the case is pending decision by the *ERC*.

TMO

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

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

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

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

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at April 29, 2024, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to the *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

PEDC

To address the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al*. (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the 2016 20-year *PSA* between *MERALCO* and *PEDC*, a *CSP* was conducted in 2021 to cover the 70 *MW* required contract capacity of *MERALCO* for contract period ending January 25, 2037. The same capacity was won by *PEDC* under the new 15-year *PSA* with *MERALCO* ("*2021 PEDC PSA*"). The application for approval of the new *PSA* with *PEDC* was filed on January 22, 2022. Through a "Notice of Resolution" dated February 23, 2022, the *ERC* granted provisional authority to implement the *2021 PEDC PSA*, and on April 1, 2022, the *2021 PEDC PSA* was implemented by *MERALCO* and *PEDC*.

On March 18, 2022, *PEDC* issued to *MERALCO* a Notice of Change in Circumstance, claiming that the Ukraine-Russia conflict had a significant negative financial impact to *PEDC* due to the price spike in coal prices and if the current situation continues, *PEDC*'s losses will be massive and ruinous unless an adjustment in contract price pursuant to the *2021 PEDC PSA* is implemented. Thus, on April 13, 2022, *PEDC* (joined by *MERALCO*) filed an *Urgent Motion for Contract Price Adjustment* with the *ERC*. Meanwhile, on April 22, 2022, *MERALCO* received *PEDC*'s Notice of Termination, effective six months thereafter, or until October 22, 2022. After the lapse of October 22, 2022, with the Urgent Motion for Contract Price Adjustment still pending with the *ERC, PEDC* has continued with its obligations under the *2021 PEDC PSA*. On December 4, 2022, *PEDC* sent to *MERALCO* a Notice of End of Supply, which formally informed *MERALCO* of *PEDC*'s decision to cease supply of energy beginning midnight of December 5, 2022, because without the *ERC*'s action on the Urgent Motion for Contract Price Adjustment, *PEDC* was already placed in severe financial stress and in danger of breaching its financial covenants. On August 29, 2023, *MERALCO* received the *ERC*'s Decision dated March 8, 2023. In the Decision, the *ERC*, among other things: (a) granted the Urgent Motion for Contract Price Adjustment because it is an implementation/enforcement of the relevant provisions of the *PSA* and the Parties followed the Notice procedures for *CIC* laid down in Article 11.3 of the *PSA*; (b) allowed the recovery of *PEDC*'s actual fuel losses due to *CIC* from April 2, 2022 to September 25, 2022 amounting to ₱884 million, which is to be included in *MERALCO*'s true-up application. In addition, the *ERC* stated that "upon validation of the [*ERC*] with its records and the documents submitted by the [Applicants], it was verified that *PEDC*'s unrecovered amount due to the *CIC* is ₱1.2 billion from April 2, 2022 to December 4, 2022; (c) granted the termination of the *PSA*, effective upon the date of actual termination (i.e. December 5, 2022) because

PEDC's unrecovered amount for April 2 to 25, 2022 already reached ₱75 million, which is above the Threshold Levels provided in the *PSA* for the *CIC* claims; and (d) adopted the rates provisionally approved last February 23, 2022 as the final rate. As at April 29, 2024, *PEDC* has ceased its obligations under its *2021 PEDC PSA* with *MERALCO*.

Relative to the foregoing, on October 3, 2023, *MERALCO* filed a Motion for Leave to Admit Attached Supplemental Application with the *ERC* in its application for confirmation of over/under of pass-through charges. The Supplemental Application prayed that *MERALCO* be allowed to recover the additional amount of ₱884 million pertaining to the recovery of the *CIC* claims of *PEDC*.

On January 16, 2024, *PEDC* filed a Motion for Clarification asking the *ERC* to issue an order declaring that the dispositive portion of the Decision dated March 8, 2023 to include a reference to losses from April 2, 2022 to December 4, 2022 in the amount of ₱ 1.2 billion. As at April 29, 2024, the *ERC* has yet to act on *MERALCO*'s and *PEDC*'s separate motions.

First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Tanauan Corporation formerly Solar Philippines Tanauan Corporation ("*Solar Tanauan*")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase 1

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition,* likewise with respect to *Solar Philippines Tarlac's* motion for the adjustment of the timelines under the *PSA.* In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac.* Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at April 29, 2024, the parties are awaiting *ERC's* final decision on the Joint Application.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval. As at April 29, 2024, the contract term has expired. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. On July 13, 2022, *MERALCO* received the *ERC* Decision approving the joint application subject to certain modifications and conditions. On July 28, 2022, *FNPC* filed a motion seeking reconsideration and to hold in abeyance the implementation of the *ERC* Decision. As at April 29, 2024, the *PSA* has been terminated and parties await further *ERC* action on the *FNPC*'s Motion for Reconsideration and to Hold in Abeyance the Execution of the *ERC* Decision.

Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019 and the hearings with the ERC were concluded last September 2019. As at April 29, 2024, the case is pending decision by the *ERC*.

SPI, AC Energy and SPPC – Baseload PSAs

On September 13, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSA*s for baseload capacity with *AC Energy* for 200 *MW*, *SPI* for 330 *MW*, and *SPPC* for 670 *MW*. On October 22, 2019, the joint applications for approval of these three (3) baseload *PSA*s were filed before the *ERC*. In its letters to *MERALCO,* all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSA*s for baseload capacity with *AC Energy, SPPC and SPI.* On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for baseload capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA*s for baseload capacity with *SPPC* and *SPI.* In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSA*s, until revoked or until the issuance of a final decision by the *ERC.*

On April 18, 2022, *SPI* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom had impacted *SPI* and *SPPC*'s capability to perform their obligations under the respective *PSA*s in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, *SPI* and *SPPC* (joined by *MERALCO*) filed Joint Motions for Price Adjustment with the *ERC*. On June 27, 2022 and July 22, 2022, *SPI*, *SPPC* and *MERALCO* filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the *ERC* conducted a clarificatory hearing with *SPI, SPPC* and *MERALCO* to clarify several issues in connection with the Joint Motions for Price Adjustment. On October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, *SPI* and *SPPC* notified *MERALCO* that it will continue with its obligations under their respective baseload *PSA*s with *MERALCO* under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, *SPI* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction ("*WPI*") with the *CA*, assailing the *ERC* Orders dated September 29, 2022. On November 25, 2022, the *CA* issued a *TRO* for the *SPPC* case, hence, after the *TRO* bond was posted by *SPPC*, on December 7, 2022, *SPPC* stopped accepting *MERALCO* nominations. On January 25, 2023, the *CA* issued a *WPI* for the *SPPC* case, which shall remain in effect until the main case is finally decided. Meanwhile, for the *SPI* case, on January 13, 2023, the *CA* denied *SPI*'s prayer for *TRO* and *WPI*. On February 10, 2023 and February 13, 2023, *ERC* and *MERALCO*, respectively, filed its Motion for Reconsideration of the *CA*'s issuance of *WPI* for the *SPPC* case. On April 3, 2023, the *CA* promulgated its Resolution denying the Motions for Reconsideration filed by *ERC* and *MERALCO* vis-à-vis the *CA*'s issuance of *WPI* for the *SPPC* case. On June 22, 2023, the *ERC* filed with the *SC* a Petition for Certiorari with prayer for *TRO*/*WPI*, assailing the *CA*'s issuance of *WPI* for the *SPPC* case. As of April 29, 2024, the Supreme Court has not issued a *TRO*/*WPI* or Resolution directing *MERALCO* to comment. On July 14, 2023, *MERALCO* received the *CA*'s (13th Division) Joint Decision dated June 27, 2023 (the "Joint Decision"). In the Joint Decision, the *CA*, among others: (a) annulled/set aside the *ERC* Orders which: (i) denied the Joint Motions for Price Adjustment and (ii) directed *MERALCO* to exhaust all options to preserve the *PSA*s; (b) granted *SPPC*'s and *SPI*'s Motions for Price Adjustment (for the period of January 2022 to May 2022), without prejudice to any further requests for price adjustments for June 2022 onwards; and (c) made permanent the Preliminary Injunction issued in favor of *SPPC*. On July 17, 2023, *SPI* informed *MERALCO* of its position that the *CA*'s Joint Decision dissolving the *ERC* Order as immediately executory. Hence, for *SPI*, it will cease supply to *MERALCO* effective immediately. On the same day, *MERALCO* replied that it reserves its right to pursue available legal remedies and to ask *SPI* for time to seek replacement emergency power supply. On July 18, 2023, *SPI* informed *MERALCO* that is only amenable to grant a grace period of five (5) days, or until July 23, 2023, in order for *MERALCO* to seek replacement emergency power supply. Starting on December 7, 2022 and July 24, 2023, *SPPC* and *SPI*, respectively, have ceased supplying energy under its baseload *PSA*s with *MERALCO*. Subsequently, *SPI* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances dated August 18, 2023 claiming additional adjustment. In *MERALCO*'s letters to *SPI* and *SPPC*, both dated January 30, 2024, *MERALCO* advised *SPI* and *SPPC* to avail itself of legal remedies available to it under the law considering that it finds no basis under contract to join *SPI* and *SPPC* in the filing with the *ERC* since the *PSA*s had already been terminated. In a Resolution dated December 28, 2023, the *CA* denied the Motions for Reconsideration ("*MR*") filed by the and Respondent-Intervenor *NASECORE*. Finding no merit in the arguments, the *CA* ruled that the grounds raised by *ERC* and *NASECORE* in their respective *MR*s had already been thoroughly considered by the *CA* in its Joint Decision and it had clearly provided the basis for its rulings, thus, the *MR*s were denied. On February 28, 2024, the *ERC* elevated the matter with the *SC* by filing a Petition for Review on Certiorari. As at April 29, 2024, the *SC* has not issued an order directing respondents *SPPC, SPI, MERALCO* and *NASECORE* to submit their respective comments to the petition.

On October 11, 2023 and (revised on) February 1, 2024, *AC Energy* issued to *MERALCO* a Notice of *CIC*, claiming that the abrupt and extraordinary surge in coal prices in 2022, which worsened due to the Russia and Ukraine conflict and other geopolitical and economic factors related to and/or emanating therefrom had impacted *AC Energy*'s financial capability to perform its obligations under the *PSA* in terms of unexpected surge or increase in fuel cost. Thus, on February 29, 2024, *AC Energy* (joined by *MERALCO*) filed a Joint Motion for Price Adjustment with the *ERC* for its 2019 baseload *PSA* with *MERALCO*, involving ₱618 million. As at April 29, 2024, the *ERC* has yet to act on the Joint Motion for Price Adjustment.

FGHPC, AC Energy and SPPC – Mid-merit PSAs

On September 16, 2019, after being declared the winning power suppliers in a *CSP, MERALCO* signed three (3) *PSA*s for mid-merit capacity with *FGHPC* for 100 *MW, AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these three (3) *PSA*s were filed before the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for mid-merit capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s other *PSA*s for mid-merit capacity with *FGHPC* and *SPPC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSA*s, until revoked or until the issuance of a final decision by the *ERC*. As at April 29, 2024, the three (3) *PSA* applications are pending final decision by the *ERC*.

On October 11, 2023 and (revised on) February 1, 2024, *AC Energy* issued to *MERALCO* a Notice of *CIC*, claiming that the abrupt and extraordinary surge in coal prices in 2022, which worsened due to the Russia and Ukraine conflict and other geopolitical and economic factors related to and/or emanating therefrom had impacted *AC Energy*'s financial capability to perform its obligations under the *PSA* in terms of unexpected surge or increase in fuel cost. Thus, on February 29, 2024, *AC Energy* (joined by *MERALCO*) filed a Joint Motion for Price Adjustment with the *ERC* for its 2019 mid-merit *PSA* with *MERALCO*, involving ₱87 Million. As at April 29, 2024, the *ERC* has yet to act on the Joint Motion for Price Adjustment.

Excellent Energy Resources, Inc. ("EERI") and MPPCL - Baseload PSAs

On March 2, 2021, after being declared the winning power suppliers in a *CSP* for 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) *PSAs* with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, and with *MPPCL* with commercial operations date in May 2025 for 600 *MW*. The joint applications for approval of *MERALCO*'s *PSA*s with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. On March 17, 2023, *MERALCO* received Notices of Termination from *EERI* and *MPPCL* informing *MERALCO* of their decision to terminate the *PSA*s effective fifteen (15) days from receipt of said notices. On April 14, 2023, *EERI* and *MPPCL* filed notices of withdrawal of their joint applications with the *ERC*, notifying the *ERC* that they intend to withdraw said joint applications, and (assuming without conceding that such notices are not deemed by the *ERC* sufficient to cause the withdrawal of said joint applications), praying that the *ERC* approve the withdrawal of the joint application. In its Order dated March 30, 2023, the *ERC* directed *MERALCO* to provide information to the *ERC* which includes, among other things, whether it had accepted or disputed the Notices of Termination. On April 23, 2023, *MERALCO* filed its Compliance with the *ERC*. On October 12, 2023, *MERALCO* received separate Orders from the *ERC* granting withdrawal of each of the Joint Applications. As at April 29, 2024, the Joint Applications are withdrawn.

TSPI

On October 24, 2022, following two (2) failed *CSP*s*, MERALCO* executed a *PSA* with *TSPI* for 850 *MW* Renewable Energy mid-merit capacity with commercial operations dates in February 2026 for 600 *MW* and February 2027 for 250 *MW*. On February 15, 2023, the joint application for approval of *MERALCO*'s *PSA* with *TSPI* was filed with the *ERC*. On August 10, 2023, *MERALCO* received the *ERC*'s Notice of Resolution granting final authority to implement the *PSA,* subject to certain conditions and modifications. On December 12, 2023, *MERALCO* received a copy of *ERC*'s formal Decision dated August 8, 2023. The *PSA* is for a period of 20 years from the start of commercial operations.

EERI, GNPower Dinginin Ltd. Co. ("GNPD") and Mariveles Power Generation Corporation ("MPGC") – 2024 Baseload PSAs

On February 5, 2024, after being declared the winning power suppliers in a *CSP* for 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed three (3) *PSA*s with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, with *GNPD* with commercial operations date in May 2025 for 300 *MW,* and with *MPGC* with commercial operations date in May 2025 for 300 *MW*. The joint applications for approval of *MERALCO*'s *PSA*s with *EERI, GNPD* and *MPGC* were filed with the *ERC* on March 1, 2024, February 22, 2024, and February 29, 2024, respectively. As at April 29, 2024, the hearings are on-going at the *ERC.*

SPPC – 2024 Baseload PSA

On February 5, 2024, after being declared the winning power supplier in a *CSP* for 1,200 *MW* baseload capacity from brownfield power plants was conducted, *MERALCO* signed a *PSA* for baseload capacity with *SPPC* for 1,200 *MW*. On March 5, 2024, the joint application for approval of the *PSA* was filed before the *ERC*. As at April 29, 2024, the hearings are on-going with the *ERC.*

Interim Power Supply Agreements ("IPSAs")

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC. MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at April 29, 2024, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA.*

On April 15, 2019, with the *NGCP* forecast of voltage situations occurring for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSA*s with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI's* Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*'s 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSA*s, *MERALCO* also received the *DOE'*s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSA*s were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSA*s, with the filing of the joint applications and *DOE'*s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with *FOE* on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the *Luzon* Grid by *NGCP, MERALCO* and *MEI* agreed to extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP*. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from

April 26, 2020 to June 25, 2020 in view of *DOE*'s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at April 29, 2024, the cases remain pending with the *ERC*.

On September 28, 2021, in view of the Malampaya shutdown set for October 2021 that was to coincide with the scheduled outage of other plants, *MERALCO* signed a Contract for Supply of Electric Energy ("*CSEE*") with *PSALM* for the supply of 90 *MW* for the period of ten (10) months from September 26, 2021 to July 25, 2022. On even date, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the *CSEE*. With the *DOE*'s grant of exemption from the requirement for *CSP*, the parties began implementation of the *CSEE* on September 29, 2021. The application for approval of the *CSEE* with *PSALM* was filed on December 29, 2021. As at April 29, 2024, the contract term has expired and the case is pending decision by the *ERC*.

On February 4, 2022, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. The application for approval of *MERALCO*'s emergency *PSA* with *SPPC* was filed with the *ERC* on March 22, 2022. On July 25, 2022, the contract term has expired, thus, on September 2, 2022, *MERALCO* and *SPPC* jointly filed a Manifestation with the *ERC*, informing it of the expiration of the *PSA*'s contract term and that the application for approval of the *PSA* is already deemed moot. As at April 29, 2024, the contract term has expired and the *ERC* has not issued its final decision on this *PSA*.

On December 14, 2022, in connection with the sudden and unforeseen suspension of *MERALCO*'s baseload *PSA* with *SPPC* for 670 *MW* and after receiving from the *DOE* a Certificate of Exemption from the conduct of a competitive selection process ("*COE-CSP*") pursuant to the *DOE* Circular No. DC2021-09-0030 ("*2021 Revised CSP Circular*"), *MERALCO* signed a one (1)-month *PSA* with GNPower Dinginin Ltd. Co. ("*GNPD*"). The *GNPD* emergency power supply agreement ("*EPSA*") ("*1st GNPD EPSA*") was implemented on December 15, 2022 and filed with the *ERC* on April 5, 2023. Following *MERALCO*'s request for extension of the *1st GNPD EPSA*, given continued unavailability of contract capacity and non-delivery of associated energy under the *SPPC PSA* (since the *CA* granted a writ of preliminary injunction to replace the *TRO*), the parties executed another *EPSA* with *GNPD* dated February 3, 2023 ("*2nd GNPD EPSA*"), with term until February 25, 2023. The *2nd GNPD EPSA* was implemented on February 3, 2023 and filed with the *ERC* on April 13, 2023. As at April 29, 2024, the contract terms of the *1st and 2nd GNPD EPSA*s have expired and the cases remain pending with the *ERC*.

On April 29, 2023, *MERALCO* received via electronic mail, a copy of the *ERC* Order dated April 11, 2023 (the "*Show Cause Order*") alleging *MERALCO*'s purported violation of Sec. 2.2.1.2 of the *2021 Revised CSP Circular*. The purported violation is predicated on *ERC*'s unilateral finding that the generation rate under the *1st GNPD EPSA* and *2nd GNPD EPSA* is not equivalent to or lower than the latest *ERC*-approved generation tariff for the same or similar technology in comparable areas considering that *GNPD*'s *EPSA* rate is higher than the latest *ERC*-approved generation tariff for similar technology (coal) in *MERALCO*'s area. The *ERC* compared the said rate with the provisionally approved rate of the *2021 PEDC PSA* with *MERALCO* in *ERC* Case No. 2022-001RC. On May 15, 2023, *MERALCO* filed its Verified Explanation ("*Verified Explanation*") in compliance to the *ERC*'s Show Cause Order. *MERALCO* explained that: (i) The *COE-CSP* issued by the *DOE* not only exempted *MERALCO* from conducting a *CSP* for the *EPSA*s, but essentially certifies that the *DU* was able to meet the requisites for its issuance, thus, authorizing the *EPSA*s' immediate implementation; (ii) the immediate implementation of the *1st GNPD EPSA* and *2nd GNPD EPSA* is consistent with Section 2.2.1.2 of the *2021 Revised CSP Rules* considering that: (a) both the *EPSA*s' cooperation periods are within the one (1) year period limitation; (b) the *EPSA*s were contracted to address an emergency situation; and (c) the *EPSA*s are equivalent to or lower than the latest *ERC*-approved generation tariff for same plant offered for the *EPSA*, which is actually the practice being observed by the *ERC* in approving *PSA*s as shown in previous Orders issued for other *PSA*s; (iii) the *ERC*'s use of the *2021 PEDC PSA* rate, which was released on the *ERC*'s online Database of Generation Rates after the Show Cause Order was issued and after the expiration of the terms of the *EPSA*s, is not comparable to the *EPSA* rates given the stark differences in circumstances.

On March 24, 2023 and April 11, 2023, in light of the injunction issued by the *CA* which suspended implementation of *MERALCO*'s *PSA* with *SPPC* for 670 *MW* contract capacity, and after receiving from the *DOE* a *COE-CSP* pursuant to the *2021 Revised CSP Circular, MERALCO* signed an *EPSA* with *SPPC* for 480 *MW* capacity and *TLI* for 370 *MW* capacity, respectively. The applications for approval of the *EPSA*s with *SPPC* and *TLI* were both filed on July 27, 2023. As at April 29, 2024, the hearings have been concluded and the case is pending decision by the *ERC*.

In light of the *CA*'s Joint Decision, and the cessation of the *SPI PSA* on July 24, 2023, *MERALCO*'s bilateral power supply contracts portfolio was reduced by 330 *MW* starting July 24, 2023. Prior to this, starting on July 17, 2023, *MERALCO* sent out requests for proposals to various power suppliers in order to address the 330 *MW* bilateral contract capacity deficit. On July 20, 2023, the only offer received was from *SPPC*. On August 7, 2023, *MERALCO* and *SPPC* executed an *EPSA*. The application for approval of the *EPSA* with *SPPC* was filed on September 25, 2023. As at April 29, 2024, hearings have been concluded and the case is pending decision by the *ERC*.

On March 20, 2024, after being declared the winning power supplier in a *CSP* for 400 *MW* interim baseload capacity from brownfield power plants was conducted, *MERALCO* signed an interim *PSA* with Limay Power Inc. ("*LPI*") for 400 *MW* contract capacity. On April 19, 2024, the joint application for approval of the *PSA* was filed before the *ERC*. As at April 29, 2024, the said application is awaiting to be set for hearing/s by the *ERC*.

In light of the *ERC*'s non-issuance of a provisional authority or interim relief to implement *SPPC*'s 2024 baseload *PSA* with *MERALCO* before March 25, 2024 - which is the expiration date of *MERALCO*'s *EPSA*s with *SPPC* for 480 *MW* capacity, *TLI* for 370 *MW and SPPC for 330 MW,* on March 25, 2024, *MERALCO* was constrained to procure supply through a negotiated *EPSA* with *SPPC* for 1,200 *MW*, based on, among others, the following main grounds: (i) imminent deficient supply due to the expiration of 2023 *EPSA*s (with *SPPC* and *TLI*); (ii) it is in the best interest of *MERALCO*'s customers for *MERALCO* to find a contingency and consider an alternative source of supply through a negotiated procurement of an *EPSA* for the said imminent deficient supply; and (iii) the non-issuance of an *ERC* approval, provisional authority or interim relief (to allow the implementation of *SPPC*'s 2024 baseload *PSA* with *MERALCO*) is a force majeure or fortuitous event which, though foreseen, is inevitable and independent of *MERALCO*'s participation, given *MERALCO*'s prompt and earnest efforts to comply with the *ERC CSP* Guidelines to secure its 1,200 *MW* baseload supply requirement, thus, such force majeure or fortuitous event constrained *MERALCO* to execute the *EPSA* and implement it starting on March 26, 2024. On April 25, 2024, the joint application for approval of the *PSA* was filed before the *ERC*. As at April 29, 2024, the said application is awaiting to be set for hearing/s by the *ERC*.

Clark Electric

Sem-Calaca

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of 20 *MW* of baseload power supply for a contract term of ten (10) years commencing on December 26, 2020. *Sem-Calaca* was selected as the winning bidder for submitting the least cost bid.

On October 26, 2020, *Clark Electric* executed 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. On October 30, 2020, *Clark Electric* and *Sem-Calaca* filed a Joint Application with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Accordingly, the *ERC* has set the expository presentation and pre-trial conference on March 4 and 11, 2021, respectively.

On January 25, 2021, *Clark Electric* and *Sem-Calaca*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. On March 1, 2021, the *ERC* granted the provisional authority to implement the *PSA* between *Clark Electric* and *Sem-Calaca*.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

SPDC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of its 25 *MW* of mid-merit power supply requirement for a contract term of five (5) years commencing on December 26, 2020. *SPDC* was selected as the winning bidder for submitting the least cost.

On October 23, 2020, *Clark Electric* executed a *PSA* with *SPDC* for the supply of 25 *MW* contract capacity and associated energy beginning December 26, 2020. The *PSA* was jointly filed by *Clark Electric* and *SPDC* on October 28, 2020 with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Thus, the expository presentation and pre-trial conference was set by the *ERC* on March 9 and 16, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SPDC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. The provisional authority was granted by the *ERC* through its Order which was promulgated on June 11, 2021.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

TransCo/NGCP

Clark Electric executed a Transmission Service Agreement on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2023. This was renewed for another five years until December 25, 2028.

Shin Clark

Temporary Power Supply Agreement ("TPSA")

On April 24, 2019, *BCDA* signed a letter agreement for *TPSA* with Tarlac II Electric Cooperative, Inc. ("*TARELCO II*") for the purchase of power supply to all facilities in National Government Administrative Center ("*NGAC*") that will be used for the 2019 South East Asia Games. The said letter agreement expired last December 31, 2020.

On October 8, 2021, *BCDA* signed a 2-year *TPSA* with *TARELCO II* for the purchase of power supply for the whole *NCC* development area. *TARELCO II* approved the *BCDA*'s request for extension of the term of *TPSA* for a period of six (6) months commencing on October 8, 2023, until April 8, 2024.

TARELCO II transferred its billing of purchase power starting October 2023 from *BCDA* to the Joint Venture, who will now operate the Electric Power Distribution System in *NCC* since the *ERC* has granted the *CPCN* of the Joint Venture on July 5, 2023.

Supply and Equipment Loan Agreement with Shell

Panay Power Corporation ("*PPC*") has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply *PPC*'s total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at *PPC*'s premises the equipment and facilities for the storage and servicing of products purchased at no cost to *PPC*. The agreement is effective for 15 years until 2013. As *PPC* has not utilized the contracted quantity, agreement was renewed for another five years or until the contracted quantity is fully utilized. Under the new agreement, pricing is subject to semi-annual review. As at April 29, 2024, the termination of the contract is ongoing discussion.

Long-term Coal Supply Agreements ("CSA")

In order to ensure that there is an adequate supply of coal to operate the power plants, the following operating plants entered into several long-term contracts with local and foreign coal suppliers:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Sakti Nusantara Bakti	Indonesia	2022 - 2026	ICI4	275,000 MT
PT Bayan Resources, TBK	Indonesia	2023-2024	GNewC and ICI4	220,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT 2023;165,000 MT 2024
Bulk Trading	Indonesia	2023-2024	Fixed price	220,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	385,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2025	GNEWC	275,000 MT
PT Adaro Indonesia	Indonesia	2020 - 2024	GNewC Index with cap @USD 50	165,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	55,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	55,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT

GESC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Bayan Resources, TBK	Indonesia	2023-2024	GNewC and ICI4	110,000 MT
Bulk Bayan Resources, TBK	Indonesia	2023-2024	Fixed Price	220,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project ("*Cagbalete Microgrid Project*")

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 *kW PV* system, 150 *kWh* battery energy storage system and two (2) units of 30 *kW* diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("*PV*") panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemetal Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at April 29, 2024, *MERALCO* is awaiting further action by the *ERC*.

Lease Agreement with CDC

On June 23, 2004, *Clark Electric* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succeeding six (6) years.

IMC with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of 20 years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO executed a tripartite agreement with *PEZA* and *TLI* for the billing and settlement of the supply of power from *TLI* to *CEZ* and its locators. On December 19, 2023, *MERALCO* issued a Notice of Award to *TLI* for the 24 *MW* baseload supply of *CEZ* for a period of one (1) year from December 26, 2023 to December 25, 2024 ("Additional Term"). The terms of the award will be documented through a Transition Power Supply Agreement. The tripartite agreement is likewise extended until December 25, 2024.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

Joint Venture Agreement with New Clark City

On April 3, 2019, *Shin Clark* signed a Joint Venture Agreement with the *BCDA* for the construction, operation and maintenance of the electric distribution system in New Clark City.

Shin Clark completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of *Shin Clark Power*, the joint venture company. On May 10, 2022, the *SEC* approved the incorporation of *Shin Clark Power*. In a Decision dated March 22, 2023, received on July 5, 2023, *Shin Clark Power* was granted a *CPCN* by the *ERC* to operate as a *DU* until September 2044.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	Unaudited	
	For the Three Months Ended March 31	
	2024	2023
	(Amounts in millions)	
Net income attributable to equity holders of the Parent (a)	**₱9,597**	₱8,071
Weighted average common shares outstanding (b)	**1,127**	1,127
Per Share Amounts:		
Basic and diluted earnings per share (a/b)	**₱8.51**	₱7.16

Basic and diluted earnings per share amounts are calculated by dividing net income for the period attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the period. There are no potential dilutive common shares in 2024 and 2023.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

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

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

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

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

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

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

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

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

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

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

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

Retail Aggregation

On June 16, 2022, the *ERC* issued Resolution No. 04, Series of 2022 entitled "*A Resolution Adopting the Rules for the Electric Retail Aggregation Program.*" Under said Resolution, the aggregation of the electricity requirements of end-users, whose total monthly average peak demand is at least 500 *kW*, is allowed to accommodate a wider consumer base availing of the benefits of *RCOA* to further promote competition in the Competitive Retail Electricity Marktet. Implementation of such aggregation shall become effective by December 26, 2022. Meanwhile, industry stakeholders are clarifying certain provisions in the Resolution to allow for the smooth implementation of Retail Aggregation.

Pre-Emptive Mitigating Measure in the WESM

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

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO's* intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

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

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at April 29, 2024, the case is pending before the *SC*.

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

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

On October 17, 2023, the Philippine Independent Power Producers Association Inc. ("*PIPPA*") filed a Petition, dated October 16, 2023, to initiate a rule-making petition for the suspension of *ERC* Resolution No. 7, Series of 2021 and the adoption of *PIPPA*'s proposed rules on the imposition of secondary price cap. As at April 29, 2024, *ERC* has yet to promulgate the amended rules.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and "Guidelines for the Supply of Electric

Power in Ecozones" ("*Guidelines*"). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DU*s which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DU*s in *RTC*-Pasig.

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

Purchase of Subtransmission Assets ("*STAs*")

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

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STA*s. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

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

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC*-Pasig. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale ("*DOAS*") on December 10, 2020, covering the Batch 2 and Batch 4 *STA*s. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated Octobre 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges ("*CC/RSTC*") of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

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

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

TransCo applied for *FiT-All* rates with the *ERC*, the *ERC* approval and status of applications are indicated in the table below:

Year	Applied Rate per *kWh*	Approved Rate per *kWh*	Date Approved / Status
2019	₱0.2780	₱0.0495	October 28, 2019
2020	₱0.2278	₱0.0983	November 23, 2020
2021	₱0.1881	₱0.0983	August 17, 2022
2022	₱0.3320 or ₱0.3165 (alternative rate in consideration of *Covid-19*)	₱0.0364	August 30, 2022
2023	₱0.2382	–	Pending final decision

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE, TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. As at April 29, 2024, the said petition is pending with the *SC*.

In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh. MERALCO* filed a *MR* on the Decision. As at April 29, 2024, the *MR* is pending further action of the *ERC*.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FiT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*. As at April 29, 2024, the said petition is ongoing and remains pending with the *ERC*.

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the *CPI* and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River ("*ROR*") Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

On November 16, 2022, the *ERC* issued Resolution No. 12, Series of 2022, "*A Resolution Adopting the Suspension of the Collection of Feed-in-Tariff Allowance (FiT-All)*", approving the temporary suspension in the collection of the *FiT-All* for a period of three (3) months, starting the December 2022 until the February 2023 billing months. According to the *ERC*, the *FiT-All* balance as of November 7, 2022, inclusive of the Cost Recovery Revenue ("*CRR*") collections in November 2022, shows a healthy fund balance that can sufficiently cover the *FiT-All* payment requirements for three (3) months, assuming the same average *CRR* collection. On February 22, 2023, *ERC* issued Resolution No. 02, Series of 2023, extending the temporary suspension in the collection of the *FiT-All* for six (6) months, starting the March 2023 to August 2023 billing months. On August 4, 2023, *ERC* further extended the suspension in the collection of *FiT-All*, through Resolution No. 11, Series of 2023, starting September 2023 until otherwise lifted by the *ERC* in the event that the *FiT-All* fund shall be deemed insufficient to cover the monthly fund requirements. Finally, on January 16, 2024, *ERC* issued Resolution No. 1, Series of 2024, "*A Resolution Adopting the Lifting of Suspension of the Collection of FiT-All*", resolving to lift the suspension on the collection of the *FiT-All*, and to resume the collection of *FiT-All* starting the billing month of February 2024.

Renewable Portfolio Standards (RPS)

In accordance with the *RE* Act, the *DOE* issued Department Circular No. DC2017-12-0015 "Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas" or the *RPS* Rules on December 22, 2017. In compliance with the *RPS* Rules, *MERALCO* has been submitting its *RPS* form to the *DOE* on an annual basis. The *RPS* form contains *MERALCO*'s computation of its requirements, as well as plans to comply with the requirements.

On March 10, 2021, *MERALCO*'s registration in the Renewable Energy Market ("*REM*") as a Mandated Participant was approved by *PEMC*. On June 30, 2022, the *DOE* issued Department Circular No. 22-06-0019 "Declaring the Interim Commercial Operations of the Renewable Energy Market ("*REM*").

On May 23, 2022, the *DOE* issued Department Circular No. 2023-05-0015 "Prescribing the Amendments to Department Circular No. 2017-12-0015 or the Renewable Portfolio Standards (*RPS*)", increasing the minimum annual *RE* increment (*Km*) from one percent (1%) to 2.52% starting

2023 compliance year to meet the aspirational targets of increasing the *RE* share in the power generation mix. *MERALCO* fully complies with its *RPS* obligations while minimizing the rate impact to its customers.

Green Energy Option Program (GEOP)

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 “Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008” or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, “Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the GEOP” as a supplement to the *GEOP* Rules.

On August 19, 2021, the *ERC* issued Resolution No. 08, Series of 2021 “A Resolution Adopting the Rules for the Green Energy Option Program (*GEOP*)”. The rules became effective on September 3, 2021. As at April 29, 2024, *MERALCO* has already processed the switching of two hundred forty (240) customers to *GEOP*.

Recovery of NPC Stranded Contract Costs

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

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote the *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the colletion of *UC-SCC* and stranded debts portion of the universal charge (“*UC-SD*”) from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

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

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

Net Metering Program

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

The *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DU*s' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DU*s' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at March 31, 2024, *MERALCO* has already installed 11,644 meters and energized 9,385 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, 2024, there are 103 companies with a total committed de-loading capacity of 529.67 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains

50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at April 29, 2024, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. *MERALCO* has filed a Motion to Withdraw the Application to align with the changes brought about by the amended Public Service Act. As at April 29, 2024, *MERALCO* is awaiting the resolution of the *ERC* of its motion.

CSP Requirement for PSAs

On February 9, 2018, the *DOE* published the *2018 DOE Circular*. Upon effectivity of the Circular, all prospective *PSA*s in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in certain instances.

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

On April 3, 2023, the *DOE* issued an advisory on the moratorium on the issuance of Certificate of Exemption from the conduct of Competitive Selection Process ("*COE-CSP*") and review of the terms of reference for unsolicited proposals until the promulgation of the new *CSP* policy being drafted by the *DOE* in coordination with *ERC* and *NEA*.

On April 4, 2023, the *DOE* posted the draft *DOE Circular* on the new *CSP* policy, which among other things, proposed to streamline the conduct of the *CSP*. The draft *DOE Circular* stated, among other things, that all rules and regulations, or any portion thereof, that are inconsistent with said draft *Circular* are repealed or modified accordingly. In particular, *DOE Circular* Nos. DC2015-06-0008, DC2018-02-0003, DC2021-09-0030 and DC2022-06- 0027. On April 25, 2023, *MERALCO* submitted its comments on the draft *DOE Circular*.

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 and delegated to the *ERC* to issue within forty-five (45) days from effectivity the implementing guidelines for the conduct of the *CSP*, including a *PSA* template. It is also provided that *CSP*s shall be consistent with the latest and duly accepted Distribution Development Plan ("*DDP*") and posted Power Supply Procurement Plan ("*PSPP*") and shall be undertaken at least 2 years prior to expiration of the *PSA* or projected increase in demand. The previous *DOE CSP*

Circulars under Department Circulars No. DC2015-06-0008, DC2018-02-0003, DC2021-09-0030 and DC2022-06-0027 shall be repealed upon effectivity of the *ERC*'s guidelines. In the transition, *DU*s with ongoing *CSP* activities and have been issued Certificate of Posting prior to effectivity of the 2023 Circular shall continue to observe the policy under DC2018-02-0003 and DC2021-09-0030.

On October 23, 2023, following public consultations and comments from concerned stakeholders, the *ERC* promulgated its *Resolution No. 16, Series of 2023 ("ERC CSP Guidelines").* The *ERC CSP Guidelines* provided for a maximum term of *PSA*s of ten (10) years for financial *PSA*s, fifteen (15) years for physical *PSA*s and thirty (30 years) for physical *PSA*s where the nominated plants are renewable energy power plants. *PSA* templates, containing minimum terms and conditions, for financial and physical *PSA*s were also provided in the *ERC CSP Guidelines. DU*s may include additional contractual terms and conditions in their *PSA*s consistent with their terms of reference and the *ERC CSP Guidelines.* Under the *ERC CSP Guidelines, t*he entire process of the *CSP,* including the award of contract, shall be completed within one hundred eighty (180) calendar days from the first publication of the Invitation to Bid.

Under the *ERC CSP Guidelines,* direct negotiation is allowed after at least two (2) failed *CSP*s. *CSP*s are considered ot have failed, when, during its conduct any of the circumstances exist:

i. All bidders are declared ineligible;
ii. Only one (1) bidder submitted a proposal;
iii. No proposal was received by the Bids and Awards Committee ("*BAC*") on bid submission deadline;
iv. No interest bidder purchased the bidding documents after the deadline set in the invitation to bid;
v. Offers of bidders failed to meet the requirements set under the terms of reference, as determined by the *BAC*; or
vi. In the event of refusal, inability, or failure of a winning bidder to enter into a *PSA* with the *DU* within the period provided for under the *ERC CSP Guidelines.*

Termination of the *PSA,* other than due to expiration of the term, now 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 the following conditions are present:

i. The cooperation period of such *EPSA* shall have a maximum and non-extendible period of one (1) year from its execution;
ii. The interim rate to be charged under the *EPSA* shall be capped at the latest *ERC*-approved generation tariff for the plant, if available. Otherwise, it shall be capped at the latest *ERC*-approved tariff for the same technology. Such rates shall apply until the *ERC* issues its approval of the *EPSA;*
iii. The *DU* shall, within five (5) calendar days from the occurrence of the Force Majeure or Fortuitous Event, notify in writing the *ERC* and the *DOE,* as well as the *NEA* (in case of *EC*s) and the *NPC* (in case of Off-Grid areas), of such Force Majeure or Fortuitous Event which will require the emergency power supply; and
iv. The *DU* and the power supplier shall jointly file with the *ERC* the application for approval of the said *EPSA* in accordance with the timeline prescribed under the *ERC CSP Guidelines.*

Under the *ERC CSP Guidelines, DU*s shall blacklist a winning bidder in case such winning bidder fails or refuses to:

i. Execute the *PSA* resulting from a successful *CSP* without justifiable reason;
ii. Join in the pre-filing or filing of the application thereof; or
iii. Deliver the *DU*'s electricity supply requirements as provided for under the duly executed *PSA,* without justifiable reasons as provided under the *PSA* that is provisionally or finally approved by the *ERC.*

The following shall also be blacklisted by the *DU,* or by the *ERC* after due notice and hearing:

i. The power supplier in the *PSA* who is at fault in the termination of the *PSA* or the withdrawal of the application;
ii. The winning bidder who refuses to post performance bond without justifiable reason; and
iii. The winning bidder who charges the *DU* at a rate higher than the *ERC*-approved generation rate.

SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the *SC* claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the "*Bayan Muna Petition*"). The *Bayan Muna Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation of the on-going *CSP*s of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the *SC* by representatives of various consumer groups led by the Power for People ("*P4P*") Coalition (the "*P4P Petition*") against the *DOE* and *MERALCO's TPBAC*. The petition claims that the terms of reference for the 1,800 *MW* baseload *CSP* completed in March 2021 are unfavorable to the consumers and non-compliant with the *2018 DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 *MW* baseload *CSP* of *MERALCO*. In a Resolution dated March 18, 2021, the *SC* dismissed the *P4P Petition*. The *SC* held that the issues raised by *P4P* are factual in nature, which require the *SC* to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that *DOE* has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the *CSP*.

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

On June 20, 2017, the *ERC* issued a consolidated Decision in *ERC* Case Nos 2011-115 RC, 2012-067 RC, 2013-092 RC, 2014-098 RC and 2015-124 RC, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 10, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. In February 2023, the amount was fully refunded. As at April 29, 2024, the *ERC* has yet to act on the Motion.

Clean Air Act

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* ("the Operating Subsidiaries of *GBPC*") in particular, that need to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*'s existing facilities, the Operating Subsidiaries of *GBPC* believe that they have complied with the provisions of the Clean Air Act and the related *IRR*.

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position) prospectively from the date of effectivity of *ER 1-94*. Such amount accrued shall be remitted to the trust account of the host *LGU*s and *DU*s, subject to audit by the *DOE*.