

# Special Section

## Climate-Related Disclosures

GRI 2-22 | GRI 201-2 | GRI 302-5

One Meralco continues to build on our Group-wide climate risk management efforts from the previous years, striving to align more closely with emerging disclosure requirements and best practices, including the International Financial Reporting Standards (“IFRS”) S2 Climate-related Disclosures requirements. During the reporting period, we refined our previous climate risk scenario analysis to reflect major developments in our businesses. Through our disclosures, we aim to promote transparency and accountability, ultimately providing our stakeholders with a clearer understanding of the implications associated with potential climate-related risks and opportunities across our value chain.



### IFRS Pillar Governance

The Sustainability Committee at Meralco oversees the Company’s sustainability strategy, policies, and programs, including those addressing climate change. The Sustainability Committee functions as an independent body, ensuring focused attention on sustainability issues, including climate change. Chaired by the Chairman of the Board of Directors, the Committee consists of five Directors, including one independent member. Meralco’s Chief Sustainability Officer acts as a non-voting management representative to the Committee.

The Committee’s responsibilities include providing governance oversight, defining roles and responsibilities, and evaluating whether the necessary skills and competencies are available or need to be developed to effectively manage strategies addressing climate-related risks and opportunities. Regular updates are provided to Committee members to keep them informed and support strategic decision-making.

In addition to governance oversight, the Committee plays a crucial role in developing and refining One Meralco’s long-term sustainability strategy (“LTSS”).



### IFRS Pillar Strategy

At One Meralco, our approach to identifying and understanding climate-related risks and opportunities is anchored in climate scenario analysis. Over the past few years, we have enhanced this analysis through the development of an internal data-driven model of our business, referred to as our ‘digital twin.’ This scenario analysis has allowed the Group to capture business-critical information about the future impacts of climate change on our power generation and distribution assets, customer office locations and potential financial performance.

It oversees the creation and review of the Group’s sustainability framework, agenda, and policies to ensure alignment with Meralco’s business philosophy and strategic goals. The Committee tracks the Group’s performance against internal targets as well as national, regional, and global sustainability goals. Additionally, it recommends sustainability programs requiring investments of PhP 50 million and above to the Board of Directors for approval, ensuring significant initiatives receive appropriate oversight.

To facilitate effective governance, the Committee convenes periodically as needed to discuss climate-related matters. Regular reports on the Committee’s activities are provided to the Board, and an annual performance evaluation is conducted to assess its effectiveness and set goals for the upcoming year.

The Committee also evaluates ongoing and proposed sustainability programs across the Company’s sustainability pillars: Power, Planet, People, and Prosperity. This comprehensive approach ensures that all aspects of sustainability are considered and integrated into the Company’s operations.




The climate scenario analysis assesses Meralco’s power businesses in the Philippines: the Distribution Utility (“DU”), its various retail electricity suppliers (“RES”), and Meralco Power Generation Corporation (“MGEN”), which includes MGen Renewable Energy, Inc. (“MGreen”), including its subsidiary Terra Solar Philippines, Inc., as well as Global Business Power Corporation (“MThermal”). PacificLight Power Pte. Ltd. in Singapore is not included.



## APPROACH TO IDENTIFYING CLIMATE-RELATED RISKS

Our climate scenario analysis assessed both transition and physical risks. We have analyzed three distinct climate change scenarios and their potential implications for One Meralco. These scenarios produce a range of outcomes when evaluating climate risk and are based on the Shared Socioeconomic Pathways (“SSPs”) framework from the Intergovernmental Panel on Climate Change (“IPCC”). The SSPs model possible future societal changes, including shifts in policies, consumer behavior, and investor sentiment.

The three selected scenarios, detailed below, allow for a comparative analysis of both physical risks and transition risks.

Scenario	Mode SSP	Average temperature rise compared to pre-industrial levels by 2100	Description
<b>Business-as-Usual (“BAU”)</b> 	SSP5-8.5	>4 °C	In this scenario, the world takes limited or no actions to limit greenhouse gas (“GHG”) emissions with reduction targets slowed down, with a global emissions increase of 200% by 2100.
<b>Philippines’ Commitment</b> 	SSP 2-4.5	2.5 °C	In this scenario, the world implements stated government policies (e.g., carbon pricing policies to meet the Philippines’ Nationally Determined Contributions, or NDCs, as a party to the Paris Agreement) to lower emissions with no further actions taken and emissions do not reach net zero by 2100.
<b>1.5-Degree Warmer World</b> 	SSP 1-1.9	1.5 °C	This scenario aims to limit global warming to 1.5 °C, in line with the Paris Agreement’s ambition in achieving global net-zero emissions by 2050, through immediate and coordinated action to curb emissions.




Each climate risk has been assessed independently, assuming there are no interdependencies or trade-offs between them. Due to the lag time between GHG emissions and their impact on the climate, the mid-term forecast (i.e., over a 10-year period) for climate physical risk is expected to remain relatively stable. However, as we extend our outlook to longer timeframes, particularly up to 2050, the uncertainty surrounding physical risk increases, leading to greater divergence in the results across various scenarios.




The climate scenario analysis has not taken into account our strategic goals outlined in One Meralco’s LTSS. Nevertheless, the results of the climate risk assessment have played a role in shaping our financial planning, investments, and overall strategy.

## CLIMATE RISK ASSESSMENT RESULTS

This report provides a qualitative assessment of each risk and its implications, evaluating their significance to Meralco across various time frames: short-term (up to 5 years), medium-term (up to 10 years), and long-term (extending to mid-century). We are committed to enhancing our analysis and plans to present quantitative findings, using “Earnings Value at Risk” as a financial metric, in our future integrated reports.

### Transition Risks Assessed and their Potential Impacts to One Meralco

Risk, Materiality and Time Horizon	Potential impact on One Meralco	BAU Scenario	Philippines’ Commitment Scenario	1.5-Degree Warmer World Scenario
<b>Carbon Policy Risk</b>  <i>Material risk for MGEN in the short- and medium- terms.</i>  	A price or tax on carbon could increase the relative cost of electricity generated from fossil fuel-fired power plants. Such increases could reduce demand for electricity sourced from fossil fuels that MGEN generates and the DU distributes. This may impact Meralco’s decisions in owning, operating, or selling fossil fuel-fired power generation assets.	Beyond the BAU scenario, there could be increasingly higher costs of carbon tax liability and overheads.	In the BAU scenario, there is no carbon tax liability because carbon pricing or any other mechanism is not implemented.  The Philippines’ Commitment scenario introduces the necessary carbon pricing to align with the Philippines’ NDCs.	The most significant costs arise in the scenario targeting a limit on global warming to 1.5 °C, where carbon prices could soar to PhP 3,000/tCO <sub>2</sub> e.
<b>Technology Risk</b>  <i>Material risk for MGEN in the short- and medium-terms.</i>  	As policy and/or market forces push power companies to phase out fossil fuels, MGEN may need to upgrade existing assets that rely on fossil fuels and/or use energy inefficiently. If carbon-intensive assets are devalued, MGEN may incur impairment and asset write-off costs. In addition, MGEN could incur major capital investment and operational costs to research, develop, scale, and deploy lower-carbon technologies to replace fossil fuel-based assets.	<b>High capital investment and operational costs across scenarios</b>	Overall, high capital investment and operational costs are prevalent across all scenarios. Technology risk is particularly pronounced for fossil fuel-based power generation assets, especially in the scenario aimed at limiting global warming to 1.5°C, where significant emissions reductions are required. This would, in turn, necessitate the early decommissioning of emission-intensive power generation facilities.	
<b>Investor Market Risk</b>  <i>Material risk for MGEN in the short- and medium-terms.</i>  	Amid a trend of investor divestment from assets that are exposed to climate-related risk factors, MGEN, a carbon-intensive business, could face increasing scrutiny and challenges to attract investment. This sentiment could drive a higher cost of capital.	<b>Increasingly higher cost of debt and lower market value of equity</b>	As a power generation business that relies heavily on fossil fuels, MGEN is poised to face increasingly higher costs of debt and a lower market value of equity across all scenarios, assuming no changes are made to its business model. This impact will be most pronounced in a 1.5-Degree Warmer World, where many financial institutions could exit the fossil fuel sector from their investment portfolios to align with net-zero ambitions. Consequently, equity and debt financing will become more expensive, potentially making it challenging for MGEN to pursue mergers and acquisitions or attract investments.	

Risk, Materiality and Time Horizon	Potential impact on One Meralco	BAU Scenario	Philippines' Commitment Scenario	1.5-Degree Warmer World Scenario
<b>Liability Risk</b>  <i>May not be material for One Meralco in the short- or medium-terms, given the legislative environment in the Philippines and the historical trajectories of climate-related cases in the region.</i> 	One Meralco could face lawsuits for causing harm related to climate change, with greenwashing claims and public nuisance litigation and lawsuits against directors and officers.	<b>Increasingly higher legal settlement and compensation costs</b>	Legal settlement and compensation costs are expected to rise, particularly under the BAU and 1.5 °C scenarios. In the high-emissions BAU scenario, the number of public nuisance and pollution cases is anticipated to increase rapidly. Meanwhile, in the low-carbon to 1.5 °C scenario, there will likely be a rise in greenwashing claims and lawsuits against directors and officers.	
<b>Consumer Market Risk</b>  <i>Material for the DU and RES in the short- and medium-term.</i> 	Consumer preference for electricity generated from lower-carbon emission technologies could impact revenue. Electricity provided to residential customers is the largest contribution to Meralco's revenue. However, commercial and industrial customers may prefer to purchase retail electricity services from other licensed or authorized suppliers. End-users with a monthly average peak demand of 100 kW for the past 12 months can sign up for the Department of Energy's Green Energy Option Program.	<b>Increasingly higher impact on revenue</b>	The impact on revenue is expected to increase as end-users increasingly prefer to purchase energy from cleaner sources rather than traditional ones. This risk is heightened under more ambitious climate pathways, as a larger share of the population and corporations adopt sustainable practices that align with a warming limit to 1.5°C trajectory. The modelling acknowledges that the impact is nuanced, depending on the sources of energy; coal and diesel are viewed more negatively compared to natural gas, while renewables are perceived positively.	
<b>Reputational Risk</b>  <i>Material for MGEN in the short-and medium-term.</i> 	Negative stakeholder views on One Meralco's sustainability strategy and performance may adversely impact revenue.	<b>Increasingly higher impact on revenue</b>	A growing impact on revenue is anticipated across all scenarios due to a decline in demand for fossil fuel-generated electricity, particularly in a 1.5 °C scenario, where global concerns about meeting emission reduction targets are expected to shift public opinion against major corporations that have historically engaged in carbon-intensive practices.	

## Physical Risks Assessed and their Potential Impacts to One Meralco

### Physical Risk (DU and RES)

**Revenue Impact:** Across all scenarios and by mid-century, revenue may be impacted due to the increasing risk of extreme droughts/water stress and typhoons. These climate perils could impact revenue, as Meralco's headquarters, Business Centers, and Sector Offices could close operations and customer payments could be disrupted.

**Asset Damage:** Across all scenarios and by mid-century, Meralco's distribution and other network assets could be damaged by the increasing risk of typhoons. By integrating these insights, we are better equipped to assess the materiality of individual risks within our defined time horizons. This thorough understanding informs our strategic decision-making and enhances our resilience in the face of climate-related challenges, ultimately supporting our commitment to sustainable growth and value creation for our stakeholders.

### Physical Risk (MGEN)

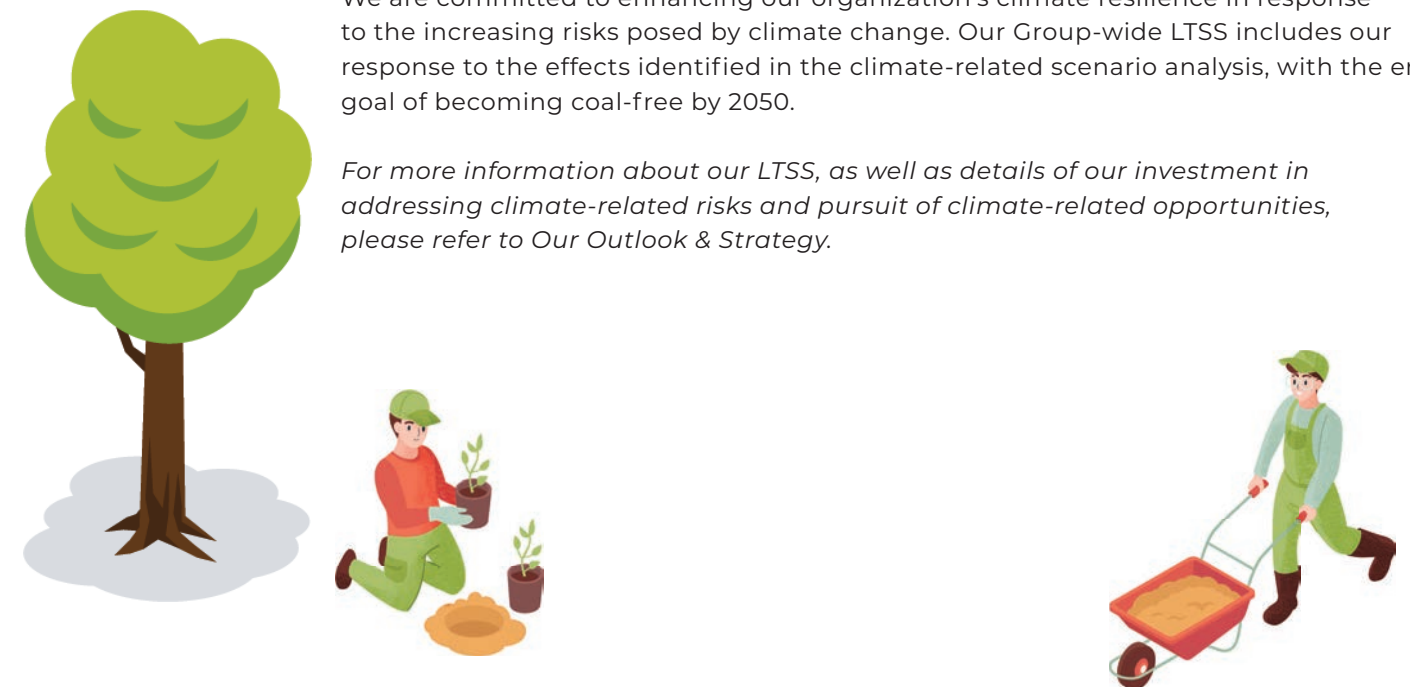
**Revenue Impact:** Across all scenarios and by mid-century, revenue may be impacted due to the increasing risk of extreme droughts/water stress and heatwaves. These climate perils could impact business operations and reduce the energy production capacity of MGEN's power plants.

**Asset Damage:** Across all scenarios and by mid-century, future typhoons could cause the most damage to MGEN's power plants. Coastal and riverine flooding could also cause some asset damage.

## CLIMATE RESILIENCE

We are committed to enhancing our organization's climate resilience in response to the increasing risks posed by climate change. Our Group-wide LTSS includes our response to the effects identified in the climate-related scenario analysis, with the end goal of becoming coal-free by 2050.

*For more information about our LTSS, as well as details of our investment in addressing climate-related risks and pursuit of climate-related opportunities, please refer to Our Outlook & Strategy.*



## CLIMATE OPPORTUNITIES

In light of the impacts the climate scenario analysis and risk assessment have illustrated, One Meralco is considering the following climate opportunities:

### Products/Services: Decarbonization of Existing Power Generation Assets

We are investing in gradually transitioning away from coal as a source of energy. Meralco plans to end energy sourcing from coal upon the expiry of our Power Supply Agreements (“PSAs”). This strategic move reflects our Group’s commitment to enabling decarbonization across sectors, meet customer demand for cleaner alternatives, and aid in meeting the Philippines’ climate goals. Before the expiry of PSAs of coal power plants, MGEN is exploring carbon capture, utilization, and storage (“CCUS”) and co-firing with coal to reduce emissions from current operations.

For future investments, MGEN is focused on developing dispatchable low-carbon power solutions. This includes exploring options such as combined cycle gas turbines (“CCGT”) combined with green hydrogen and advanced small modular reactors (“SMRs”) for baseload power generation. These technologies represent a significant opportunity for MGEN to provide reliable and cleaner energy while minimizing environmental impact.

*Further information about our decarbonization levers is detailed in the Building the Future of Energy by 2050 section under Our Outlook & Strategy.*

### Products/Services and Resource Efficiency: Grid Hardening, Grid Modernization and Smart Grid Initiatives

To support the electrification of transportation and other sectors, Meralco is exploring significant investments in the hardening and modernization of its distribution network. These potential investments are essential not only for meeting the Philippines’ climate goals but also for enhancing the resilience and flexibility of the energy system. Modernization could also enable an interconnected grid capable of accommodating high shares of variable renewable energy, which is crucial for ensuring a reliable energy supply.

Meralco is exploring demand-side management strategies to optimize energy consumption and reduce peak demand. By actively managing how and when energy is used, the Company can enhance grid stability and minimize the need for additional generation capacity.

*Further information is detailed in the Innovation section under Prosperity.*



## IFRS Pillar Risk Management

Meralco’s Enterprise-Wide Risk Management Office (“EWRMO”) and the Sustainability Office (“SO”) work closely to facilitate an integrated, organization-wide risk management process. This allows the entire Group to identify and evaluate climate-related risks across different business units and functions. The EWRMO leads a formal risk assessment process twice a year, which starts with the Risk Champion from each business unit and subsidiary, moving to the risk owner, and finally involving Meralco’s senior management and the Board-level Risk Management Committee.

To complement the formal risk management process, the Sustainability Strategy and Reporting unit under the SO monitors trends and developments in the sustainability space to ensure that climate-related risks are identified and assessed appropriately and in a timely manner while also being considered in One Meralco’s LTSS as necessary. Improvements to the LTSS are carried out in collaboration with various business units, such as MGEN, MPower, Networks, and the Regulatory Management Office. Lastly, as outlined in the Strategy section, Meralco has conducted scenario analysis exercises to better identify and assess climate-related risks and opportunities.



## IFRS Pillar Metrics and Targets

One Meralco uses the following key climate-related metrics, which are all monitored monthly, quarterly, and annually by the Group:

- **For Scope 1:**
  - Emissions from fossil fuel combustion (coal, diesel, natural gas) by power plants
  - Emissions from gasoline and diesel combustion by company-owned vehicles
  - Emissions from SF<sub>6</sub>-insulated distribution network equipment
- **For Scope 2:**
  - Emissions from the generation of electricity purchased from the grid and used to power company-owned facilities
  - Emissions from the generation of electricity lost during the delivery of electricity to customers (i.e., system loss)
- **For Scope 3:**
  - Category 11: Use of Sold Products - Emissions from the generation of electricity procured by Meralco and Clark Electric from power generators then sold to customers
  - Category 3: Fuel- and energy-related activities - Emissions from gasoline and diesel combustion by rented/contractor-owned vehicles

In defining the boundaries of our emissions inventory, One Meralco abides by the GHG Protocol, a universally recognized standard developed by the World Resources Institute (“WRI”) and the World Business Council for Sustainable Development (“WBCSD”) for measuring and monitoring GHG emissions.

We have established the following key climate targets as part of our LTSS: 14% reduction in Group-wide overall emissions by 2030 vs. business as usual (“BAU”) 9% reduction in Group-wide Scope 1 emissions by 2030 vs. BAU

Moving forward, we will adopt metrics that will provide the Group a clearer understanding of the climate-related risks and opportunities we need to manage and capture, respectively. For climate-related risks, these may include the number and financial value of One Meralco’s assets at risk of damage from climate hazards such as typhoons. Meanwhile, possible metrics for climate-related opportunities may include the revenues generated by the Group from capitalizing on these opportunities.

*Further information is detailed in the Climate Change Mitigation section.*