Powered by Service

MERALCO

Annual Report 2015

Powered by service, Meralco moves forward to stretch the boundaries of what is possible, buoyed by a strong determination to succeed and an innovative spirit, armed with foresight and flexibility to embrace change and create a brighter future for the customers of today and tomorrow.

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Who We Are

The largest electric distribution company in the Philippines covering 36 cities and 75 municipalities, including Metro Manila

113 years in service in 2016

Franchise area of over 9,337 km^2 covering the core of the country's industrial, commercial, and population centers

Serves almost 5.8 million customers

Market capitalization of PhP360.7 billion (US$7.7 billion) as at year-end 2015

Committed to being the total energy solutions provider of choice

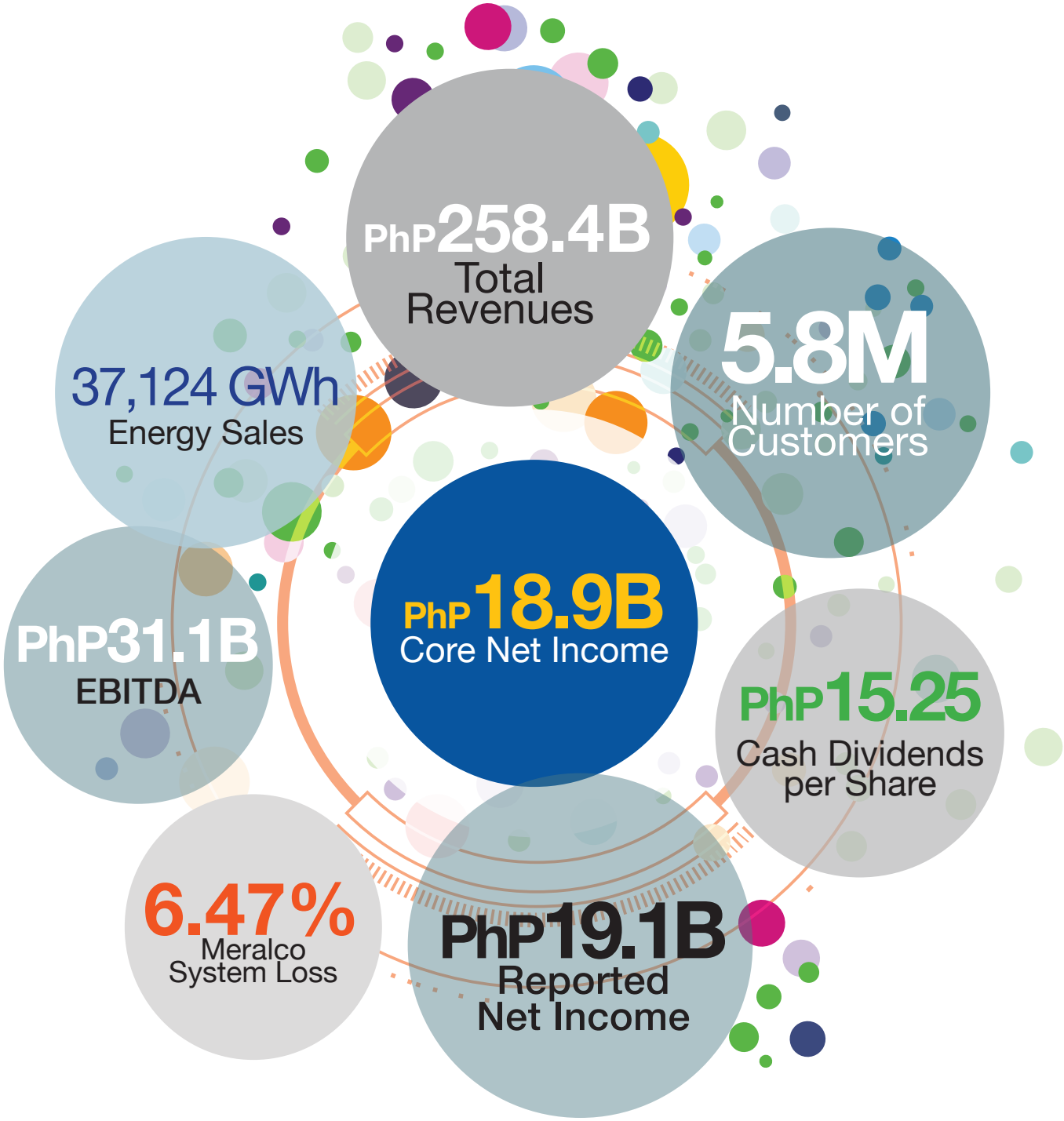
Our Cover

The past years have demonstrated the shifting needs and expectations of customers, giving rise to breakthrough technologies that present challenges to traditional operations of the electric distribution utility. Powered by service, Meralco is up to the challenge, envisioning a brighter tomorrow for all by staying ahead of the curve anchored on its key strengths – focus on the customer, network resiliency and reliability, and the conscious effort to innovate.

FINANCIAL AND OPERATING HIGHLIGHTS

	2011	2012	2013	2014	**2015**
FINANCIAL INFORMATION					
(in Million Pesos, Except Per Share Data and Percentages)					
Revenues					
Sale of electricity	253,989	282,991	294,849	261,740	249,773
Sale of other services	2,819	2,279	3,787	4,596	8,626
Total	**256,808**	**285,270**	**298,636**	**266,336**	**258,399**
Costs and Expenses					
Purchased power	205,674	232,068	238,198	203,242	192,117
Operating expenses	19,726	19,292	19,421	20,187	24,336
Depreciation and amortization	5,504	5,576	6,118	6,093	6,910
Interest and other financial charges (income) - net	(819)	(1,041)	307	669	(322)
Others	7,977	7,353	10,265	9,677	10,482
Total	**238,062**	**263,248**	**274,309**	**239,868**	**233,523**
Reported net income	13,260	17,117	17,211	18,053	19,098
Core net income	14,887	16,265	17,023	18,128	18,887
EBITDA	24,649	27,690	30,682	32,927	31,124
Utility plant and others - net	105,510	109,312	112,586	120,830	124,913
Interest-bearing financial liabilities	24,443	24,613	33,591	30,042	30,308
Equity attributable to equity holders of parent	62,156	67,902	75,162	79,154	80,276
Capital expenditures	8,748	10,321	10,187	12,582	11,303
Market capitalization	278,625	293,722	282,902	288,537	360,672
Market price per share at end of year	247.20	260.60	251.00	256.00	320.00
Core earnings per share	13.21	14.43	15.10	16.08	16.76
Cash dividends declared per common share	7.80	8.10	10.20	12.36	15.25
Total shareholder returns	11.8%	8.7%	0.2%	6.9%	31.0%

	2011	2012	2013	2014	**2015**
OPERATING INFORMATION					
Number of Customers (in Thousands)					
Residential	4,580	4,735	4,901	5,097	5,296
Commercial	433	440	453	464	474
Industrial	10	10	10	10	10
Streetlights	4	4	4	4	4
Total	**5,027**	**5,189**	**5,368**	**5,575**	**5,784**
Energy Sales (in GWh)					
Residential	9,344	9,779	10,235	10,364	11,121
Commercial	12,027	12,749	13,302	13,814	14,654
Industrial	9,080	10,111	10,417	10,850	11,216
Streetlights	141	132	130	132	133
Total	**30,592**	**32,771**	**34,084**	**35,160**	**37,124**
System Loss (in %)					
Meralco	7.35	7.04	6.92	6.49	6.47
CEDC	3.96	3.75	4.33	4.37	4.16



Financial and Operating Highlights

A View from the Top

MANUEL V. PANGILINAN
Chairman

OSCAR S. REYES
President and CEO

To Our Fellow Shareholders,

"Powered by service, driven by commitment". What underpins both is our zeal to create a brighter future for our customers, and to be a partner in nation-building. This passion powered our relentless efforts to attain our objectives and to ensure that 2015 was another exceptional year of service and financial performance for Meralco.

We delivered another banner year. Continued growth in energy demand driven by the robust Philippine economy—combined with our guiding principles of focused execution, operational excellence, and continuing pursuit of efficiencies—enabled a 2015 with a distinction all its own.

We ended 2015 with a Consolidated Core Net Income of PhP18.9 billion, up 4% from 2014, despite a 5% decrease in Consolidated Electricity Revenues (due to the decline in Distribution Charge). Meralco's Distribution Charge averaged at PhP1.49 per kWh, 7% lower than PhP1.61 per kWh in 2014.

The decline in the Distribution Charge was overcome by energy sales registering a new high at 37,124 GWh, up 6% from the previous year, driven in part by the rise in total customer count to 5.8 million by end-2015. Furthermore, non-electric revenues, generated by our subsidiaries, increased by 88% to PhP8.6 billion. Finally, the Energy Regulatory Commission's (ERC) approval of our application to recoup under-recoveries and carrying cost contributed to our strong performance.

Consolidated Reported Net Income amounted to PhP19.1 billion, 6% higher than the prior year. Core Earnings per Share for the year reached PhP16.76, while Reported Earnings per Share stood at PhP16.94.

Our Consolidated Core EBITDA amounted to PhP30.9 billion, equivalent to a Core EBITDA margin of 12% on consolidated revenues.

Total dividends paid out of core earnings for the year amounted to PhP15.08 per share, or a total cash payout of 90% of our 2015 core earnings per share. This total cash dividend included a final cash dividend of PhP9.92 per share—composed of a final regular cash dividend of PhP3.22 per share and a special cash dividend of PhP6.70 per share—and the interim dividend of PhP5.16 per share.

We delivered another banner year. Continued growth in energy demand driven by the robust Philippine economy—combined with our guiding principles of focused execution, operational excellence, and continuing pursuit of efficiencies—enabled a 2015 with a distinction all its own.

While we are cognizant of how technology is influencing our business landscape, and as we move quickly to stay ahead of the curve, the fundamentals of our business remain the same: we must effectively address the needs and aspirations of customers, shareholders, and business partners.

Investing for Our Customers

With our drive towards customer centricity, we deepened our relationships with customers across all segments—residential, commercial, and industrial. As such, we continue to develop a keen understanding of their increasing and evolving needs for highly-reliable power, enhanced quality and resiliency, automation for near real-time responsiveness, and a grid that supports renewable energy and distributed generation.

We thus continued and heightened our capital investments to fortify and modernize Meralco's distribution utility infrastructure. Our 2015 consolidated capital expenditures of PhP11.3 billion will not only ensure that our capacity will meet future demand growth, but also improve network reliability and efficiency, and strengthen our facilities amid adverse weather conditions—all while complying with statutory and regulatory requirements.

We also continue to expand our business portfolio to position Meralco to serve our customers' requirements beyond energy distribution: power generation; engineering, procurement and construction (EPC); beyond-the-meter energy services; and payment fulfillment, to name a few.

Meralco PowerGen Corporation (MGen) is building a portfolio of highly fuel-efficient and highly-reliable power generating facilities of up to 3,000 MW. In December, San Buenaventura Power Limited (SBPL) proceeded with groundbreaking of a 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon, the first supercritical plant in the country, which is expected to begin commercial operations by 2019. In addition, the Supreme Court denied the Writ of Kalikasan case on Redondo Peninsula Energy, Inc. (RP Energy). In 2016, RP Energy will start the construction of a 2x300 MW circulating fluidized bed coal-fired power plant in Subic, Zambales. MGen also made significant progress with the ERC's approval of the Power Supply Agreement (PSA) between Meralco and SBPL.

Meralco's Retail Electricity Supplier (RES) unit MPower won contracts from 212 contestable customers, maintaining its market leadership in this highly competitive retail energy market. As open access rolls on with the lowering of threshold levels for contestable customers, MPower is strongly positioned, providing competitive and reliable supply and best-in-class energy products and services for contestable customers.

Our other major subsidiaries—Meralco Industrial and Engineering Services Corporation (MIESCOR), Meralco Energy, Inc. (MServ), CIS Bayad Center, Inc. and Radius Telecoms, Inc.—continued to do well and positively impact their respective markets.

Uplifting our Communities

We believe electricity is fundamental to education, poverty alleviation, and uplifting lives.

Our corporate social responsibility arm, the One Meralco Foundation (OMF), ramped up its electrification effort for low-income families in the franchise area reaching 5,993 households in 2015, or over 18,000 households cumulatively in the last five (5) years.

Outside its franchise area, Meralco continued to bring electricity to public schools in last-mile communities with the use of solar photovoltaic technology. The Foundation's school electrification program provided technology-aided learning to 50 remote mountain and island public schools, thereby improving the learning experiences of around 14,171 students enrolled in these schools, including some with students belonging to indigenous people.

Continuing our Journey

We assure you, fellow shareholders, that Meralco and all its subsidiaries will carry on its thrust of service with excellence and integrity to all our stakeholders.

We continue to innovate and invest in finding better ways to serve our customers. Kuryente Load, our prepaid electricity service, has changed lives meaningfully and for the better, as proven in its pilot tests. This service, which has also won accolades and recognition internationally, is the first in our pipeline of groundbreaking services.

We are witnessing how the convergence of Information Technology and Operations Technology together with social media, advanced communication technologies, big data analytics and cloud computing are shaping the needs of our increasingly-digital savvy and choice-conscious customers. To us, this means higher-than-ever customer expectations, including real-time access to consumption data—anywhere and via any device. To keep pace, Meralco has embarked on its own transformation that mirrors the rapidly-changing needs of our customers.

While we are cognizant of how technology is influencing our business landscape, and as we move quickly to stay ahead of the curve, the fundamentals of our business remain the same: we must effectively address the needs and aspirations of customers, shareholders, and business partners. As service is rendered, value is created.

In closing, we thank the members of the Board of Directors for their oneness in vision, governance, and support; our Management Team for their commitment to growth and excellence; our employees for their passion to deliver on our goals; and our customers, for the continued trust, patronage, and inspiration they provide.

Powered by service, driven by commitment, we move confidently to 2016 and beyond.

MANUEL V. PANGILINAN
Chairman

OSCAR S. REYES
President and CEO

The Philippine Economy in 2015 Rising Over Global Challenges

The economy defied global trends posting a Gross Domestic Product (GDP) growth of 5.8%, placing the Philippines in the list of fastest-growing major developing countries in Asia alongside economies such as India, China, and Vietnam.

Despite going below the 6.1% GDP growth in 2014 and falling short of the 7%-8% growth target set for the year, the 2015 GDP performance is considered respectable given its backdrop: a global economic slowdown further exacerbated by domestic concerns such as the onset of *El Niño*, and below-target spending by the government with respect to infrastructure projects.

This resilience to external headwinds is attributed to the Philippines' domestic economy. Government spending recovered as the year progressed and ended 2015 with a significantly higher growth of 9.4% (up from only 1.7% in 2014). This was complemented by robust private investments, encouraged by favorable ratings from the Big Three credit rating agencies.

- Standard & Poor's on April 24 reaffirmed its BBB Stable rating for the Philippines, the highest rating ever recorded in the country's history.
- Fitch Ratings on September 24 granted the country a BBB- Positive Investment Grade rating.
- Moody's on December 14 gave the Philippines a BAA2 Stable Investment Grade rating.

Despite a slowdown in growth of remittances from Overseas Filipino Workers (OFWs), several positive factors such as the record-low unemployment and inflation rates pegged at 5.6% and 1.4%, respectively, and continued growth in the Business Process Outsourcing (BPO) sector worked together to sustain a robust domestic consumption throughout the year. As such, the country posted a 6.2% growth in household consumption and was ranked highest in the Consumer Confidence Index among its Southeast Asian peers.

On the supply side, the Services sector remained the main driver for the year, posting a growth rate of 6.7% and producing 57% of GDP. The Services sector picked up the slack from the slowdown in the Industry sector which posted a 6.0% growth (down from 7.9% in 2014) and an uninspiring performance from the Agriculture sector with a 0.2% growth as a result of challenges posed by the onset of *El Niño* in June and the extensive crop damage caused by Typhoon *Lando* (international code name: *Koppu*) in October.

The Philippine peso continued its slide, posting an average exchange rate of PhP45.52 to the U.S. dollar at the end of 2015, down from PhP44.39 the previous year – reflecting, on one hand, the favorable effect of the U.S. monetary tightening to the dollar and, on the other hand, the lower demand for emerging market currencies as a result of financial market issues in China.

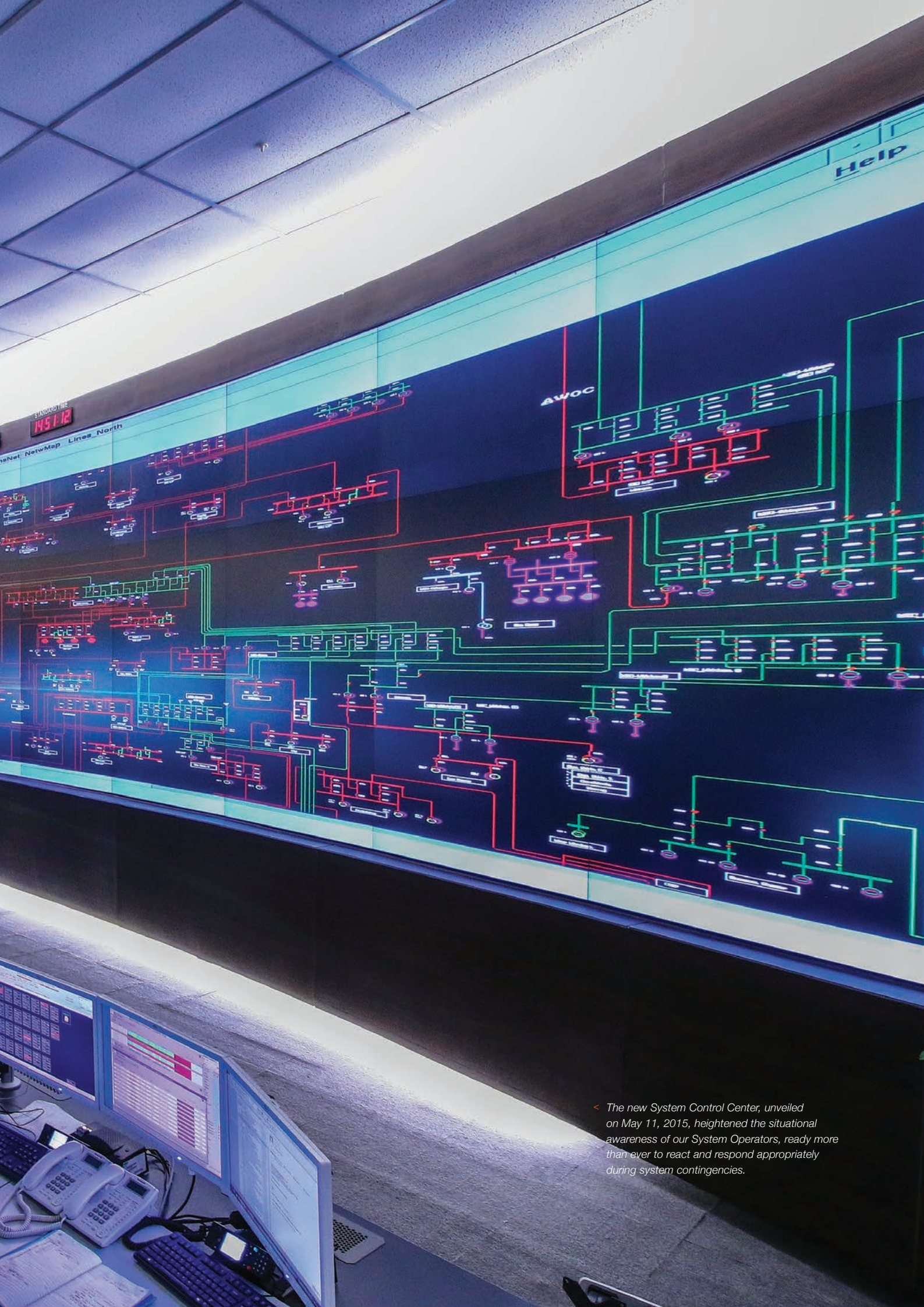
6.7%
SERVICES
(57% of GDP)

6.0%
INDUSTRY
(34% of GDP)

PhP45.52
AVERAGE RATE AGAINST THE U.S. DOLLAR

Review of Operations

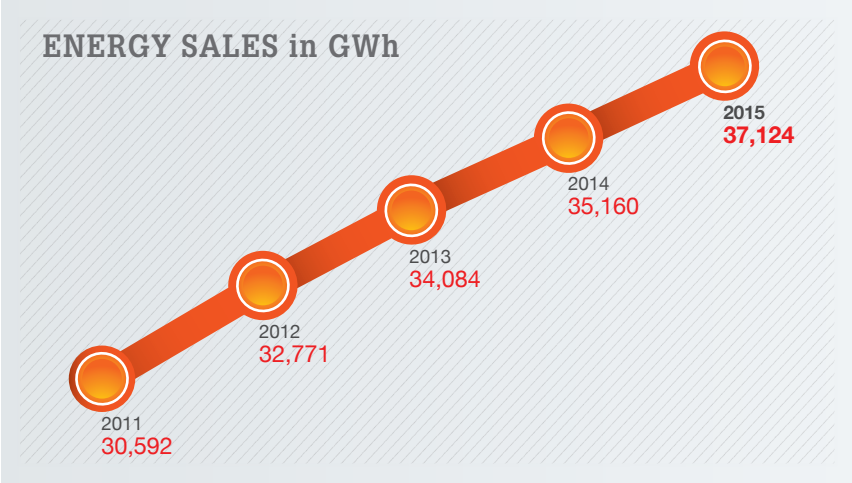
We are driven to improve network reliability and efficiency, and strengthen our facilities amid adverse weather conditions—all while complying with statutory and regulatory requirements.



The new System Control Center, unveiled on May 11, 2015, heightened the situational awareness of our System Operators, ready more than ever to react and respond appropriately during system contingencies.

ENERGY SALES: Serving a Growing Customer Base

Sustaining the growth trend in previous years, energy sales and customer count hit new record highs in 2015. The increase brought by strong power demand was driven both by external factors and Meralco's initiatives.



Note: Streetlight volume accounted for the balance of 133 GWh.

- External factors contributing to the increase in energy sales included warmer temperature due to *El Niño*, better power plant availability, positive economic conditions of record low inflation, and solid GDP growth spurred by remittances from OFWs and revenues from the BPO sector.

- Meralco's robust sub-transmission and distribution system – aided by timely customer prospecting and planning, faster application processing, design, and facilitation – paved the way for the early energization of new customers.

Consolidated sales, inclusive of CEDC, reached 37,124 GWh, surpassing the previous record-high sales of 35,160 GWh in 2014 by a 6% margin.

- Residential energy sales increased by 7% to 11,121 GWh from 10,364 GWh in 2014. An expanding customer base, warmer temperature particularly in the second half of the year, lower inflation and power prices boosted sales volume from residential customers.

- Commercial energy sales grew by 6% to 14,654 GWh in 2015. The drivers of growth in commercial sales were the BPO, real estate, retail trade, entertainment and tourism (including gaming) industries. Meralco's close coordination with real estate developers, industry groups and the National Housing Authority for project plans and timelines proved effective in realizing sales growth in this sector. Energy sales to commercial customers accounted for 40% of total energy sales for the year.

- Industrial energy sales increased by 3% to 11,216 GWh in 2015. Growth in this sector was stimulated by firms engaged in the production of food and beverages, and non-metallic products including those used in construction particularly cement sales which increased 14.4% to 24.36 million tons due largely to an aggressive public and private infrastructure spending.

- Streetlight volume accounted for the balance of 133 GWh.

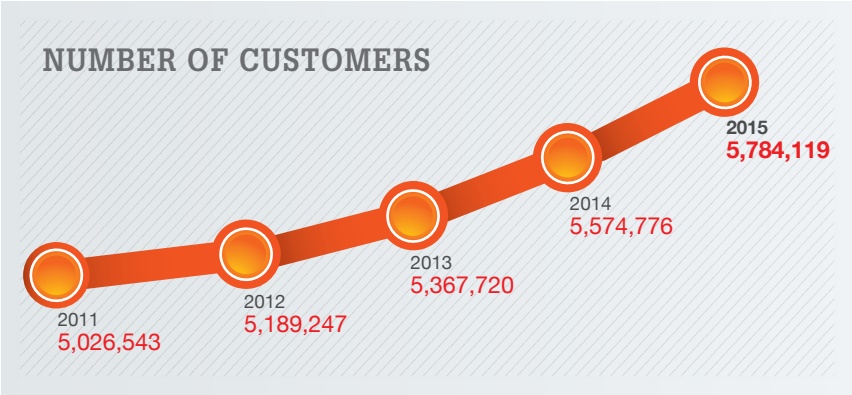
Consolidated customer base further expanded to a total of 5,784,119 customers, 4% higher than in 2014.

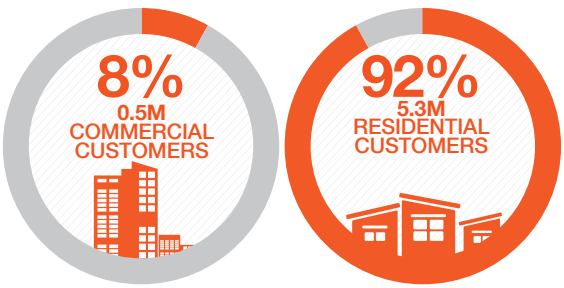
- Residential customers accounted for 92% and totaled nearly 5.3 million, up 4% from the previous year.

- Commercial customers made up 8% at slightly under 500,000, a 2% year-on-year improvement.

- Industrial customers accounted for less than 1% at slightly less than 10,000, up 1% from 2014.

- Streetlight customers accounted for less than 1% at slightly less than 5,000.





Note: Industrial and Streetlight customers accounted for less than 1% of total customer count.

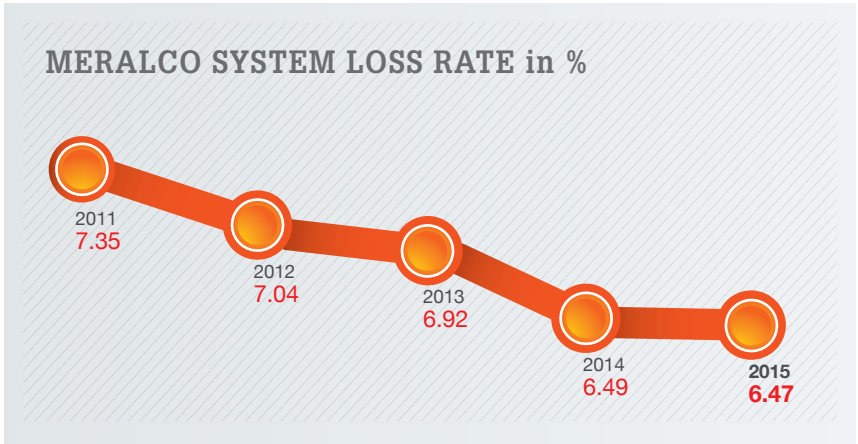
OPERATING PERFORMANCE: Raising the Bar for Service Quality

As in previous years, Meralco satisfactorily met all the standards set by the ERC.

System loss, system reliability and availability, power quality, time-to-process applications, average connection time and Call Center performance reached new milestones during the year.

Meralco system loss in 2015 was the lowest recorded in the Company's history at 6.47%, 0.02 percentage points better than the previous year's performance, and well below the ERC's 8.5% system loss cap.

- The 2015 system loss rate translates to an estimated total customer savings of PhP4.5 billion which is equivalent to an average reduction of PhP0.12 per kWh in electric bills. This brings the cumulative savings in the past eight (8) years to PhP22.1 billion, which is equivalent to an average discount of PhP0.09 per kWh in customers' bills from 2008 to 2015.



- Recoveries from pilferage cases passed on to customers from 2005 to 2015 reached PhP7.5 billion, translating to an average savings of PhP0.02 per kWh.

CEDC system loss was at 4.16% in 2015.

These achievements were made more notable in light of the numerous hurdles along the way, including challenges arising from the accelerated load growth in the franchise area and adverse weather conditions such as the onset of *El Niño*, typhoons, and torrential rains that hit Meralco franchise area in 2015.

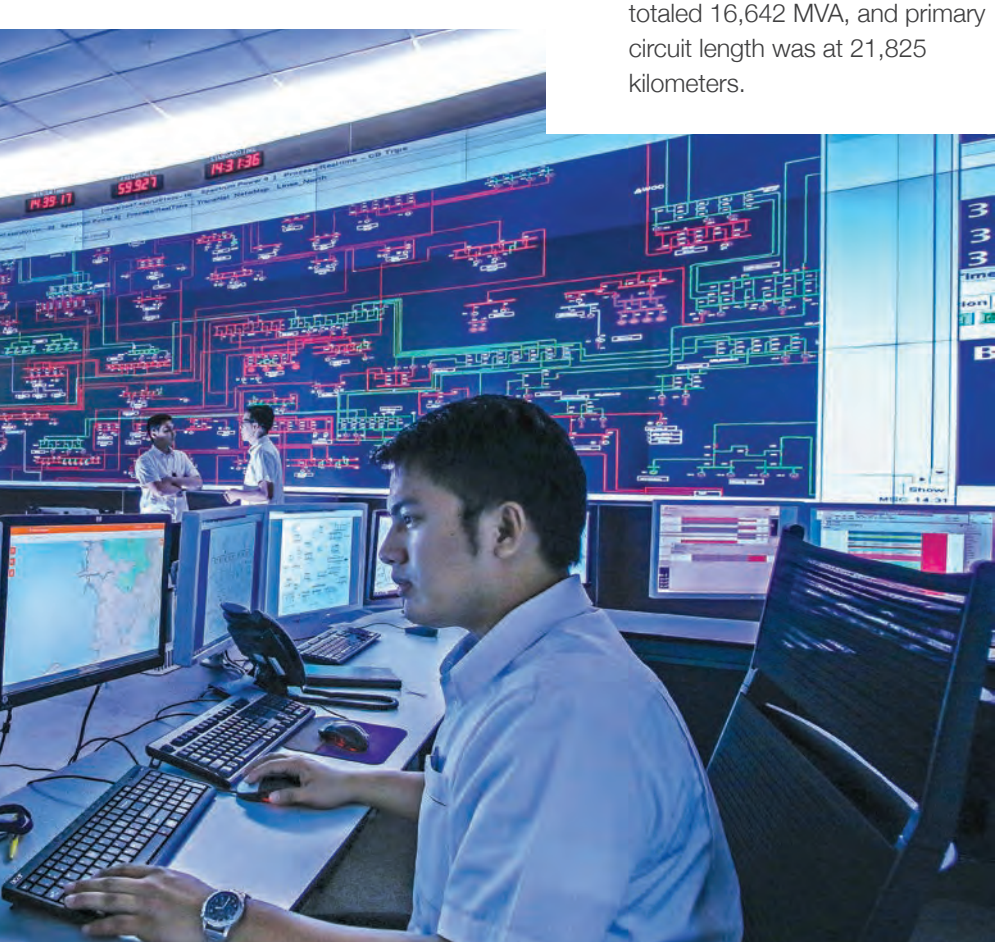
CAPITAL EXPENDITURES: Investing to Support Growth and Sustain Operational Excellence

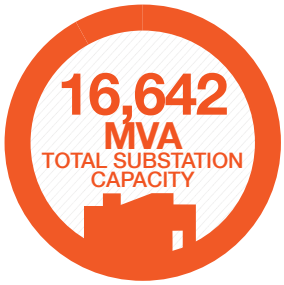
Keeping pace with the strong growth in power demand and customer base, capital expenditures in 2015 amounted to PhP11.3 billion. Capital outlays during the year were intended to:

- Ensure capacity to meet future growth in power demand;
- Sustain and improve network reliability and efficiency;
- Harden network infrastructure for resiliency against natural calamities;
- Adapt with emerging technologies and innovations;
- Comply with statutory and regulatory requirements; and
- Support government infrastructure initiatives.

Investments in Electric Capital Projects (ECPs) accounted for almost all of the capital expenditures and paved the way for the completion of facilities that further enhance the robustness of Meralco's distribution system.

- Completed ECPs for the year include three (3) substation projects, three (3) sub-transmission line projects, 22 residual projects, and five (5) other significant projects. These completed projects further increased Meralco's total substation capacity by 332 MVA and primary circuit length by 75 kilometers. As of year-end, Meralco's substation capacity totaled 16,642 MVA, and primary circuit length was at 21,825 kilometers.





- Investments in grid modernization continued in 2015 with the commissioning of two (2) smart substations using the IEC 61850 substation automation standard, deployment of remotely controlled feeder devices, and completion of the state of the art System Control Center. These projects now provide unprecedented visibility into the grid, which greatly contributes in limiting the number of outages and shortening service restoration time.

To improve the processes and procedures for the upkeep of relevant and up-to-date asset information, the Enterprise Asset Management (EAM) Project was rolled out in 2015. The EAM supports the entire life cycle of work and asset management processes and tracks all types of electric distribution assets from acquisition to retirement. This technology allows Meralco to improve utilization and performance, reduce capital costs and asset-related operating costs.

MERALCO CUSTOMER BILL: Passing on Gains to Customers

Significant reductions in electricity bills were seen throughout 2015 as average retail rate of electricity across all customer classes fell to PhP8.26 per kWh, more than a peso lower than the PhP9.42 per kWh average rate in 2014.

- Generation Charge at PhP4.49 per kWh continued to be the single largest component of the customers' bill for the year, accounting for 54% of the total. This year's average Generation Charge is also the lowest since 2010 and 16% lower than in 2014. The reduction in Generation Charge was mainly due to lower overall fuel prices and lower charges from the Wholesale Electricity Spot Market (WESM).

- Transmission Charge comprised 11% of the customers' bill at PhP0.87 per kWh, down 5% from PhP0.92 per kWh in 2014.

- Meralco's Distribution Charge accounted for only 18% of the average bill of customers at PhP1.49 per kWh, down by 7% from PhP1.61 per kWh in 2014.

- System Loss Charge formed 4% of the average bill at PhP0.37 per kWh, 16% lower than the PhP0.44 per kWh in 2014.

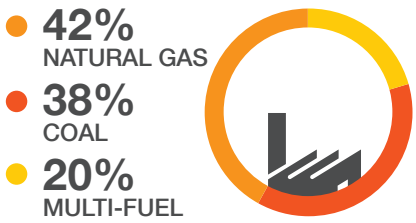
ANNUAL AVERAGE RATE in PhP per KWh

RATE COMPONENT	2014	2015
Generation	5.34	4.49
Transmission	0.92	0.87
Distribution	1.61	1.49
System Loss	0.44	0.37
Taxes/Subsidies/Universal Charges	1.11	1.00
FIT-Allowance	-	0.04
TOTAL	9.42	8.26

POWER SOURCES in GWh

SOURCE	2014	2015
Power Supply Agreements (PSAs)	15,983	15,391
Independent Power Producers (IPPs)	12,833	14,106
Retail Electricity Suppliers (RESs)	6,945	7,526
Wholesale Electricity Spot Market (WESM)	1,092	1,986
Special Contracts	725	730
TOTAL NET SYSTEM INPUT (NSI)	37,578	39,739

2015 FUEL MIX



- Taxes, Subsidies and Universal Charges accounted for 12% of the customers' bill at PhP1.00 per kWh, down by 10% from P1.11 per kWh in 2014.

- The Feed-In-Tariff Allowance for renewable energy (FIT-ALL Renewable) was introduced as a new customer bill item in 2015. Fixed at PhP0.0406 per kWh for 2015, FIT-ALL Renewable is a uniform pass-through charge that Meralco is required to collect from its customers as directed by the ERC, in support of the FIT Program.

POWER SUPPLY AND DEMAND: Power Sourcing Geared Towards Diversification

Keeping pace with the expanding power demand, consolidated Net System Input (NSI) reached a new record high of 39,739 GWh, up 6% from the previous year of 37,578 GWh.

- Power sourced through Power Supply Agreements (PSAs) with South Premiere Power Corporation (Ilijan), San Miguel Energy Corporation (Sual), Sem-Calaca Power Corporation (Calaca), Masinloc Power Partners Company Ltd. (Masinloc), Therma Luzon, Inc. (Pagbilao), Therma Mobile, Inc. (Navotas) and small renewable energy plants was at 15,391 GWh. This is slightly lower than the 2014 uptake of 15,983 GWh but still accounted for the largest portion of NSI for 2015 at 39%.

- Power sourced from Independent Power Producers (IPPs), namely, First Gas Power Corporation (Santa Rita Plant), FGP Corp. (San Lorenzo Plant) and Quezon Power (Philippines) Limited Co. reached 14,106 GWh – higher than 12,833 GWh in 2014 – and accounted for 35% of the total NSI.

- While limited by scheduled and extended maintenance shutdowns and unscheduled forced outages of base load power plants in 2015, power purchased from the WESM increased to 1,986 GWh from 1,092 GWh in 2014, accounting for 5% of total NSI.

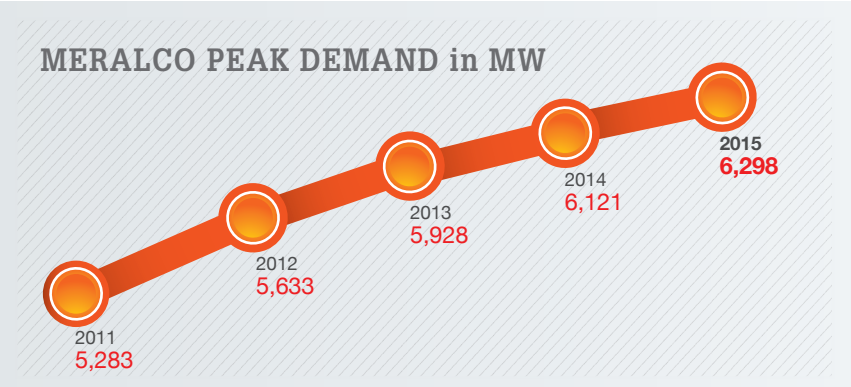
- Contestable customers that wheeled power requirements through Meralco from their respective RESs accounted for 7,526, or 19% of total NSI, while customers under Special Contracts – including Sunpower, Cocochem Agro-Industrial Park (CAIP) and Cavite Economic Zone (CEZ) – wheeled 730 GWh, which accounted for 2% of the total NSI.

Recorded on August 18, 2015 peak demand reached 6,298 MW, up 3% from the 2014 peak demand of 6,121 MW. This is the first time that the recorded peak demand occurred outside of the summer months of March to June. Luzon peak demand registered on May 21, 2015 was likewise higher by 2% at 8,928 MW over the 8,717 MW in 2014.

After connecting the 20 MW Maibarara Geothermal Plant in Laguna – the first renewable energy project commissioned after the enactment of the RE Law – Meralco continues to energize more and more generators through its distribution system.

- In 2015, to augment power supply during the Malampaya pipeline shutdown, Meralco rehabilitated the facilities connecting the 21 MW Botocan Hydroelectric Power Plant in Laguna and enabled the interconnection of the 100 MW Millennium Gas Turbine Plant in Navotas.

  The year also saw Meralco connecting to the grid the 54 MW Alternergy wind farm in Pililla, Rizal and the 1.22 MW Solar Philippines-North EDSA solar photovoltaic (PV) plant in Quezon City. Both projects are part of the FIT program of the government.



REGULATORY DEVELOPMENTS

Performance-Based Regulation

Rate-setting under Performance-Based Regulation (PBR) is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). Tariffs are set based on the regulated asset base, the required operating and capital expenditures and the regulated return which are determined for each Regulatory Period (RP) to meet operational performance and service level requirements. These requirements are to meet customer needs for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the ERC during the regulatory reset process. PBR also employs a mechanism that rewards or penalizes a DU depending on its network and service performance.

The rate reset is done on an RP basis with one RP consisting of four (4) Regulatory Years (RYs). Meralco's RY starts on July 1 and ends on June 30 of the following year. Meralco has already completed the 3rd RP on June 30, 2015. PBR rules are currently under review by the ERC and the regulatory reset process for the 4th RP has not yet started. For the meantime, the Company has filed for and received a provisional approval of an Interim Average Rate of PhP1.3810 per kWh for the period starting July 1, 2015. As of April 2016, evidentiary hearings are being conducted by the ERC.

Retail Competition and Open Access

Retail Competition and Open Access (RCOA) commenced on June 26, 2013. As of December 31, 2015, there were 360 contestable customers in Meralco's franchise area obtaining retail supply from their respective RESs.

On March 8, 2016, the ERC promulgated Resolution No. 5, Series of 2016 entitled *"A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (RES) and Prescribing the Requirements and Conditions Therefor"*. The Resolution lifted the suspension of the issuance of RES licenses, which was previously imposed under Resolution No. 17, Series of 2014. Moreover, under Resolution No. 5, an affiliate of the DU may become a RES.

On April 8, 2016, the ERC posted for comments the third draft of the *"Revised Rules for Contestability"* and the first draft of the *"Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market."* As of April 19, 2016, the drafts were still pending before the ERC.

Primary Offer Cap and Secondary Price Cap in the Wholesale Electricity Spot Market

On December 15, 2014 the ERC promulgated Resolution No. 20, Series of 2014 entitled *"A Resolution Adopting and Establishing a Preemptive Mitigation Measure in the Wholesale Electricity Spot Market (WESM)"*. Under the new mitigation measure, a secondary price cap of PhP6,245 per MWh will be imposed if the Generator Weighted Average Price (GWAP) over a rolling 168-hour (or seven-day) period exceeds PhP9,000 per MWh. The market clearing price for the immediate trading interval following the breach will be the actual market clearing price or the secondary price cap, whichever is lower. It shall be imposed until after a determination that the succeeding GWAP rolling average is already below the threshold. The preemptive mitigation measure has taken effect beginning January 9, 2015.

On December 17, 2015, the WESM Tripartite Committee issued Joint Resolution No. 3, Series of 2015 entitled *"A Resolution Setting the Offer Price Cap and Offer Price Floor in the Wholesale Electricity Spot Market (WESM) Effective 01 January 2016"*. Under the Joint Resolution, the WESM Offer Price Cap is set at PhP32,000 per MWh and the WESM Offer Price Floor is negative PhP10,000 per MWh, effective January 1, 2016. The Joint Resolution also provides for an annual review of the price cap and floor, considering the relevant cost assumptions.

Feed-In-Tariff (FIT)

Pursuant to Republic Act No. 9513, or the Renewable Energy Act of 2008 or RE Act, the ERC issued Resolution No. 16, Series of 2010, Adopting the Feed-In-Tariff (FIT) Rules, on July 23, 2010. As defined under the FIT Rules, the FIT system is a renewable energy policy that offers a guaranteed payment of a fixed rate per kilowatt-hour for electricity from wind, solar, ocean, run-of-river hydropower and biomass energy sources.

To support the FIT Program, the ERC approved the collection of a FIT-Allowance (FIT-ALL) of PhP0.0406 per kWh for 2015. FIT-ALL is a uniform charge in peso per kWh billed to all on-grid electricity consumers nationwide. The FIT-ALL charge forms part of a fund which is used to pay the FIT-eligible developers of renewable energy-based power plants for the energy they produce. For Meralco customers, the FIT-ALL charge appeared on their electricity bills starting February 2015, with the label "FIT-ALL (Renewable)".

New Solar FIT Rate of PhP8.69 per kWh

On March 27, 2015, the ERC issued Resolution No. 06, Series of 2015, entitled ***"Resolution Adopting the New Solar Feed-In-Tariff (FIT) Rate".*** The resolution was issued in response to the DOE's Certification dated April 30, 2014, revising the installation target for solar energy generation under the FIT System from 50 MW to 500 MW. In its Resolution, the ERC adopted the New Solar FIT Rate of Php8.69 per kWh. To align the Resolution with the Department of Energy's (DOE) Certification, the New Solar FIT shall be valid until March 15, 2016.

New Wind FIT Rate of PhP7.40 per kWh

On October 6, 2015, the ERC issued Resolution No. 14, Series of 2015, entitled ***"Resolution Adopting the Wind Feed-In-Tariff (Wind-FIT2) Rate".*** The resolution was issued in response to the DOE's Certification dated April 7, 2015, revising the installation target for wind energy generation under the FIT System from 200 MW to 400 MW. In its Resolution, the ERC approved a Wind FIT2 rate of PhP7.40 per kWh, applicable to three wind projects with an aggregate capacity of 144 MW.

Provisionally-approved FIT-ALL Charge of PhP0.1240 per kWh for 2016

On February 16, 2016, the ERC provisionally-approved FIT-ALL charge of Php0.1240 per kWh, starting April 2016 bills to customers. The provisionally-approved rate of PhP0.1240 per kWh is higher than the applied rate of PhP0.1025 per kWh proposed on December 22, 2015 by the National Transmission Corporation (TransCo), the designated Administrator of the FIT-ALL Fund. Hearings on the application commenced in Luzon on March 8, 2016.

Interruptible Load Program

On February 18 and March 6, 2015, Meralco conducted Interruptible Load Program (ILP) dry run exercises in preparation for the summer season, as directed by the DOE. Under the ILP, a customer may voluntarily reduce its load requirement from the grid, typically by shifting its requirement to its generator set.

On April 6, 2015, the ERC issued Resolution No. 5, Series of 2015 entitled ***"A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program (ILP)"***, which provides the guidelines for the participation of Contestable Customers, locators in economic and freeport zones, and end-users directly connected to the transmission grid in the ILP. Under the Resolution, the ERC removed the cap on the level of maintenance cost of generator sets used in determining the amount of compensation to ILP participants. The ERC also allowed the recovery of such compensation from all distribution wheeling load customers, including DOE-initiated dry runs.

On June 1, 2015, the DOE issued Department Circular No. DC2015-06-0003 entitled ***"Providing the Interim Manner for Declaring Bilateral Contract Quantities (BCQ) in the Wholesale Electricity Spot Market (WESM) and Directing the Philippine Electricity Market Corporation (PEMC) to Establish Necessary Protocols to Complement the Interruptible Load Program (ILP)",*** which provides additional protocols for accounting for ILP activations in the WESM.

As at March 31, 2016, there were 415 services with an equivalent deloading capacity of 794 MW enrolled in the ILP within the Meralco franchise area.

With our drive towards customer centricity, we deepened our relationships with customers across all segments—residential, commercial, and industrial.

CUSTOMER SERVICE
A Defining Thread

Delivering stable and affordable electricity to its customers has been the common thread that runs through Meralco's history. In recent years, Meralco has added customer centricity and innovation in its brand framework, and in 2015 executed a wide range of initiatives:

Energizing Partnerships

- Memorandum of Understanding on the Energizing Partnership Programs were signed with 23 local government units (LGUs), paving the way for more strategic planning and closer collaboration between Meralco and LGU leaders on key developments in their areas. This partnership enables the effective implementation of community-based programs (with the help of OMF), energy efficiency and environmental awareness programs, as well as technology and innovation programs. Such programs often include prepaid electricity offerings and the use of electric vehicles that directly benefit community members.

- For businesses with consumption of 5 kW to 499 kW a month, Meralco rebooted its strategy and renamed its sales segment team as "Meralco Biz Partners" with a full suite of touchpoints such as a business hotline, a microsite, and Power Up Forums.

Customer Journey Improvement

- A Customer Journey Improvement Program (CJIP) was launched in 2015 to enhance the customer experience in various points of engagement – from service application to payments, from inquiries to request for repairs.

- In particular, CJIP enables Meralco to interact with customers at any point in a customer's journey, creating a seamless customer experience. As part of the program, Online Service Application was piloted in select business centers.

Online Touchpoints

- Meralco recognizes its evolving customer and seeks to stay ahead of the curve. With almost all of its customers on mobile, and most households with at least one member having internet access, Meralco maintained strong presence in digital media platforms, effectively employing SMS and social media as customer service and information campaign touchpoints. Meralco's Twitter account now has over 900,000 followers, and its Facebook page now has over 230,000 fans. This effort will continue to evolve as Meralco defines further its digital strategy.

- As a result of its strong digital presence, global social media analytics company, Social Bakers, ranked Meralco among the top 10 most socially devoted companies in the industrial category.

Through the annual Luminaries Awards, Meralco's flagship customer engagement program, the Company recognizes and honors local government units, businesses and corporations who partnered with Meralco and shared its vision of building a more progressive Philippines.

- Improved operational efficiencies and less outages combined with Meralco's customer centric efforts earned Meralco its highest-ever customer satisfaction index at 8.18, a statistically significant higher score by seven points compared with the previous year.

Prepaid Electricity/KLoad

- Since the approval of the business rules by the ERC in May 2015, Meralco's commercial pilot of its prepaid electricity service Kuryente Load (KLoad) has reached over 20,000 customers with over 30,000 applications still in the pipeline.

- In a study by a third party research agency, KLoad registered a high 90% satisfaction rating among its early adopters. Customers cited several factors – including the affordability of low denominations, the information provided in daily balances sent via SMS, and the convenience of buying load from regular mobile retail outlets – as highlights of the KLoad experience.

- Local government units and property developers of horizontal and vertical dwelling units have expressed keen interest in availing the KLoad service. The service is part of the Advanced Metering Infrastructure (AMI) program under Meralco's Smart Grid journey.

Meralco Power Lab

- The Meralco Power Lab opened its doors on January 28, 2015. It is an independent facility dedicated to testing the energy efficiency of appliances, and the claims of new technologies like inverter and LED, solar, and electric vehicles.

- In its inaugural year, Power Lab tested over 200 appliances and advised customers on how much they can save by adopting energy saving practices. All these are communicated to customers in Meralco's Orange Tag education campaign, monthly Meralco Advisory, and media tie-ups.

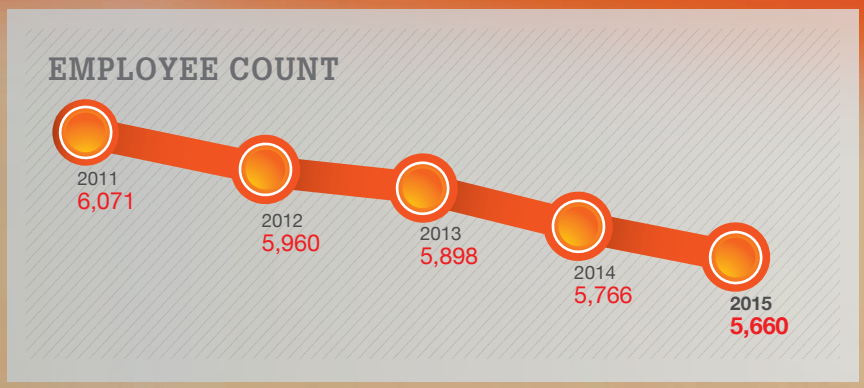
- Power Lab hosted over 50 visits and forums for various schools, electric cooperatives, and even utilities abroad.

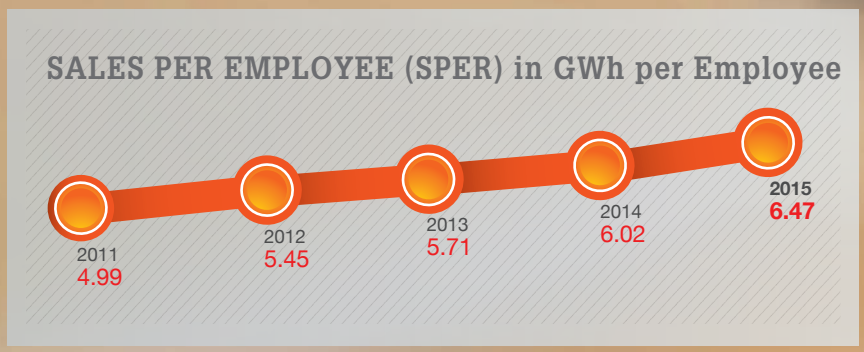
- For every test, Power Lab provides an "Orange Tag" which shows how much, in pesos, an appliance consumes per hour of use – making it easier to compare appliance brands and guiding customers on the cost of using each appliance. Orange Tag is attached on all appliances tested with partner-manufacturers in retail stores. Customers can also see the Orange Tag ratings of common appliances at home through the Meralco website.

Other Developments

- A total of 267 net metering applications were commissioned as of year-end, equivalent to an aggregate capacity of 1,387.59 kWp, allowing customers with up to 100 kW of installed solar panels to generate power for their own use and to export excess generation to Meralco. Net Metering knowledge sharing sessions were conducted to educate customers on how to safely install solar panels.

- A new customer center was opened in Meycauayan, Bulacan.





HUMAN RESOURCES: Sustaining High Levels of Productivity, Capability and Engagement

Excellence in people management and human capital development further raised the overall productivity, sustained the high level of engagement, and continuously shaped a customer service-oriented Meralco workforce.

Workforce productivity reached an all-time high with 6.47 GWh energy Sales per Employee Ratio (SPER) vis-à-vis 6.02 in 2014 and a 1,022 Customer per Employee Ratio (CPER) compared with 967 in the prior year. Regular employee count at year-end was 5,660, down 2% from 5,766 in the previous year.

Key people programs implemented to achieve these include:

Talent Management and Development

- A robust and highly collaborative Succession Planning Process for senior management and key leadership positions across the organization to ensure availability of capable leadership talent.

- Leadership programs for all management level personnel to develop critical competencies with a focus on strategic thinking, risk-taking, entrepreneurship, and innovation.

- Behavioral and competency-based training designed to engage a changing and multi-generation workforce and enable them to effectively manage their professional careers.

- Hiring the best and the brightest from universities across the country and training them to become future leaders through the Power Innovators Management Trainee Program.

Employee Relations and Wellness

- A Collective Bargaining Agreement with FLAMES, the Supervisory Union, was concluded in November 2015 demonstrating the strength of the strategic partnership between labor and management.

- Orange Fit, Meralco's Employee Wellness Program, was conferred the 2015 People Program of the Year by the People Management Association of the Philippines (PMAP). With this, Meralco has been awarded with all PMAP Awards of Excellence which include Employer of the Year and People Manager of the Year.

Safety and Disaster Resiliency

- Lost Time Injury Rate (LTIR)* was measured at 0.29, a 50% improvement from the 0.58 rating in 2014.

  An Intensified Disaster Resiliency Campaign was launched through proactive staff engagement and infrastructure strengthening measures:

  - Meralco Center and Sectors Earthquake Awareness and Preparedness Forums
  - 1st Metro-wide Shake Drills
  - 1st Earthquake Response Table Top exercise
  - Strengthening and hardening of the headquarters building.
- Proactive and collaborative public safety engagements, such as Building Worksite Safety Orientations, LGU/ School/Barangay Safety Lectures, and Tri-Media Public Safety Engagements, were intensified. These yielded substantial improvement in all safety indicators.

**LTIR=Number of Lost Time Incidents x 1,000,000/man-hours of exposure*

We also continue to expand
our business portfolio to
position Meralco to serve
our customers' requirements
beyond energy distribution.

Growth Pillars
Expanding Our Reach

MERALCO POWERGEN CORPORATION

Meralco PowerGen Corporation (MGen), Meralco's power generating unit, achieved major breakthroughs in 2015 allowing the company to move forward with its mission of building a power generation portfolio of up to 3,000 MW in the next five (5) years.

- **San Buenaventura Power Ltd. Co. (SBPL),** a joint venture between MGen and Electricity Generating Public Company Limited of Thailand (EGCO) Group, passed significant milestones for its 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon in 2015.
  - In May, SBPL secured the ERC's approval for its PSA with Meralco, allowing SBPL to sell the electricity generated by the plant to the distribution utility.
  - In October, SBPL signed a PhP42.15-billion omnibus loan agreement with a consortium of local banks to fund the project. Initial drawdown of the loan was achieved in December 2015. This loan, which is the country's biggest all-peso project finance facility to date, was recognized as the "Asia Pacific Power Deal of the Year" by Project Finance International.
  - In December 2015, SBPL held the groundbreaking ceremony for the power plant and issued the notice to proceed to the consortium of Daelim Industrial Co. Ltd. and Mitsubishi Corporation, the Engineering, Procurement and Construction (EPC) contractor for the project. Under the EPC contract, the contractor has 42 months from the notice to proceed to complete the SBPL power plant.
  - The SBPL plant, a prospective baseload power supplier in Luzon, will be the first coal plant in the country to use state-of-the-art supercritical technology, which will make it more efficient than existing coal plants in the Philippines.
- **Redondo Peninsula Energy, Inc. (RP Energy)**, in February 2015, received the Supreme Court's decision denying the Writ of Kalikasan case filed against its planned 2x300 MW Circulating Fluidized Bed (CFB) coal-fired power plant in Subic, Zambales.
  - The Supreme Court upheld the validity of the Environmental Compliance Certificate (ECC) and its first two (2) amendments, as well as the Lease and Development Agreement of RP Energy with Subic Bay Metropolitan Authority (SBMA). Construction of the power plant is expected to start in 2016.
- **Atimonan One Energy, Inc. (A1E),** through which MGen is developing a 2x600 MW supercritical power plant, moved forward with the pre-development activities for the coal-fired power facility in Atimonan, Quezon.
  - In October 2015, A1E secured the ECC for the project. Bids for the EPC have been received in December 2015 and these are currently under assessment. Awarding to the preferred contractor is targeted by the 3rd quarter of 2016.
  - Site preparation is targeted to start in the 4th quarter of 2016 to pave the way for the scheduled completion of the first 600 MW unit by early 2021.
- **Global Business Power Corporation (GBPC)** saw significant progress in the construction of its coal-fired power plant in Iloilo.
  - Construction work in Panay Energy Development Corporation's (PEDC) 1x150 MW CFB coal-fired power plant in Iloilo, which forms part of GBPC's portfolio, went into full swing in 2015 and is expected to start commercial operations in the 3rd quarter of 2016.

- GBPC is 22% owned by MGen after an additional 2% equity was acquired in June 2014. In the Visayas, GBPC currently owns and operates coal plants totaling 552 MW, and diesel plants with combined capacity of 144.5 MW. GBPC also operates a 7.5 MW diesel plant in Mindoro.

- **PacificLight Power Pte. Ltd. (PLP),** which operates a 2x400 MW combined cycle turbine power plant mainly fueled by liquefied natural gas (LNG) in Jurong Island, Singapore, received citations for its subsidiary's stellar performance in the area of power retail.
  - In March, PacificLight Energy Ptd Ltd (PLE) – PLP's power retail arm – won two (2) citations during the Singapore Outstanding Entrepreneur Award, in recognition of its entrepreneurial spirit and customer service. This was followed by its recognition as "SME of the Year", for the company's excellent services and continuous improvements.
  - PLE is the first Singapore power retailer to introduce a hybrid energy solution in partnership with global solar solutions provider, Renewable Energy Corporation (REC). Known as the "PLEdge to RECharge Green Energy Programme", the program provides consumers with cost-competitive choices while protecting the environment through the adoption of solar energy together with energy generated from natural gas.

RETAIL ELECTRICITY SUPPLY

MPOWER

- As the competitive market continues to grow, Meralco's Local Retail Electricity Supplier (LRES), MPower, has positioned itself as a major market player providing the best value in energy products and services, while supporting programs that pursue community development, public service and education.

- By end-2015, 360 contestable customers – accounting for about half of the contestable market demand – switched to retail competition. Of this number, 212 customers signed with MPower, maintaining Meralco's leadership in the new energy market.

- MPower established its foothold in the competitive market within Meralco's franchise area by contracting leading companies across various industries. Moreover, MPower thrived across all major industry segments and captured significant market shares in the semiconductor, steel, food, plastic, paper, glass and chemical manufacturing, telecoms, utilities, hotel and recreation, services, and entertainment industries.

- After more than two (2) years of commercial operations, contestable customers of MPower reaped the benefits of retail competition, enjoying competitive retail rates, reliable supply, and access to a variety of energy services.

- Contestable customers continue to patronize MPower as their Retailer of Choice because of its reliable power supply portfolio and best-in-class customer experience. As RCOA lowers the threshold levels for contestable customers, MPower continues to develop relevant and beneficial energy products and services and make these available to the contestable market.

- In support of the government's call to address the anticipated power shortage during the summer season of 2015, MPower engaged its customers to participate in the ILP. More than a hundred customers participated and expressed their support for the ILP initiative, signing up over 200 MW of deloadable demand during periods of tight supply.

Corporate Social Responsibility

Driven by commitment, we believe in the possibility of what many had thought of as impossible - by going the extra mile, and by appreciating the power of partnerships. This is what we call commitment — the will to do despite the odds.

MERALCO

When Meralco transformed the way it did CSR in 2011, it zeroed in on what it does best — electrification. Powered by the passion to serve and driven by a deep sense of commitment, the Company launched its flagship social development programs: household electrification for low income families within the Meralco franchise area, and the school electrification program for remote mountain and island public schools via solar technology.

As one of the advocates of school electrification for public schools in the countryside, Meralco's social development arm One Meralco Foundation conducted a thorough study and created a template to make the program sustainable.

Through the efficiency and hard work of its business centers, Meralco broke its previous household electrification record by energizing 5,993 low income households in its franchise area in 2015 or a total of 18,997 in the last five years. It also paved the way for progress for an Aeta community in Tarlac by bringing electricity to 35 homes.

Outside its franchise area, Meralco continued to bring electricity to public schools in last mile communities with the use of solar photovoltaic technology. The

Foundation's school electrification program enabled technology-aided learning to 50 remote mountain and island public schools, four (4) of which are in Luzon while 35 are in the Visayas and 11 in Mindanao, thereby improving the learning experiences of around 14,208 students enrolled in these schools. Seven (7) of the schools energized during the year are attended by more than a thousand students belonging to indigenous people's groups such as the Manobos of Surigao del Sur and the Aetas of Pampanga. With electricity now available in their schools, teachers are able to use multimedia learning tools in classroom instruction.

Additionally, One Meralco Foundation launched an alternative approach to cater to smaller remote schools which could not sustain a full-blown solar electrification project. The program, dubbed 'One Child, One Lamp,' aligns with the Department of Education's (DepEd) LightEd.PH. initiative to bring electricity to public schools. Its goal is to donate rechargeable solar lamps so that students could continue studying their lessons at home at night. The campaign successfully raised funds to donate 10,000 solar-powered lamps to hundreds of the farthest, unenergized public schools nationwide.

The Foundation also took the lead in promoting responsible energy use with the launch of its energy education program. The initiative enables public and private school teachers to collaborate and produce contextualized energy-related learning materials aligned with the K to 12 curriculum. Initially, Meralco produced 1,000 learning kits each containing 200 energy flashcards created by 38 select teachers from public schools nationwide. The kits are being distributed to public schools, and regional energy camps are being conducted by the Foundation, in partnership with the Coalition for Better Education, to train teachers on how to integrate the flashcards in their lesson plans.

Outside of its energy-related initiatives, Meralco implements programs that foster partnerships in the grassroots, develop the skills and open up opportunities for the youth, provide assistance in times of disasters, and engage its own employees to serve beyond the call of duty.

In 2015, Meralco engaged in 89 community relations projects including the donation of 6,135 sets of school supplies to kindergarten pupils in public schools throughout the Meralco franchise as part of its back-to-school activities. It has also granted scholarship to 700 skilled laborers in Los Banos, Laguna for their technical-vocational training program, and to assist them as well in finding suitable jobs in the private sector or start their own business. Meralco business unit MPower together with its parnter clients also built a kindergarten classroom in Lagundi Elementary School in Plaridel, Bulacan.

In the area of youth development, Meralco awarded deserving dependents of Meralco employees who excelled in their academics through the annual MVP Academic Achievement Awards (MVPAAA). Two hundred and forty two received the award, 42 of which are top achievers (those who won the year before and maintained exemplary academic performance the following year).

The Company also makes use of sports as a tool to mould the values of the future generation of Filipinos. It leverages its professional-league basketball and football teams to come up with training programs in the communities where Meralco and its corporate partners operate. Meralco employees who are skilled in the game of chess are also able to pass on their knowledge to elementary and high school students and out-of-school youths. For example, the Company's football team, the Meralco Sparks traveled all the way to Bongao, Tawi-tawi to train hundreds of young people through the Football for Peace program.

Employees are a key driver of success for Meralco's CSR initiatives.

Throughout the year, 2,488 Meralco employees logged 29,739 volunteer hours to benefit the Company's customers and those in the peripheries especially in times of disasters. These include the linemen and engineers, the unsung heroes, who extended their services beyond Meralco's boundaries to help bring back electricity in Oriental Mindoro and Sorsogon in the aftermath of Typhoon *Nona* (international name: *Melor*) in December.

In 2015, Meralco's CSR programs reached new heights by believing in the possibility of what many had thought of as impossible - by going the extra mile, and by appreciating the power of partnerships. This is what we call commitment — the will to do despite the odds.

For more information on the One Meralco Foundation program, kindly refer to the accompanying One Meralco Foundation Annual Report or visit www.onemeralcofoundation.org.

14,208
STUDENTS WITH IMPROVED LEARNING THROUGH SCHOOL ELECTRIFICATION

422
SCHOOLS PARTICIPATED IN ENERGY EDUCATION PROGRAM

2,045
YOUTH DEVELOPMENT PROGRAM PARTICIPANTS

2,488
EMPLOYEE VOLUNTEERS

29,739
VOLUNTEER HOURS

6,249
FAMILIES DIRECTLY BENEFITING FROM DISASTER RESPONSE

2015 Corporate Governance Report

Powered by Stakeholder Service

On its 113th year of service to various stakeholders, as the country's largest electric distribution utility company, Meralco reaffirmed its commitment to the principles of Fairness, Accountability, Integrity and Transparency in the conduct of its business and other dealings with its shareholders, customers, employees, government regulators, and other stakeholders by ensuring the highest standards of ethical business practices and upholding the tenets of service excellence. These principles have guided Meralco and will continue to do so throughout its corporate existence.

As a publicly listed company, Meralco subscribes to the highest standards of good corporate governance and has put in place a set of well-defined policies and processes to enhance corporate performance, sustain operational growth, and reinforce accountability, as well as protect the interests of all stakeholders.

The Company is in full compliance with the corporate governance code, rules, and regulations promulgated and enforced by the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE), Philippine Dealing & Exchange Corp. (PDEx), and other relevant regulatory bodies.

The Company's Board of Directors (Board) champions its corporate governance policies and processes while its Management implements and oversees relevant programs and communications to ensure full compliance to these policies and processes in the service of and for the benefit of all stakeholders.

In 2015, the Company and its officers received several awards and accolades from the SEC, PSE, and the investment community for excellence in corporate governance:

- *Top 50 ASEAN Publicly-Listed Companies and ranked as 7th in the Top Philippine Publicly-Listed Companies* vis-à-vis the ASEAN Corporate Governance Scorecard (ACGS).
- *Top 10 Finalists* for the *Bell Awards* for exemplary corporate governance standards based on PSE's Corporate Governance Guidelines for Listed Companies, which include, among others, a sound business strategy, an effective board of directors and policies to protect shareholders rights.

- Corporate Governance Asia conferred on the Company the following awards:

  - Asia's Best Chief Executive Officer (CEO) (Philippines) – Oscar S. Reyes
  - Best Investor Relations Company in the Philippines
  - Best Investor Relations Officer in the Philippines – Rafael L. Andrada
  - Asia's Best Chief Finance Officer (CFO) (Philippines) – Ms. Betty C. Siy Yap
  - Best in Corporate Social Responsibility (CSR)

A. RIGHTS OF SHAREHOLDERS

The Company recognizes the rights of all shareholders as provided in the Corporation Code of the Philippines, other pertinent laws, rules, and regulations, the Company's Articles of Incorporation, Amended By-Laws and Revised Manual of Corporate Governance (MCG).

A.1 Right to Dividends

Dividend Policy

The Company's dividend policy, as approved by the Board and ratified by the shareholders during the May 25, 2010 Annual General Meeting *(AGM)*, calls for the payment of regular cash dividend equivalent to 50% of (audited) consolidated core earnings for the year with a "look-back" basis, which allows the Company to pay special dividends beyond 50% of the consolidated core earnings for the year, relative to the availability of unrestricted retained earnings in accordance with the guidelines of the SEC, and cash.

The initial dividend paid on September 18, 2015 of PhP6.76 per share includes a PhP1.60 per share look-back dividend for 2014. In addition, the Company's BOD approved on February 26, 2016 a final regular cash dividend of PhP3.22 a share and a special cash dividend of PhP6.70 a share or a final cash dividend of PhP9.92 a share to all shareholders of record as at March 23, 2016, payable on April 15, 2016. This final cash dividend, which is in addition to the interim dividend of PhP5.16 a share, brings total cash dividends to PhP15.08 a share, consisting of regular dividends of PhP8.38 a share and the special dividend of PhP6.70 a share, or a total cash pay-out of 90% of the Company's 2015 consolidated core earnings.

A.2 Right to Participate in Decisions

The Company upholds the rights of all shareholders, including the minority shareholders, to participate in:

- Changes in the Company's charter, or amendments to the Company's Articles of Incorporation or By-laws;
- Authorization for issuance of additional shares or transfer of the Company's assets;
- Approval of remuneration or increase in remuneration of non-executive and executive directors; and
- Voting on matters in absentia through the use of proxy forms.

A.3 Right to Vote and Participate Effectively

Disclosure and Release of Notice to AGM

To provide shareholders enough time to examine the Company's information, the AGM Notice, was posted on the Company's website and distributed to shareholders on April 1, 2015, 55 days prior to the AGM date of May 26, 2015. Similar to all Company notices and circulars, the AGM Notice is written and published in English.

AGM

It is the Company's policy to encourage shareholders, including institutional shareholders and minority shareholders, to attend and actively participate in the AGM. The 2015 AGM was held on Tuesday, May 26, 2015, at 10:00 AM at the Meralco Theater, Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City.

The Company facilitates participation of shareholders who cannot attend the meeting in person by enclosing proxy forms in the AGM Notice where they can indicate their votes on matters that are taken up during the AGM. Shareholders can download the proxy forms together with details on how to appoint a proxy from the Company's website.

The Company granted all shareholders, including minority shareholders, the right to propose in advance or inquire on agenda items and nominate directors. The "Call for Nominations" was posted on the Company's website last February 3, 2015 for submission of proposed agenda and nomination of qualified candidates on or before March 9, 2015. The agenda and nominees were approved by the Board during its meeting on March 23, 2015.

Voting Procedures
A three-hour registration period was allotted before the start of the AGM.

The Corporate Secretary reported a quorum with the attendance of shareholders who own or hold a total of 945,711,876 shares or approximately 83.91% of the total issued and outstanding shares of the Company.

An electronic system facilitated the registration and vote tabulation to ensure accuracy and reliability of information.

The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that all shareholders were entitled to one vote for one share.

Votes were tallied and tabulated by the Office of the Corporate Secretary. Representatives from Reyes Tacandong & Co., an independent third party, validated the voting results for each agenda item.

The Company allowed shareholders to freely express their views and raise their questions during the AGM.

The Chairman of the Board, Chairman of the Audit Committee, Chairman of the Remuneration and Leadership Development Committee, Chairman of the Nomination and Governance Committee, Chairman of the Finance Committee, Board of Directors, President & CEO, CFO, Corporate Secretary, Assistant Corporate Secretary, other officers of the Company and its external auditors attended the AGM to present the performance results of the Company and respond to any question from the shareholders relevant thereto. The appropriate meeting procedures and guidelines were followed before, during and after the AGM.

The Company posted the resolutions of the AGM on its website on the following day so that non-attending shareholders may be immediately informed.

A.4 Right to Approve Mergers and Acquisition

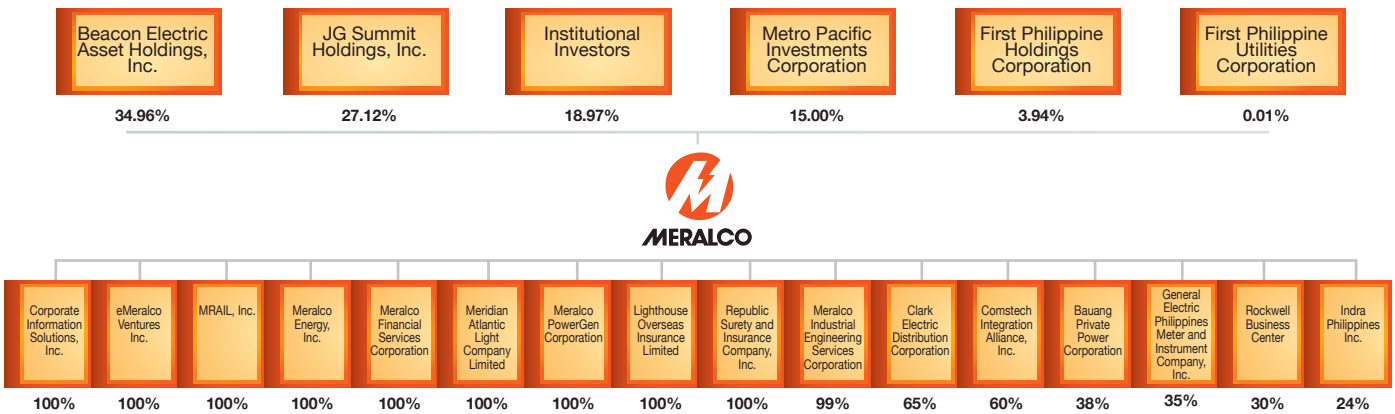
In the event of mergers and acquisitions requiring shareholders' approval, the Company appoints an independent party to evaluate the merits of the transaction as well as the fairness of the transaction price.

A.5 Institutional Investors

The Company recognizes the exercise of ownership rights by all shareholders, including institutional investors. The Company does not have any shareholders owning more than 50% of its total outstanding shares.

The complete list of the Public Ownership Report of Meralco as at December 31, 2015 was disclosed to the SEC, PSE and PDEx on January 12, 2016, where approximately 81.03% of the Company shares are held by principal and strategic shareholders, and the remaining 18.97% shareholdings are held by institutional investors, which are composed of the public float, the government, employees and other individuals.

The Company has a straightforward structure of alliance among its affiliates, and joint ventures, with no joint-holding or cross-holding of shares. There is no pyramid shareholding structure within the Group.



B. EQUITABLE TREATMENT OF SHAREHOLDERS

B.1 Shares and Voting Rights

The Company has only one classification of shares (common shares), with each share entitled to one vote.

B.2. Notice of AGM

The Notice of AGM contains, among others, the resolutions to be passed by the shareholders for each agenda item during the AGM. There is no bundling of several items into one resolution. It also provides the following information:

a) Profiles of each director – age, academic qualification, date of first appointment, experience, and directorships in other listed companies seeking for election/re-election;
b) External auditors seeking appointment/re-appointment;
c) Dividend policy;
d) Amount of dividends declared and any dividends payable; and
e) Readily available proxy statements

The Notice of AGM is available on the Company's website.

B.3 Insider Trading (Blackout Period Policy)

Policy on Dealings in Company Shares of Stocks (Insider Trading/Blackout Period)

The Insider Trading Policy prohibits directors, officers, and employees from benefitting from information that is not generally available to the market through observance of a blackout period 10 trading days before and two (2) trading days after the release or announcement of the Company's material information or financial and operating results, during which trading in Company shares is prohibited.

The Company strictly enforces and monitors compliance with its policy on insider trading, which prohibits the trading of Company shares during prescribed periods by the following:

- Board of Directors
- Management
- Employees and associates who have been made aware of unpublished material information with respect to the Company and its operations

Under the revised policy approved for implementation on December 1, 2014, directors and officers are required to disclose to the SEC, PSE, and PDEx the details of any trading, dealing, acquisition, disposal, or change in their beneficial ownership of the Company (MER) shares, within two (2) business days after the transaction.

B.4 Related Party Transactions by Directors and Key Executives

The Related Party Transactions (RPT) Policy requires a committee composed of independent directors to review material/significant RPTs to determine whether they are in the best interest of the Company and its shareholders. All RPTs, including Company transactions with a director, are conducted in fair and at arms' length terms. No RPTs can be classified as financial assistance to entities other than wholly-owned subsidiary companies.

Details of the holding companies, subsidiaries and other related companies are disclosed in the Map of Meralco Corporate Group Structure (Relationships among the Companies within the Group).

The Company provides all the names of related parties, degree of relationship, nature and value for each material/significant RPT. Details are found in Note 23 to Consolidated Financial Statements.

In 2015, there was no case of insider trading or policy violations involving directors and officers of the Company and no RPTs that can be classified as financial assistance to entities other than wholly-owned subsidiary companies. The Company is fully compliant with the code and policies of corporate governance.

Conflict of Interest (COI) Policy

The COI Policy requires all directors, officers and employees to annually disclose their interest in transactions and any other conflicts of interest affecting the Company through the Full Business Interest Disclosure (FBID) Form for directors and officers, and the Annual Conflict of Interest Disclosure Form for employees. The Company requires directors and key management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when a conflict exists or may exist between their interest and that of the Company.

B.5 Protecting Minority Shareholders from Abusive Actions

The Company's policies embody its utmost respect to the right of the minority shareholders while pursuing corporate interest. Salient provisions are:

i) Timely, fair and accurate disclosure of material information;
ii) Review of existing and development of new policies that will prevent the major shareholders from gaining undue advantage over and at the expense of minority shareholders;
iii) RPTs are disclosed in the Company's financial statements;
iv) Disinterested shareholders decide on all RPTs which require shareholders' approval.

C. ROLE OF STAKEHOLDERS

C.1 Respecting Rights of Stakeholders

The Company's policies and activities for its stakeholders promote an environment-friendly value chain and sustainable development.

Customers

It is the Company's policy to provide all customers with the same excellent service and fair treatment; complete and accurate information; and to undertake customer satisfaction surveys to continuously improve its services. Related activities are:

- Providing standardized services to home and micro businesses, small and medium-size enterprises and corporate business groups.
- Standardization of policies, work processes related to customers in all business centers and public information of the services and rates offered by the Company such as the monthly Meralco Advisory.
- Communicating significant operational plans and holding appreciation events such as Meralco Luminaries with customers at least once a year.
- Undertaking surveys on customers' level of satisfaction to improve the Company's service standards.
- Pursuant to ERC Resolution No. 42, series of 2006, the Company established a Consumer Welfare Desk (CWD) in its branches as well as a Consumer Assistance Office (CAO) in ERC. The CWD and the CAO are manned by CWD Officers who have undergone relevant training and are able to assist the customers.

Customer health and safety remain a priority of the Company. The Company promotes safety as a way of life by providing safe and healthy work environment to prevent accidents, injuries and other illnesses. As such, the Company's activities include:

- Development and continuous enhancement of health and safety program, which ensures a safe environment and guarantees a high standard of medical care and attention.
- Undertaking safety and health education for all employees, complemented by a very aggressive promotion program to enhance safety consciousness and safe practice for all customers and stakeholders.
- Taking part in an environmentally-friendly value chain by preventing pollution through the optimization of the use of natural resources, minimizing waste generated by processes, and being an active partner in reforestation.
- Maintaining a vibrant safety and health conscious organization, standard operating procedures for health and safety and an active pollution control and environmental protection program.
- Complying with all applicable safety, and environmental regulations and closely monitoring the state of well-being and safety of all customers and the public at-large.
- Considering customer safety, health, and environmental protection a right and responsibility of each and every Meralco employee.

Suppliers/Contractors

The Company engages the services of suppliers that advocate the same corporate governance standards and business ethics to their respective officers and employees. The Company faithfully observes and implements its clearly detailed procurement and supplier selection policies and processes to secure mutual trust and strategic relationships, including economic, social, and environmental cooperation with its Suppliers and Contractors.

The following are the Company's activities aimed at implementing Supplier Business Conduct and Procurement Policies:

- All Company purchases are listed in a sourcing plan, which specifies the criteria and methods for sourcing these items.
- The sourcing plan undergoes review and approval of the Procurement hierarchy. Pre-bid conferences are held among the Company's procurement personnel, end-users and prospective bidders.
- Only accredited suppliers are qualified to inquire and participate in bids and awards.
    - The Vendor Accreditation Program ensures that all vendors who wish to supply Meralco are capable of providing quality goods or services, and have technical, commercial, and financial capability, adequate equipment and facilities, and good track record of service performance.
    - A prospective or new vendor may check online if Meralco has requirement for its product or service by referring to the "List of Products Needed" icon. If any of its product or services is needed, the prospective or new vendor may apply for accreditation online through the "On-line Application" icon and follow instructions indicated therein. Initial evaluation will be conducted and the vendor is advised on the next steps to follow which may include submissions

of additional documents and product samples. The final phase is the payment of non-refundable accreditation fee and the inspection of the office and facilities of the vendor. Regardless of the result of the evaluation, the applicant vendor will be formally advised.

- Purchases are made on the basis of competitive bidding – where the commercial and technical requirements are jointly evaluated.

More details on the Company's supplier/contractor selection practice of vendor accreditation, bidding, technical and commercial evaluation and awarding procedures may be found in the Suppliers section of the Company's website.

Creditors

The Company faithfully complies with all loan agreements with creditors; it ensures timely payment of these loans; and efficiently operates its business to assure creditors of the Company's healthy financial standing and loan payment capabilities.

Programs and Activities

The rights of creditors are protected by public disclosures of material information such as results of operations, systems of internal controls and regular assessment of risks to loan covenants and bonds. Periodic reports are made by the Company of its financial position through the submission of its quarterly and audited financial statements. Also, the Company conducts regular financial and operating results briefings.

Environment and Community

As an advocate of sustainable development, the Company is committed to operate profitably within the bounds of its social and environmental responsibility. Its commitment is expressed in six (6) advocacies, through the One Meralco Foundation, Inc. (http://www.onemeralcofoundation.org/):

Community Electrification

This advocacy pillar develops feasible electrification alternatives through workable socialized schemes for various community beneficiaries such as (1) off-grid public schools in remote island and mountain villages, in partnership with Local Government Units (LGUs), Non- Government Organizations (NGOs), local electric cooperatives, and other community institutions; (2) portions of resettlement areas where informal settlers such as families formerly residing along the Pasig River, railroad tracks and privatized government properties; and (3) other isolated communities endorsed by LGUs and NGOs.

Emergency Preparedness and Disaster Response

OMF lends the Company's experience and resources in emergency and disaster preparedness and response to support other distribution utilities and electric cooperatives and communities. This sharing of expertise and resources aims to further harness immediate and effective response to major emergency situations, natural calamities and disasters.

Employee Volunteerism

OMF engages employees of the Company to have a hand in nation-building by opening opportunities to these individuals to volunteer through the Makabayan Volunteerism Program (MVP).

It aims to make volunteerism opportunities move from transactional to transformational, gives avenues for Meralco employees to extend assistance to their less fortunate fellowmen embodying the corporate values of *Malasakit* (caring) and *Makabayan* (patriotic).

Energy Education Program

Launched in 2015, the Energy Education Program aims to provide learning programs and tools that will enable educators to teach energy-related concepts to their students. Designed to complement the Community Electrification Program, the program encourages deeper understanding of energy principles and concepts, and promotes efficient and responsible use of this valuable resource.

Grassroots Partnerships

OMF continues its commitment towards strong partnerships with LGUs and barangays by providing appropriate support for certain local community needs such as health, sanitation, environmental protection, sports and education. Through the Grassroots Partnerships program, the Foundation is able to nurture public safety, promote responsible stewardship among residents and spur growth and development in their communities.

Youth and Sports Development

OMF believes in the capabilities of today's youth as they take on the challenge of being future leaders of society. By enjoining the youth through programs rooted in academic excellence, sports engagement and values formation, the Foundation hopes to make the youth self-sufficient as they reach their full potential as persons and be productive citizens of the country.

In 2015, Meralco employee-volunteers devoted their time, skills and effort in various volunteerism projects and together logged a total of more than 20,000 hours of dedicated service to the communities. The employees engaged in a bamboo planting activity along Marikina River and Tullahan Riverbanks to help reduce soil erosion. Moreover, they took part in the "Back to School" campaign which helped 5,000 schoolchildren in the franchise area. OMF supported the "One Child, One Lamp" Program spearheaded by the Department of Education by donating more than 2,000 solar lamps to un-energized communities.

A more comprehensive report on the Company's CSR efforts is found in a separate publication, the OMF's 2015 Annual Report.

Anti-corruption Programs and Procedures
The Company's Standards of Business Conduct and Ethics (Code of Ethics) outlines its ethical conduct towards the environment, community, society, and the country. It prescribes ethical values and behavioural standards, which all directors, officers, and employees of the Company are required to comply with in the performance of their respective duties and responsibilities. The level of awareness and understanding of these standards by the officers and employees is constantly monitored and enhanced at all levels via the respective line organization and the Company's various communication media. Copies of the Code of Ethics are likewise regularly disseminated to all employees. A written commitment to corporate governance and the Company's Code of Ethics is required to be submitted annually by all directors, officers, and employees of the Company.

The Policy on Solicitation and Acceptance of Gifts prohibits the acceptance of gifts offered and given by suppliers, contractors, and other third parties to prevent all directors, officers, and employees from putting themselves in situations that could affect the fair, objective and effective performance of their duties and responsibilities.

The Management Control Policy prescribes Management's responsibility to ensure a system of checks and balances and emphasizes the importance of internal control processes as an integral part of the Company's governance system and risk management. Effective management control is necessary to ensure that behavior and decisions of people in the organization are consistent with the Company's objectives and strategies.

The Company enhances awareness and monitors compliance through an online HR Express Corporate Governance Facility, accessible to all employees for the CG disclosures and commitment required of them. Failure to comply with CG disclosures is sanctioned accordingly.

The Corporate Governance Office (CGO) monitors the implementation of and compliance to the Code of Ethics. All directors, senior management and employees are required to submit duly accomplished FBID Forms and COI Forms annually. They are also required to disclose gifts they received from third parties. The Company, from time to time, issues advisories on restrictions in trading of Company's shares for all directors, senior management and employees. In addition, the E-report Mo facility (Whistleblowing facility) is made available as a channel of reporting violations of the Company's Code of Ethics.

The Company's Internal Audit Office audits the compliance of directors, officers, and employees to the Code of Ethics and other corporate governance related policies, including required Company disclosures. The result of the Internal Audit review is reported to the Audit Committee responsible for reviewing the process for communicating the code of conduct to all employees and monitoring their compliance thereto.

C.2. Effective Redress for Violation of Stakeholders' Rights and Means of Communication of Illegal or Unethical Practices by Employees

E-Report Mo (Whistleblowing Policy/Anti-Corruption Programs and Procedures) encourages the reporting of any violation of corporate governance rules or policies, questionable accounting or auditing matters, and other malfeasance committed by the Company's directors, officers, and employees. Employees, suppliers, customers, other stakeholders, and the general public are allowed to freely communicate with the Company in good faith through the contact information of CGO stated herein.

Corporate Governance Office
Manila Electric Company (Meralco)
8th Floor, Lopez Building
Meralco Compound, Ortigas Avenue
Brgy. Ugong, Pasig City, 1605 Philippines
Tel. (632) 1622 2798
Mobile: 09189483662
Email: cgo.staff@meralco.com.ph

The Company provides appropriate protection against retaliation to an employee/stakeholder who reports illegal/unethical behaviour. In the event of retaliation, the reporting person or witness may file a report to the CGO by filling out a Retaliation Protection Report Form. Protection from retaliation will be granted, upon endorsement of the CGO, and review by the Management Disciplinary Committee or the relevant Board Committee for approval of the CEO, his designated representative or the Chairman of the Board.

In 2015, the Company received reports of violations and illegal/unethical behavior. These reports were investigated according to the evidence provided and the procedures defined in the whistleblowing policy. Of these reports, 80% has been resolved. Investigations are on-going for the remainder.

The foregoing policies were distributed to all offices and are available to all stakeholders through the Company's Corporate Governance Intranet Portal and website (www.meralco.com.ph).

Employees

C.3 Performance-enhancing Mechanisms for Employees

Employee Development Programs

The Company provides its employees with opportunities for learning and development, fair and competitive remuneration and programs to promote health and safety. The Company devotes conscious effort to build a culture of excellence, knowledge sharing and personnel integrity and development.

The Company's training program includes specific courses on business and personal development and a Management Trainee Course (Power Innovators) to develop future leaders. In 2015, the average training man-hours is at 45 hours per person.

Environment, Health & Safety Programs

Environment, Health & Safety (EHS) Programs have been made in the interest of the safety of employees as well as the public. Employee cooperation in the observance and enforcement of these rules ensure safety of the employees, customers, suppliers and contractors, the Company's equipment and facilities, and the public at-large.

The Safety and Environment Management Office conducts studies, researches, tests, and the like relative to safety and loss control/accident prevention. Employees coordinate the accident prevention/loss control efforts within the scope of their responsibilities in accordance with the Company's Safety Program to prevent accidents.

Earthquake and fire drills are regularly conducted for buildings occupied by Corporate Offices, Business Centers and Sectors.

Safety Officers are appointed to identify and appraise potential safety hazards and recommend corrective measures. They assist in the administration of safety programs and investigate work-related accidents and public accidents involving company property as deemed necessary.

Every employee is issued a copy of the EHS Code by Safety and Environment Management Office upon employment. Employees are expected to carefully study and observe the rules in the performance of their duties. Safety rules shall be obeyed and ignorance will not be accepted as an excuse for their violation.

All employees are encouraged to make suggestions regarding the rules or working conditions to promote safety in the Company. Suggestions may be submitted to Safety and Environment Management Office or the concerned Environment, Safety and Health Committee.

MERALCO LEADERSHIP DEVELOPMENT CURRICULUM

Group	Curriculum Focus
Directors President & CEO	Strategy, Profitability and Competitive Advantage; Value Chain Development
Senior Management	Entrepreneurial Mindset; Cross-Functional Collaboration
Middle Management	Innovation and Improvement; Understanding and Conveying Strategies and Vision
First Line Management	Data Analytics; Excellent Execution; Team Performance
Individual Contributor	Personal Mastery and Self-Leadership

Meralco's 2015 Lost Time Injuries Frequency (LTIF) of 0.29 is better than the most recent global LTIF benchmark of 0.36. The Company has undertaken pro-active safety activities and programs currently in full swing: e.g. visibility requirement of Safety and Environment Management Engineers through field inspections; revival of the Safety Meetings in the Business Centers; Public Safety initiatives through pocket sessions conducted in building work sites, among others.

Compensation Philosophy/Principles

The Company's performance management process assesses employee performance on the basis of:
(1) actual vs. desired results, and (2) how results were delivered in the light of corporate core values. Therefore, the achievement of financial and non-financial measures is reflected in performance planning and assessment which drives the Company's merit and incentive pay programs.

The Company implements short-term and long-term incentive programs to attract, retain, and motivate its employees. The Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets. It also provides for short-term incentives through variable pay, such as Annual Performance-Based Bonuses (APB) and Variable Incentive Plan (VIP), to reward individual and team performance that contribute to the achievement of corporate goals and objectives.

The Company provides for assessment that accounts for performance beyond short-term financial measures such as the Balanced Scorecard system. The Balanced Scorecard provides a balanced view of the Company's performance as it monitors both the Company's financial and non-financial performance vis-à-vis the strategic goals.

Long-term incentives include additional compensation conditioned on Meralco's achievement of specified level of consolidated core net income approved by the Board and determined on an aggregate basis for a three year period as well as executives' attainment of a minimum level of performance rating.

Succession Planning of CEO and Senior Management

The Company's Board and the Remuneration and Leadership Development Committee are responsible for overall guidance and direction on succession planning and leadership development of the President & CEO and Senior Management. The President & CEO, working closely with the Head of Human Resources, drives the strategy for succession planning, leadership development, and talent management. The Head of Human Resources develops and implements the processes and the tools to ensure robust pools of succession candidates for the President & CEO, Senior Management, Middle Management and First Line Management.

A key feature of Meralco's succession planning process is the talent review conducted at the Senior Management level and at various levels of the organization. Currently, this has resulted in a pool of about 30 candidates who, subject to the realization of their development plans, could become management committee members within the next five (5) years. The talent reviews have been a hallmark of Meralco's process and is a best-in-class talent management practice. The process deliverables are individual development plans designed to bring key talents to higher levels of performance and accountability. It involves authentic and extensive management discussions and deliberations by leaders on the aspirations, strengths, development needs, and challenges of key talents.

All of these have created a development mindset throughout the organization and have established a strong and robust leadership pipeline that will adequately meet Meralco's senior leadership requirements well into the future.

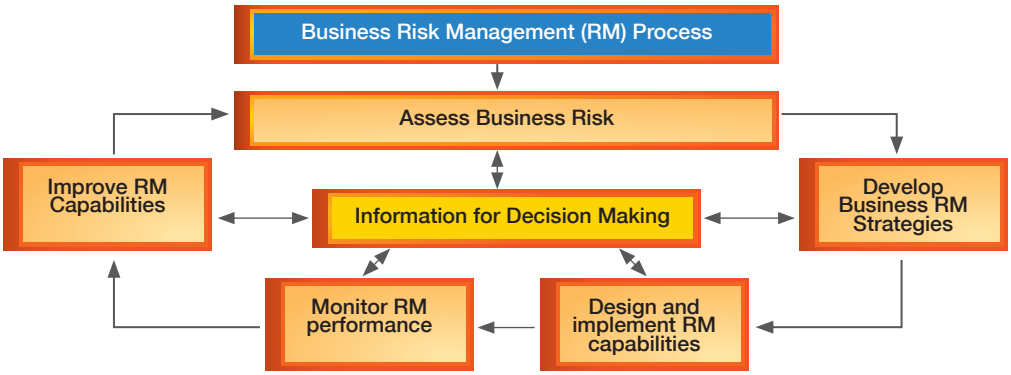
D. DISCLOSURE AND TRANSPARENCY

D.1 Transparent Ownership Structure

The following stockholders directly own more than 5% of the Company's (MER) shares as at December 31, 2015.

Name of Shareholder and Beneficial Owner	Total Shares[3]	% to Total Share[3]
Principal Stockholder		
Beacon Electric Asset Holdings, Inc.	394,059,235	34.96%
JG Summit Holdings, Inc.	305,689,397	27.12%
Metro Pacific Investments Corporation	169,064,807	15.00%
TOTAL	**868,813,439**	**77.08%**

D.2 Framework for Management of Major Business Risks



The framework above is the approach followed for managing the key risks of the Company, namely: a) financial risks; b) operational risks; c) regulatory and compliance risks; d) reputational risks; and e) strategic and corporate risks.

D.3 Disclosure of Related Party Transactions (RPT)

The Company discloses the names of all related parties, degree of relationship, nature and value for each material/ significant RPT. Details are found in Note 23 to the Consolidated Financial Statements.

D.4 Directors' and Officers' Dealings in Company Shares

SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS as at December 31, 2015

(As disclosed to the SEC/PSE/PDEx on January 12, 2016)

Name	Begining Balance[1]	Buy[2]	Sell[2]	Ending Balance	Direct Holdings[3]	Indirect Holdings[3]	Total Shares[3]	% to Total Share[3]
A. Directors								
1. Manuel V. Pangilinan – Chairman	25,000	–	–	25,000	25,000		25,000	0.00%
2. Lance Y. Gokongwei - Vice-Chairman	10	–	–	10	10	–	10	0.00%
3. Oscar S. Reyes - President & CEO	268			268	268		268	0.00%
4. Ray C. Espinosa	21,000	–	–	21,000	21,000	–	21,000	0.00%
5. James L. Go	10	–	–	10	10		10	0.00%
6. John L. Gokongwei, Jr.	10	–	–	10	10	–	10	0.00%
7. Napoleon L. Nazareno	1,210	–	–	1,210	1,210	–	1,210	0.00%
8. Jose Ma. K. Lim	10	–	–	10	10	–	10	0.00%
9. Manuel M. Lopez	996,118	–	–	996,118	996,118	–	996,118	0.09%
Manuel M. Lopez &/or Ma. Teresa Lopez	1,449,293	–	–	1,449,293	1,449,293	–	1,449,293	0.13%
10. Pedro E. Roxas	1,000			1,000	1,000	–	1,000	0.00%
11. Artemio V. Panganiban	1	–	–	1	1	–	1	0.00%
TOTAL	**2,493,930**	**–**	**–**	**2,493,930**	**2,493,930**		**2,493,930**	**0.22%**

[1]Based on the January 13, 2015 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2014.
[2]Based on the SEC/PSE/PDEx Disclosures on Statement of Beneficial Ownerships for the year ended December 31, 2015.
[3]Based on the January 12, 2016 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2015.
[4] Appointed Vice Presidents of the Company effective January 1, 2015.

Name	Begining Balance[1]	Buy[2]	Sell[2]	Ending Balance	Direct Holdings[3]	Indirect Holdings[3]	Total Shares[3]	% to Total Share[3]
B. Executive Officers with shareholdings in the Company								
1. Simeon Ken Ferrer - Corporate Secretary	767	–	–	767	767	–	767	0.00%
2. Roberto R. Almazora	93,082	–	–	93,082	93,082	–	93,082	0.01%
3. Alfredo S. Panlilio	668	–	–	668	668	–	668	0.00%
4. Angelito D. Bermudo	–	–	–	–	–	–	–	0.00%
5. Ramon B. Segismundo	6,500	–	–	6,500	6,500	–	6,500	0.00%
6. Betty C. Siy-Yap	–	–	–	–	–	–	–	0.00%
7. Ferdinand C. Alejandro[4]	8,952	–	–	8,952	8,952	–	8,952	0.00%
8. Rafael L. Andrada	20,000	–	–	20,000	20,000	–	20,000	0.00%
9. Ruben B. Benosa	30,492	–	7,500	22,992	22,992	–	22,992	0.00%
10. Rolando M. Cagampan[4]	20,976	–	20,976	–	–	–	–	0.00%
11. Benjamin U. Cusi[4]	24,050	–	–	24,050	24,050	–	24,050	0.00%
12. Helen T. de Guzman	26,093	–	–	26,093	26,093	–	26,093	0.00%
13. Ivanna G. dela Peña	26,731	–	5,731	21,000	21,000	–	21,000	0.00%
14. Aaron A. Domingo	–	–	–	–	–	–	–	0.00%
15. William S. Pamintuan	–	–	–	–	–	–	–	0.00%
16. Antonio M. Abuel, Jr.	10,427	–	–	10,427	10,427	–	10,427	0.00%
17. Ireneo B. Acuña	18,355	–	–	18,355	18,355	–	18,355	0.00%
18. Ronnie L. Aperocho	14	–	–	14	14	–	14	0.00%
19. Angelita S. Atanacio	1,000	–	1,000	–	–	–	–	0.00%
20. Bennette D. Bachoco	–	–	–	–	–	–	–	0.00%
21. Edgardo V. Carasig	–	–	–	–	–	–	–	0.00%
22. Marthyn S. Cuan	2,150	–	2,150	–	–	–	–	0.00%
23. Lawrence S. Fernandez[4]	4,500	–	–	4,500	4,500	–	4,500	0.00%
24. Ferdinand O. Geluz	13,877	–	–	13,877	13,877	–	13,877	0.00%
25. Victor Emmanuel S. Genuino	–	–	–	–	–	–	–	0.00%
26. Nixon G. Hao	2,791	–	–	2,791	2,791	–	2,791	0.00%
27. Ernie G. Imperial	460	–	–	460	460	–	460	0.00%
28. Dexter C. Lee	–	–	–	–	–	–	–	0.00%
29. Fortunato C. Leynes	6,000	–	–	6,000	6,000	–	6,000	0.00%
30. Raymond B. Ravelo	–	–	–	–	–	–	–	0.00%
31. Jose Rainier A. Reyes	–	–	–	–	–	–	–	0.00%
32. Nestor P. Sarmiento	323	–	–	323	323	–	323	0.00%
33. Liza Rose G. Serrano Diangson	38,983	–	4,000	34,983	34,983	–	34,983	0.00%
34. Manuel Lorenzo L. Tuason	22,180	–	–	22,180	22,180	–	22,180	0.00%
35. Jose Antonio T. Valdez	–	–	–	–	–	–	–	0.00%
36. Jose Ronald V. Valles[4]	–	–	–	–	–	–	–	0.00%
TOTAL	**379,371**	**–**	**41,357**	**338,014**	**338,014**	**–**	**338,014**	**0.01%**

PRINCIPAL, STRATEGIC AND SUBSIDIARIES/AFFILIATES SHAREHOLDINGS as at December 31, 2015 D.1.1, D.1.2

Name	Starting Balance[1]	Buy[2]	Sell[2]	Ending Balance[3]	Direct[3]	Indirect Holdings[3]	Total Shares[3]	% to Total Share[3]
A. Principal Stockholder								
Beacon Electric Asset Holdings, Inc.	506,769,106	–	112,709,871	394,059,235	394,059,235	–	394,059,235	34.96%
JG Summit Holdings, Inc.	305,689,397	–	–	305,689,397	305,689,397	–	305,689,397	27.12%
Metro Pacific Investments Corporation	56,354,936	112,709,871	–	169,064,807	169,064,807	–	169,064,807	15.00%
TOTAL	**868,813,439**	**112,709,871**	**112,709,871**	**868,813,439**	**868,813,439**	**–**	**868,813,439**	**77.08%**
B. Strategic Stockholder								
First Philippine Holdings Corporation	44,382,436	–	–	44,382,436	44,382,436	–	44,382,436	3.94%
First Philippine Utilities Corporation	93,270	–	–	93,270	93,270	–	93,270	0.01%
TOTAL	**44,475,706**	**–**	**–**	**44,475,706**	**44,475,706**	**–**	**44,475,706**	**3.95%**
C. Subsidiaries/Affilites with Shareholdings in the Company								
Corporate Information Solutions, Inc.	12,526	–	–	12,526	12,526	–	12,526	0.00%
TOTAL	**12,526**	**44,475,706**	**–**	**12,526**	**12,526**	**–**	**12,526**	**0.00%**

D.5 Audit Fees

Internal Audit

The MCG and the Corporate Audit Charter mandates the Internal Audit to monitor the financial reporting process and internal control system; information technology security and control; auditing process; enterprise risk management; and compliance.

An annual assessment using a risk-based audit plan approved by the Audit Committee (AuditCom) and the Risk Management Committee on the adequacy of the Company's internal control system is undertaken by the Internal Audit in cooperation with relevant business responsibility units. The Internal Audit reports the results of audits covering various units of the Company and its subsidiaries including specific areas of concern identified by Management to the AuditCom. The findings are reviewed by the AuditCom and the Risk Management Committee – which in turn, report the same to the Board for guidance and/or appropriate action. Significant concerns, which have been reported by the internal audit group, and the implementation of responsive remedial measures, are monitored by Management and by the AuditCom. The AuditCom Report in this Annual Report discloses that the board of directors has conducted a review of and has found adequate the Company's material controls (including operational, financial and compliance controls) and risk management systems.

The Company's Internal Audit Group is headed by the Chief Audit Executive and First Vice President, Ms. Helen T. de Guzman, who reports functionally to the AuditCom and administratively to the President & CEO as outlined in the Company's Corporate Audit Charter. The appointment and removal of the internal auditor require the approval of the AuditCom.

External Audit

The Company's external auditors, SyCip Gorres Velayo & Co. (SGV) were evaluated, nominated and recommended for appointment including their audit fees by the AuditCom, and such recommendation was approved by the Board. The re-appointment of SGV was thereafter confirmed by the shareholders in the AGM held on May 26, 2015.

[1]Based on the January 13, 2015 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2014
[2]Based on the SEC/PSE/PDEx Disclosures on Statement of Beneficial Ownerships for the year ended December 31, 2015
[3]Based on the January 12, 2016 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2015

CONSOLIDATED EXTERNAL AUDITOR'S FEES*

CONSOLIDATED EXTERNAL AUDITOR'S FEES* (in million PhP)		
	2015	2014
Financial Statements Audit	7.1	7.0
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC	0.3	0.3
Total	7.4	7.3

The non-audit services do not exceed the audit services. In fact, no non-audit services were performed by the external auditors in 2015.

* Exclusive of Value-added Tax (VAT)

D.6 Medium of Communication

Quarterly Reports

The Company reports its quarterly and full year financial results through the SEC, PSE and PDEx to provide the shareholders, the investors, and the public a balanced and informed assessment of the Company's performance, position and prospects.

Quarterly Reports: http://www.meralco.com.ph/investor-relations/quarterly-reports
Financial Results: http://www.meralco.com.ph/investor-relations/financial-results
Annual Reports: http://www.meralco.com.ph/investor-relations/annual-reports

Analysts Briefings and Media Briefings

The officers of the Company, led by the President & CEO, with the CFO and Investor Relations and other Officers, present information on performance results, business progress, industry trends, impact of external factors and regulations to shareholders, analysts, investors, and media every quarter during Analysts' and Media Briefings. Presentation materials used in these meetings are posted on the Company's website to ensure comprehensive information dissemination to all stakeholders and investors, including those who were not able to participate in the briefings.

Schedule of Events: http://www.meralco.com.ph/investor-relations/calendar-of-events
Press Releases: http://www.meralco.com.ph/investor-relations/press-releases

Company Website

The Company website provides information on our products and services as well as the following corporate governance information:

Section	Link
Business Operations	http://biz.meralco.com.ph/ http://corporatepartners.meralco.com.ph/ http://www.meralco.com.ph/news
Financial Statements/Reports	http://www.meralco.com.ph/investor-relations/financial-results http://www.meralco.com.ph/investor-relations/quarterly-reports
Materials provided in briefings to analysts and media	http://www.meralco.com.ph/investor-relations/press-releases
Shareholding structure	http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Group corporate structure	http://www.meralco.com.ph/about-us/organizational-structure http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Downloadable Annual Report	http://www.meralco.com.ph/investor-relations/annual-reports
Notice of AGM	http://www.meralco.com.ph/company-disclosures/notice-of-annual-or-special-stockholders-meetings
Minutes of AGM	http://www.meralco.com.ph/company-disclosures/minutes-of-all-general-or-special-stockholders-meetings
Company's By-Laws and Articles of Incorporation	http://www.meralco.com.ph/about-us/articles-of-incorporation-and-by-laws

D.7 Timely Filing/Release of Annual/Quarterly Financial Reports

The Company's 2015 Audited Financial Statements were released on February 26, 2016, 57 days after financial year-end. The true and fair representation of the annual financial reports are affirmed by the Board through the Chairman, President & CEO and CFO of the Company on the Statement of Management's Responsibility section of this Annual Report. This can be accessed at: http://corporate-downloadables-sec-filings.s3.amazonaws.com/02292016_Consolidated_Financial_Results.pdf

D.8 Investor Relations

Investors may get in touch with the Company's Investor Relations Office located at the 5/F of Lopez Building on, Ortigas Avenue, Barangay Ugong Pasig City, 1605 Philippines with the e-mail address: investor.relations@meralco.com.ph.

E. RESPONSIBILITIES OF THE BOARD

The Board of Directors is responsible for setting the Company's vision, mission, overall strategic directions, corporate objectives, and long-term goals and ensures that obligations to shareholders and all stakeholders are understood and met.

It is the Board's mandate to enhance shareholder value by fostering the long-term success of the Company, and sustaining its competitiveness and profitability in a manner consistent with its vision, mission and corporate objectives.

The Board promulgates the Company's MCG which provides the framework of good governance and ethical business practices that the Company's directors, officers and employees are expected to observe and adhere to in its dealings with various stakeholders. Management ensures that the operations of the Company are aligned with the MCG. The MCG conforms to regulations set forth by the SEC, the PSE, PDEx and other relevant regulatory bodies.

The MCG is reviewed annually to ensure that it is up to date with local and international best practices, as well as relevant to the Company's strategic direction.

The MCG further mandates the Board to formulate and annually review the Company's vision and mission statement, strategic objectives, key policies and the mechanism for performance assessment of the Board and Management, principally the President & CEO.

In its regular meeting held on February 23, 2015 as part of the Board's assessment of their performance in the past year, the Board reviewed and confirmed the vision, mission, and corporate strategic objectives of the Company. In the same meeting, the Board also reviewed the Company's material controls (including operational, financial and compliance controls) and risk management systems. The Board further confirmed the Company's full compliance with the code of corporate governance.

The Board of Directors adopts a process of selection that encourages diversity and ensures a mix of competent directors and officers, without regard to gender, race, religion, or age.

The Nomination and Governance Committee (Nom&Gov) reviews the nomination, selection, and composition of the Board and affirms that its membership has a proper mix and diversity of qualifications, background, experience, independence and skills needed to effectually perform its responsibilities. The Company has a non-executive director who has had prior work experience in the sector or broad industry group to which the Company belongs. Ambassador Manuel M. Lopez was the Chairman, President & CEO of the Company in different periods from 2001 to 2010. In accordance with the Securities Regulation Code, the Company has an 11-seat Board, two (2) of whom are Independent and Non-Executive Directors namely Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas.

The Nom&Gov ensures that independent decision-making is encouraged and that no individual director dominates the Board's decision-making. The Non-Executive Directors actively participate in discussions at the Board and Board Committee levels, as well as with Management.

On March 9, 2015, the Nom&Gov assessed the profiles of the directors and found that the independent, non-executive directors are indeed independent of the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment. The Nom&Gov has reviewed the multiple board representations held presently by the Directors and assessed that they are reasonable and do not hinder in any way, the performance of their duties to the Company.

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and to oversee the performance of the Board and its directors. He champions exemplary ethical governance principles for directors, officers, and employees to emulate and likewise espouse. Together with President & CEO, Mr. Oscar S. Reyes, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, the Chairman sets a clear agenda before each Board meeting. He provides opportunities for all directors to actively participate, addresses governance-related issues that non-executive, independent directors may raise and ensures that the Board exercises strong oversight over the Company and its Management, such that the prospect of any corporate risk or threat is adequately and effectively addressed. His roles and responsibilities are specified in the MCG which is accessible at the Company's website.

The Board of Directors reviews and approves major projects, policy decisions, annual budgets, major investment funding and major restructuring of core businesses.

The Board jointly plans meeting dates at the start of the calendar year, meets regularly once a month, and holds special meetings as may be required.

2015 AGM and Board Meeting Attendance

Director	Designation	May 26, 2015		Board Meetings
		Annual General Meeting	Organizational Meeting	
Manuel V. Pangilinan[1]	Chairman	Present	Present	12/12
Lance Y. Gokongwei	Director	Present	Present	12/12
Oscar S. Reyes	Director	Present	Present	12/12
Ray C. Espinosa[2]	Director	Present	Present	12/12
James L. Go	Director	Present	Present	11/12
John L. Gokongwei Jr.	Director	Present	Absent	12/12
Napoleon L. Nazareno	Director	Present	Present	11/12
Jose Ma. K. Lim	Director	Present	Present	10/12
Manuel M. Lopez	Director	Present	Present	12/12
Pedro E. Roxas[4]	Independent Director	Present	Present	11/12
Artemio V. Panganiban[3]	Independent Director	Present	Present	12/12

[1]Chairman, Remuneration and Leadership Development Committee
[2]Chairman, Finance Committee
[3]Chairman, Audit Committee; Chairman, Risk Management Committee
[4]Chairman, Nomination and Governance Committee

In 2015, the Board's major accomplishments included the following:

Major Projects/Policy Decisions

- Study on the SEC's Draft Corporate Governance Blueprint
- Evaluation of compliance to ERC requirements
- Assessment of National Power Supply Projection
- Review and Approval of corporate strategic objectives
- Review of the implementation of corporate strategy
- Approval of Audited Financial Statements
- Review and Approval of the Related Party Transactions IRR
- Review and Approval of construction and development of substation assets
- Review of forecast of Subsidiaries' projects
- Conduct of the 2015 Annual Stockholders Meeting
- Appointment of Inspectors and Canvassers for Annual Stockholders' Meeting ballots
- Completion of Enterprise Asset Management (EAM) Project
- Review and Approval of power generation projects
- Updates on other local and international business initiatives
- Review and Approval of Public Private Partnerships and Relocation Projects
- Review and Approval of new Interim Power Supply Agreements and PSAs
- Screening of nominees to the Board of Directors
- Review and Approval of Employee Performance Management Plan and Long Term Incentive Plan
- Review and Approval of executive promotions, rightsizing policy and succession planning
- Approval of Internal Policy on Unstructured Disclosures
- Board, Board Committee, and President & CEO Assessment
- Approval of Consolidated changes in the Annual Corporate Governance Report (ACGR) and the ACGS Self-Assessment
- Enterprise Performance Evaluation and Assessment
- Approval of the report of external auditors covering the Company's Audited Financial Statements
- Approval of 2016 Schedule of Board Meetings

Annual Budgets

- Approval of short and medium term business plans and budget
- Budget realignment for certain services
- Investment Committee Report
- Proposed CAPEX for Regulatory Year 2016

Major Investment Fundings

- Infusion of equity to subsidiaries
- Partial divestment from a joint venture
- Renewal of credit lines, credit facilities and bonds

In 2015, the Company's non-executive directors met 11 times without the presence of the executive director, Mr. Oscar S. Reyes. The agenda in these meetings were the Management's reports, corporate governance directions, reports of the internal and external auditors, and the performance assessment of the President & CEO.

Corporate Secretary

All Board members have direct and independent access to the Corporate Secretary as well as Management. The Corporate Secretary, under the direction of the Chairman, is responsible for ensuring that good information flows within the Board and Board Committees and between Management and Non-Executive Directors. He also facilitates the orientation and assists with the professional development of Directors as required by regulators.

Among the duties of the Office of the Corporate Secretary are the following:

- Schedule Board meetings and other related activities and notify the Board accordingly;
- Provide the necessary board papers associated with items on the meeting agenda at least five (5) business days ahead of the Board meetings;
- Provide ready and reasonable access to information that directors may need for their deliberation on issues listed on the agenda of the Board;
- Assist the Board in the performance of its duties;
- Attend all board meetings, take the minutes of meetings and maintain records of the same and ensure proper safekeeping of all board papers;
- Ensure that all board procedures, rules, and regulations are faithfully followed;
- Submit required reports and disclosures to SEC, PSE , PDEx and other regulatory agencies; and
- Conduct orientation program for new members of the Board regarding the Company's organizational structures and business operations.

The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer met the following qualifications and skills required for his position:

- Resident Filipino citizen of good moral character;
- With adequate legal, administrative, basic accountancy, company secretarial and interpersonal skills;
- Attends continuing education seminars where he receives regular updates of the laws, rules and regulations relevant to his duties;
- With working knowledge of the operations of the Company and loyal to the Company's mission, vision and corporate objectives.

Board Committees
The Board has formed various Board Committees, namely Executive Committee ("ExCom"), AuditCom, Risk Management Committee, Nom&Gov, Remuneration and Leadership Development Committee and FinCom. The Board has delegated specific responsibilities to each of these Committees. These Committees have been formed and are guided by their specific terms of reference or charters.

The functions, authority and responsibilities of each Board committee and their accomplishments are as follows:

A. **Executive Committee (ExCom)** is composed of six (6) directors, one of whom is an independent director. The ExCom may act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it under the By-Laws, or upon a majority vote of the Board, subject to the limitations provided by the Corporation Code.

In 2015, the Executive Committee accomplished in its meeting:
- Review of Power Supply Outlook
- Evaluation of a joint undertaking
- Investment in a power plant

B. **Remuneration and Leadership Development Committee (RLDC)** is composed of four (4) directors, one of whom is an independent director. The duties and responsibilities of RLDC as defined in its charter include assistance to the Board in the development of the Company's overall performance management, compensation, retirement and leadership development policies and programs based on the Company-approved philosophy and budget.

RLDC had four (4) meetings in 2015 to discuss:
- Proposed changes in Performance Management Process
- Long-term Incentive Plan (LTIP)
- Rank Conferment/Nomination for Key Officers
- Annual Bonus Plan
- Succession planning programs
- Performance evaluation of President & CEO

2015 Board Committee Meeting Attendance

Member	Executive	Nomination and Governance	Audit	Risk Management	Remuneration and Leadership Development	Finance
Manuel V. Pangilinan[1]	1/1	N/A	N/A	N/A	4/4	N/A
Lance Y. Gokongwei	1/1	3/4	7/8	1/1	3/4	N/A
Oscar S. Reyes	N/A	N/A	N/A	N/A	N/A	N/A
Ray C. Espinosa[2]	N/A	N/A	N/A	N/A	N/A	11/11
James L. Go	N/A	3/4	4/8	0/1	N/A	10/11
John L. Gokongwei Jr.	1/1	N/A	N/A	N/A	N/A	11/11
Napoleon L. Nazareno	1/1	3/4	N/A	N/A	4/4	N/A
Jose Ma. K. Lim	1/1	4/4	5/8	1/1	N/A	N/A
Manuel M. Lopez	N/A	N/A	N/A	N/A	N/A	11/11
Pedro E. Roxas[4]	N/A	4/4	7/8	1/1	4/4	10/11
Artemio V. Panganiban[3]	1/1	N/A	8/8	1/1	N/A	N/A
Anabelle L. Chua[2]	N/A	N/A	7/8	1/1	N/A	10/11

[1]C1 Independent Director
[2]Non-Voting Member

Details of 2015 Board Remuneration (in PhP)

Director	Remuneration for AGM and Board Meetings Attended	Remuneration for Committee Meetings	Total
EXECUTIVE DIRECTOR			
Oscar S. Reyes	1,440,000	-	1,440,000
EXECUTIVE DIRECTOR	1,440,000	-	**1,440,000**
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,440,000	100,000	1,540,000
Lance Y. Gokongwei	1,440,000	280,000	1,720,000
Manuel M. Lopez	1,440,000	240,000	1,680,000
Ray C. Espinosa	1,440,000	220,000	1,660,000
John L. Gokongwei, Jr.	1,440,000	240,000	1,680,000
Jose Ma. K. Lim	1,200,000	180,000	1,380,000
James L. Go	1,440,000	340,000	1,780,000
Napoleon L. Nazareno	1,320,000	160,000	1,480,000
ALL NON-EXECUTIVE DIRECTORS	11,160,000	1,760,000	**12,920,000**
INDEPENDENT DIRECTORS			
Pedro E. Roxas	1,440,000	500,000	1,940,000
Artemio V. Panganiban	1,440,000	180,000	1,620,000
ALL INDEPENDENT DIRECTORS	2,880,000	680,000	3,560,000
GRAND TOTAL			**17,920,000**

The RLDC evaluates and proposes payment of Directors and Senior Executives' Fees for the approval of the shareholders and recommends to the Board a framework of remuneration and specific remuneration packages for Directors and key management, including the President & CEO.

For the sole Executive Director and key management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, options, and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance. Independent, non-executive directors receive per diem fees based on their attendance to Board and Board Committee meetings. They do not receive options, performance shares or bonuses as these schemes ordinarily used in remuneration of management may impair their independence.

The Company's directors receive a per diem allowance for their attendance in the Board and Board Committee meetings. Each director is entitled to a per diem allowance of PhP120,000 for every board meeting attended and PhP20,000 for every committee meeting.

Remuneration of Key Management and Employees

The Company adopts a remuneration policy comprised of fixed and variable components in the form of base salary and variable bonus linked to the Company's and the individual's performance. Compensation packages and revisions of key management's remuneration are subject to the review and approval of the RLDC.

The Top five (5) key officers of the Company have received an aggregate remuneration of PhP202 million. For more information on the aggregate total remuneration paid to all key officers, please refer to the discussion entitled Compensation of Key Management Personnel in the Notes to Consolidated Financial Statements.

Advisers/Consultants to Remuneration and Leadership Development Committee

Towers Watson is a leading human resources consulting firm which provides professional services that helps organizations improve performance through effective people management. At present, it offers solutions to the Company in the areas of employee engagement and compensation and benefits management.

C. **Nomination and Governance Committee (Nom&Gov)**

This Committee is composed of five (5) directors with an independent director as chairman. The duties and responsibilities of Nom&Gov as reflected in its charter includes screening qualified nominees for election as directors, assessing the independence of directors, introducing improvements on Board organization and procedures, setting-up of mechanisms for performance evaluation of the Board and Management, and providing programs for continuing education of the Board.

The Nom&Gov undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions. It reviews and recommends to the Board for the appointment of Directors and members to the Board Committees. The process involves identifying, reviewing, and recommending potential candidates to the Board for consideration.

The Nom&Gov has put in place a formal and transparent process for the nomination of new Directors to the Board. Stakeholders who have identified suitable candidates submit the Nomination and Acceptance Letters, Full Business Interest Disclosure Forms and Curriculum Vitae of such candidates to Nom&Gov for discussion and review on or before the deadline set by the Nom&Gov.

These candidates are sourced from the business network of Board members and from professional search firms such as the Institute of Corporate Directors (ICD). One of the Company's directors, who is also the President & CEO, Mr. Oscar S. Reyes, is a Fellow of the ICD. The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer is also an ICD Fellow. These candidates would be skilled in core competencies such as strategic planning, business expertise, and industry knowledge.

The shareholders elect the directors during the Annual General Meeting of Shareholders (AGM) held every last Tuesday of May.

Upon appointment, the Company sends out a formal letter setting out the Director's roles and responsibilities and the new Director will then attend various briefings with Management.

The Nom&Gov Comm had four (4) meetings in 2015 to accomplish:

- Results and Discussion of Board, Board Committees, and President & CEO Performance Assessment
- Review of Company's Compliance with SEC Advisory on Recommended Corporate Governance Best Practices
- Assessment of Meralco's Public Ownership Report
- Screening of Nominees to the Board of Directors
- PSE Corporate Governance Guidebook
- ASEAN Corporate Governance Scorecard Results
- Update of Audit Committee Charter
- Review of the Company's Compliance with Corporate Governance Blueprint

D. **Audit Committee (AuditCom)** – The AuditCom consists of two (2) independent directors, and one (1) member who has over 20 years of experience in the areas of accounting, corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. for 10 years. The AuditCom is chaired by an independent director.

The AuditCom had eight (8) meetings in 2015 to discuss:

- Internal Control
  - Obtained management's assurance on the adequacy and effectiveness of the Company's internal control system in accordance with the Management Control Policy
  - Evaluated the effectiveness of the internal control system of the Company based on information obtained from the external auditors and the reasonable assurance provided by the internal auditor on the financial and operating controls of the Company

- Financial Reporting
  - Reviewed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Company including management's significant judgment and estimates in respect of the Company's financial statements and the management's representation to the external auditors
  - Recommended to the Board of Directors the approval of the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2015 and their consequent filing with the SEC and other regulatory bodies

- Audit Process
  - Assessed the independence, performance, and effectiveness of the External Auditors, taking into consideration the credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board of Directors as the External Auditors of the Company with the assurance that the lead audit partner complies with Rule 68 of the Securities Regulation Code on the rotation of External Auditors
  - Held executive sessions with the External Auditors without the presence of management
  - Reviewed the approved audit plan, scope of work and proposed fees of SGV for audit and other related services
  - Reviewed and approved the Annual Internal Audit Plan
  - Discussed the results of audits reported by the Chief Audit Executive in her quarterly reports to the Committee
  - Monitored the audit recommendations of the Internal Audit and discussed management's approach on corrective actions
  - Assessed Internal Audit's performance for the preceding year

- Compliance
  - Reviewed and assessed management's process of monitoring compliance with laws and regulations through Internal Audit
  - Obtained updates on the status of compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the ERC, SEC and other regulators concerned with environment and safety, labor and others

E. Risk Management Committee - consists of two (2) independent directors to assist the Board in its oversight role on the risk management process. The following activities were accomplished by the Committee:

- Reviewed management's top business risks and discussed ongoing risk treatments
- Noted management's short to medium term plans to streamline enterprise risk management integration in the annual strategic planning activities to institutionalize risk management functions at the subsidiaries and to develop a risk reporting dashboard that will facilitate reporting and monitoring of top risks and mitigation plans.
- Risk Management Strategy on a Subsidiary's international initiatives

The Board of Directors, through the Risk Management Committee, institutes a framework of prudent and effective controls which enables risks to be identified, assessed and managed accordingly.

F. Finance Committee (FinCom) – This Committee is composed of five (5) directors, one (1) of whom is an independent director, with the CFO as ex-officio member. It reviews the financial operations of the Company and matters regarding major purchase contracts, and acquisition and/or divestment of investments, businesses or ventures.

In its 11 meetings in 2015, its major accomplishments were:

- Review and Approval of all Service and Supply contracts in excess of PhP 50 Million
- Review of Quarterly and Audited Financial Statements
- Divestment of Investment in a Joint Venture
- Creation of Standby Credit Letters
- Treasury Update
- Declaration of Final Cash Dividend
- Renewal of credit lines and bonds
- Review of Investment Committee Report

The Board of Directors ensures that the Company complies with all relevant laws, regulations, and endeavor to adopt best business practices, including the requirement of SEC for all directors and key officers to annually attend a CG training with SEC-Accredited providers.

Attendance to Corporate Governance Training and Continuing Education Programs

Director	Program	Name of Training Institution
Manuel V. Pangilinan	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Governance Transformation in ASEAN: Reform and Priorities	ASEAN Capital Markets Forum (ACMF) and the SEC
Ray C. Espinosa	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services NTT Communications USA
Jose Ma. K. Lim	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services
Oscar S. Reyes	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services NTT Communications USA
Artemio V. Panganiban	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Corporate Governance Seminar on Financial Reporting and Audit	SGV & Co.
Pedro E. Roxas	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Corporate Governance Seminar on Financial Reporting and Audit	SGV & Co.
Manuel M. Lopez	SGV Seminar on Corporate Governance The Loft, 38th Floor, Manansala Tower, Rockwell Center, Rockwell, Makati	Leonardo J. Matignas Jr., SGV Partner
Lance Y. Gokongwei	Corporate Governance Seminar	SGV & Co.
James L. Go	SGV & Co. and Knowledge Institute 42 Floor Boardroom Robinsons Equitable Tower ADB Ave. cor. Poveda Road, Ortigas Center, Pasig City	Leonardo J. Matignas Jr., Partner
John L. Gokongwei, Jr.	Seminar on Corporate Governance	SGV & Co.
Napoleon L. Nazareno	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services NTT Communications USA

Orientation and Continuing Education Programs
Each newly elected director is provided with a director's kit which contains policies that define his duties and obligations as a Director under the various laws and regulations. An in-house orientation program, incorporating briefings from the corporate and regulatory units are arranged for the new Director to better familiarize himself with the Company's businesses, stakeholders, regulatory environment, and governance practices.

The Company has a policy that encourages directors to attend on-going or continuous professional education programmes. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on October 30, 2015, entitled "Data and Information Rules: What the Board Should Know".

The Senior Management attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on October 29, 2015, entitled "Data and Information Rules: What Management Should Know."

The Board and Senior Management of the Company attended the ASEAN Corporate Governance Conference and Awards on November 14, 2015, entitled "Governance Transformation in ASEAN: Reforms and Priorities"

The Board of Directors assesses the Board, Management and financial performance of the Company.

Board, Committee and CEO Performance Assessment
The Board annually conducts a self-assessment of their performance individually, collectively, and as members of the different Board Committees. The self-assessment results are key factors in the enhancement of directors' performance and effectiveness in their duties.

The Board conducted the performance assessment on February 23, 2015, through employment of the following assessment forms, with the following processes and criteria:

1. Board Self-Assessment - each director assessed the board performance as a whole and their individual performance on the following categories:
    a) Board structure and qualifications
    b) Board duties and responsibilities
    c) Duties and Responsibilities as an Individual Director
2. General Board Committee Performance Assessment – each director assessed the overall performance of the following committees, based on the provisions of the Board Committee Charters.
3. Board Committee Self-Assessment – each committee member assessed his committee's performance vis-à-vis the respective charters and SEC's Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange.
4. President & CEO Performance Assessment – each director assessed the President & CEO's leadership, working relations with the Board, communication and working relations with Management.

On the assessment forms, the Board gives its opinions and suggestions or identifies special issues of interest about its performance or different aspects of the Company's operation.

The CGO sends these assessment forms to every director, collects the completed forms, prepares a summary report, and submits it to the Nomination and Governance Committee and the Board as an agenda item for acknowledgment and discussion.

PERFORMANCE INDICATORS

FINANCIAL	NON FINANCIAL
• Measures reflecting the state of the Company to the shareholders such as cash position, core consolidated net income, dividend payouts, etc.	• Customer satisfaction metrics • Customers served per employee ratio • Alignment of business processes to the strategies of the Company • Alignment of learning and development initiatives with Company goals

Guiding Leadership

Board of Directors

1 > MANUEL V. PANGILINAN, 69
Chairman (since May 29, 2012 – 3 years)
Director (since May 26, 2009 – 6 years)

Mr. Pangilinan is the President and CEO of Philippine Long Distance Telephone Company* (PLDT, the country's dominant telecom company) and Smart Communications Incorporated – the largest mobile phone operator in the Philippines, and continues to serve as their Chairman concurrently. He is also Chairman of listed companies including Metro Pacific Investments Corporation* and Philex Mining Corporation*, and of non-listed companies including Beacon Electric Asset Holdings Inc., PLDT Communications and Energy Ventures Inc. (formerly Piltel), Landco Pacific Corporation, Medical Doctors, Inc., Colinas Verdes Corporation, Davao Doctors Inc., Riverside Medical Center, Inc., Our Lady of Lourdes Hospital, Asian Hospital, Inc., Maynilad Water Services Corporation, Mediaquest, Inc., Associated Broadcasting Corporation (TV5), Manila North Tollways Corporation, and Meralco PowerGen Corporation (MGen). Mr. Pangilinan holds a Bachelor of Arts degree, cum laude, in Economics from the Ateneo de Manila University and a Masters in Business Administration from Wharton School of Finance and Commerce, University of Pennsylvania, where he was a Procter & Gamble Fellow.

2 > OSCAR S. REYES, 69
Director (since July 1, 2010 – 5 years)
President and CEO (since May 29, 2012 – 3 years)
Chief Operating Officer (July 1, 2010 to May 28, 2012)

Mr. Reyes is a member of the Advisory Board of the Philippine Long Distance Telephone Company (PLDT)* and of the Board of Directors of the Bank of the Philippine Islands, Manila Water Company, Inc.*, PLDT Communications and Energy Ventures Inc., Pepsi Cola Products Philippines, Inc.* (Chairman), Basic Energy Corporation*, Cosco Capital Inc.*, and Sun Life Financial Phils., Inc., among other firms. He is also President of Meralco PowerGen Corporation (MGen) and Chairman of Meralco Industrial Engineering Services Corporation (MIESCOR), MRAIL, Inc., CIS Bayad Center, Meralco Energy, Inc. (MEI), Redondo Peninsula Energy Inc., and PacificLight Pte. Ltd. He served as Country Chairman of the Shell Companies in the Philippines and concurrently President of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B.V. He is a member of the Board of Trustees of One Meralco Foundation, Inc., Pilipinas Shell Foundation, Inc., SGV Foundation, Inc. and El Nido Foundation, Inc.
Mr. Reyes completed his Bachelor of Arts degree in Economics at the Ateneo de Manila University, cum laude, and did post-graduate studies at the Ateneo Graduate School of Business, Waterloo Lutheran University and the Harvard Business School.

3 > RAY C. ESPINOSA, 59
Director (since May 26, 2009 – 6 years)

Mr. Espinosa is a member of the Board of Directors of Philippine Long Distance Telephone Company*, Manila Electric Company*, Metro Pacific Investments Corporation*, Roxas Holdings, Inc.*, and also an independent director of Lepanto Consolidated Mining Company (Lepanto)*. He is a director of Meralco PowerGen Corporation, Mediaquest Holdings, Inc., TV5 Network, Inc., and Mediascape, Inc. (Cignal TV). He is the chairman of the Philstar Daily, Inc. and BusinessWorld Publishing Corporation, chairman of the Finance Committee of Meralco*, and chairman of the Audit Committee of Lepanto*. He is the General Counsel of Meralco and Head of PLDT's* Regulatory Affairs and Policy Office. He is also a trustee of the Beneficial Trust Fund of PLDT*. Mr. Espinosa joined First Pacific in June 2013. He is First Pacific Group's Head Government and Regulatory Affairs and Head Communications Bureau for the Philippines. Mr. Espinosa has a Master of Laws degree from the University of Michigan Law School and is a member of the Integrated Bar of the Philippines. He was a partner of SyCip Salazar Hernandez & Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington D.C., USA) from 1987 to 1988, and a law lecturer at the Ateneo de Manila School of Law from 1983 to 1985 and 1989. He ranked first in the 1982 Philippine Bar examination.

4 > JAMES L. GO, 76
Director (since December 16, 2013 – 2 years)

Mr. Go is the Chairman and CEO of JG Summit Holdings, Inc.* and Oriental Petroleum and Minerals Corporation*; Chairman of Robinsons Land Corporation*, Universal Robina Corp.*, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation; Vice-Chairman of Robinsons Retail Holdings, Inc.; and a member of the Board of Directors of Cebu Air, Inc.*, Marina Center Holdings Private Limited., United Industrial Corporation Limited, Hotel Marina City Private Limited and the Philippine Long Distance Telephone Company (PLDT)*. He is also the President and Trustee of Gokongwei Brothers Foundation, Inc. Mr. Go received a Bachelor of Science degree and a Master of Science degree in Chemical Engineering from the Massachusetts Institute of Technology.

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**Publicly-listed company*

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5 > JOHN L. GOKONGWEI, JR., 89
Director (since March 31, 2014 – 1 year)

Mr. Gokongwei is the Chairman Emeritus and a member of the Board of Directors of JG Summit Holdings, Inc.* and certain of its subsidiaries including Universal Robina Corporation*, Robinsons Land Corporation* and JG Summit Petrochemical Corporation. He is currently the Chairman of the Gokongwei Brothers Foundation, Inc., Deputy Chairman and Director of United Industrial Corporation Limited. He is also the Chairman Emeritus of Robinsons Bank Corporation. He is a director of Cebu Air, Inc.*, Robinsons Retail Holdings, Inc.*, Oriental Petroleum and Minerals Corporation*, Marina Centre Holdings Private Limited and A. Soriano Corporation*. Mr. Gokongwei received his Masters in Business Administration from De La Salle University, and took the Advance Management Program from Harvard University in Boston, Massachusetts.

6 > LANCE Y. GOKONGWEI, 49
Director and Vice- Chairman (since December 16, 2013 – 2 years)

Mr. Gokongwei is the President and Chief Operating Officer of JG Summit Holdings, Inc.*, and the President and Chief Executive Officer of Cebu Air, Inc.*, Universal Robina Corporation*, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is the Chairman and CEO of Robinsons Retail Holdings, Inc. effective March 18, 2016. He is also the Vice Chairman and Chief Executive Officer of Robinsons Land Corporation*, and Chairman of Robinsons Bank Corporation. He is a Director of Oriental Petroleum and Minerals Corporation* and United Industrial Corporation Limited. He is a trustee and the secretary of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania, summa cum laude.

Guiding Leadership

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7 > AMB. MANUEL M. LOPEZ, 73

Director (since April 14, 1986 – 29 years)
Chairman and CEO (from July 1, 2001 to June 30, 2010)
Chairman (from July 1, 2010 to May 28, 2012)

Mr. Lopez is the Philippine Ambassador to Japan since December 2010. He is concurrently the Chairman and CEO of Lopez Holdings Corporation* and is the Chairman of Indra Philippines, Inc., Rockwell Land Corporation* and Rockwell Leisure Club. He is also the President of Eugenio Lopez Foundation, Inc., Vice Chairman of First Philippine Holdings Corporation and Lopez, Inc., and a Director at ABS-CBN Corporation*, ABS-CBN Holdings Corp.*, Sky Cable Corporation, and Lopez Group Foundation, Inc. Mr. Lopez holds a Bachelor of Science degree in Business Administration and completed the Harvard Program for Management Development.

8 > JOSE MA. K. LIM, 63

Director (since May 29, 2012 – 3 years)

Mr. Lim is the President and CEO of Metro Pacific Investments Corporation (MPIC)*, the leading infrastructure investment firm in the Philippines. MPIC has investments in water distribution, electricity, toll roads, and hospitals. Mr. Lim was appointed President and CEO in 2006 and is currently a director in MPIC's subsidiaries and affiliate companies namely, Meralco*, Maynilad Water Corporation, Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Light Rail Manila Corporation, AF Payments Inc., Metro Pac Water Investment Corp., Easy Trip Services Corporation, Medical Doctors Inc., Manila Medical Services Inc., Cardinal Santos Medical Center and Indra Philippines, among others. He also serves as Chairman of Davao Doctor's Hospital, Riverside Medical Center and Asian Hospital. He was awarded by Finance Asia as the Best CEO for 2016 and Corporate Governance Asia as the Best CEO for Investor Relations for four (4) consecutive years (2012-2015).

**Publicly-listed company*

9 > NAPOLEON L. NAZARENO, 66

Director (May 26, 2009–May 31, 2011 and since May 27, 2014 – 3 years)

Mr. Nazareno is the Chairman of the Board of PLDT Communications and Energy Ventures, Inc. (PCEV) since June 28, 2011. He served as President and CEO of PCEV from November 1998 to January 2003 and from November 2004 to June 2011 and as Chairman of the Board from February 2003 to November 2004. He is concurrently the President and Chief Executive Officer of Smart Communications, Inc. and Philippine Long Distance Telephone Company*, positions he has held since January 2000 and February 2004, respectively *(he retired as President and CEO of both companies on December 31, 2015)*. He also serves as Chairman of the Board of Smart Broadband, Inc., i-Contacts Corporation, Smart eMoney, ePLDT Inc., Digital Telecommunications Phils. Inc., and Digitel Mobile Phils Inc.; and as President of Aces Phils. Inc. and Connectivity Unlimited Resources, Inc., which are subsidiaries of Smart. His other directorships include, among others, Meralco*, MGen, PLDT Global Investments Holdings, Inc., SPi Technologies, Inc., SPi CRM, Inc. and PLDT Global Corporation. He is also a nonexecutive director of First Pacific Company Limited. He was recently appointed as Supervisory Board Member of Rocket Internet AG. Mr. Nazareno is also the Chairman of the Board of Trustees and Governors of Asian Institute of Management, a Governor of the Management Association of the Philippines, and a member of the Council of Advisors of the DLSU – Graduate School of Business and Philippine-Thailand Business Council, among others. He was voted Corporate Executive Officer of the Year (Philippines) for three (3) consecutive years at the 2004, 2005 and 2006 Best Managed Companies and Corporate Governance Polls conducted by Asia Money and was recently awarded the Telecom CEO of the Year at the 15th Telecoms Asia Awards in Bangkok. Mr. Nazareno obtained his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France. Recently, the University of San Carlos in Cebu conferred on him the Doctor of Technology Honoris Causa degree.

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10> RET. CHIEF JUSTICE ARTEMIO V. PANGANIBAN, 79

Independent Director (since May 27, 2009 – 6 years)

Independent Director Panganiban was a former Chief Justice of the Supreme Court of the Philippines. He was concurrently Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. At present, he is also an Independent Director of Petron Corporation*, First Philippine Holdings Corporation*, Philippine Long Distance Telephone Company*, Metro Pacific Investments Corporation*, Robinsons Land Corporation*, GMA Network, Inc.*, GMA Holdings, Inc.* and Asian Terminals, Inc.*, Director of Jollibee Foods Corporation* and TeaM Energy Corporation, Senior Adviser of Metropolitan Bank and Trust Company* and Adviser of Bank of the Philippine Islands* and Double Dragon Properties Corporation*. He is likewise a columnist for the Philippine Daily Inquirer. Chief Justice Panganiban holds a Bachelor of Laws degree, cum laude, from the Far Eastern University and was awarded the degree of Doctor of Laws (Honoris Causa) by the University of Iloilo, Far Eastern University, University of Cebu, Angeles University and Bulacan State University. He placed sixth in the Philippine Bar Examinations in 1960.

11> PEDRO E. ROXAS, 59

Independent Director (since May 25, 2010 – 5 years)

Mr. Roxas is the Chairman of Roxas Holdings, Inc. He is also the President/CEO and Chairman of Roxas and Company, Inc.*. Concurrently, he is a Director and the President of Fundacion Santiago, Director of Brightnote Assets Corporation, Chairman of Club Punta Fuego Inc., Trustee at Philippine Business for Social Progress, and an Independent Director for BDO Private Bank and Philippine Long Distance Telephone Company*.
Mr. Roxas holds a Bachelor of Science degree in Business Administration from the University of Notre Dame in Indiana, USA.

Guiding Leadership

Corporate Officers and Advisor

1 > IRENEO B. ACUÑA, 49
Vice President
Head, Electric Distribution Development Group

Mr. Acuña is Vice President and Head of Electric Distribution Development Group, leading the efforts in bringing the Company's strength in electricity distribution to other areas in the Philippines and abroad. Currently, he is in charge of the management of the electric service operations of Cavite Ecozone, through a concession contract; Pampanga 2 Electric Cooperative, through an Investment and Management Contract; Ibadan Electric Distribution Company in Nigeria, through a Technical Services Agreement; and various allied services. Recent business activities include micro-grids and mini-hydro power generation. Concurrently, Mr. Acuña is President of Meridian Atlantic Light Company, Ltd. (Nigeria), and a member of the Board of Directors of MIESCOR Builders, Inc., Comstech Integration Alliance Corp., Fieldtech Solutions, Inc., and Pure Meridian Hydropower Corporation. He graduated with a BSEE degree (Top 5) from Far Eastern University – Institute of Engineering and an MBA (graduated with distinction) from the Asian Institute of Management.

2 > RAFAEL L. ANDRADA, 55
First Vice President and Meralco Group Treasurer

Mr. Andrada is a Board Member of CIS Bayad Center, Inc., Clark Electric Distribution Corporation, General Electric Philippines Meter and Instrument Company, Inc., Republic Surety and Insurance Co., Meralco Industrial Engineering Services Corporation, Lighthouse Overseas Insurance, Limited, Inc., Radius Telecoms, Inc., Comstech Integration Alliance, Inc. and Chairman of the Board of Directors, Meridian Atlantic Light Company Limited. He is also the Treasurer of Clark Electric Distribution Corporation, MERALCO PowerGen Corporation, Calamba Aero Power Corporation, Redondo Peninsula Energy, Inc., Atimonan Land Ventures Corporation, Atimonan One Energy, Inc., MPG Holdings Philippines, Inc., MPG Asia Limited and MPG Mauban Limited Partner Corporation. Mr. Andrada holds a Bachelor of Science degree in Management from De La Salle University.

3 > ROBERTO R. ALMAZORA, 55
Senior Vice President
Head of MPower

Mr. Almazora heads MPower, the Local Retail Electricity Supplier business segment of Meralco. Prior to his current assignment, he held various executive positions during his 28 years with Meralco and served as Director in various subsidiaries/affiliates boards. A recipient of various awards and distinctions, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of UP Diliman in 2004. In 2011, he was granted the Professional Degree Award for Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He is tapped as a resource speaker in various energy conferences and served as an energy adviser to business groups and associations. Mr. Almazora holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management.

4 > RONNIE L. APEROCHO, 47
First Vice President
Head, Networks

Mr. Aperocho is a member of the Board of Directors of General Electric Philippines Meter and Instrument Company, Inc., MRAIL, Inc., MIESCOR Builders Inc., MIESCOR Logistics Inc. and Meralco Energy Inc. (MEI). He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and was the topnotcher in the October 1991 Electrical Engineering Board Exams. He holds a Masters Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/ The Hong Kong University of Science and Technology.

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5 > RUBEN B. BENOSA, 59
First Vice President and
Head, Corporate Logistics Office

Mr. Benosa is the Chairman of Meralco Financial Services Corporation. He is a Director of Radius Telecoms, Inc. and MRAIL, Inc. He was the former Chairman of Customer Frontline Solutions, Inc. Mr. Benosa holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and completed his Masters in Management at the Asian Institute of Management.

6 > MARTHYN S. CUAN, 36
Vice President
Head, Digital Transformation Office

Mr. Cuan is a Board Member of Radius Telecoms, Inc. and Indra Philippines, Inc. He serves in the advisory committee of AF Payments, Inc. and the Information Technology Management Service Advisory Council of the Philippine National Police. He is a member of Intel's Enterprise Board of Advisors and the Philippine Internet of Everything Consortium (PIoEC). He is also Vice President and founding member of the IdeaSpace Foundation, a non-profit organization that offers business incubation and acceleration program for technology entrepreneurs. Mr. Cuan holds a Bachelor of Science degree in Management Information Systems from the Ateneo de Manila University with a Minor in Chinese Studies.

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7 > IVANNA G. DE LA PENA, 61
First Vice President
Head, Regulatory Management Office

Ms. De la Pena is a member of the Board of Directors of Clark Electric Distribution Corporation, Radius Telecoms, Inc., and Medical Ambassadors Phils., Inc. She also served as Director of Share an Opportunity from 2009 to 2014. Ms. De la Pena holds a Bachelor of Science degree in Statistics and a Masters in Business Administration from the University of the Philippines. She attended the Public Utility Research Center – World Bank Training Course on Utility Regulation and Strategy at the University of Florida and the General Management of Electric Utilities training program at the International Management Development Center in Texas, USA.

8 > ERNIE G. IMPERIAL, 47
Vice President
Head, Corporate Information and Technology

Mr. Imperial was appointed Head of Corporate Information and Technology (CIT) in August 2015 to provide the vision and leadership for planning, implementation, and management of information and communications technologies that support Meralco's business operation, and enable the realization of business strategies and direction. Before CIT, he headed Business Transformation Office where he managed and ensured integration of process, people, and technology change management strategies in support of Meralco's business transformation initiatives. Prior to joining Meralco, he served in various roles in financial/banking institutions including ANZ Global Services and Operations and Deutsche Knowledge Services, Ltd., spanning the areas of program and change management, business process management, solutions delivery, and production management. Mr. Imperial holds a Bachelor of Science Degree in Computer Science from De La Salle University and undertook postgraduate studies at the Ateneo Graduate School of Business.

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Guiding Leadership

Corporate Officers and Advisor

9> SIMEON KEN R. FERRER, 58
Corporate Secretary

Atty. Ferrer is the Corporate Secretary of Century Peak Metals Holdings Corporation, a public company. He is also a board member of various non-public companies. He is a Senior Partner of SyCip Salazar Hernandez & Gatmaitan, the largest law firm in the Philippines, where he heads the Corporate Services Department and the Hiring Committee. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow at the Institute of Corporate Directors. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines. He holds a Master of Laws degree from the University of Michigan as a DeWitt Fellow.

10> WILLIAM S. PAMINTUAN, 54
First Vice President, Deputy General Counsel, Assistant Corporate Secretary, Compliance Officer
Head, Legal and Corporate Governance Office

Atty. Pamintuan is the Corporate Secretary of Meralco PowerGen Corporation, Atimonan Land Ventures, Inc., Calamba Aero Power Corporation, Atimonan One Energy, Inc., Kalilayan Power, Inc., MPG Holdings Phils., Inc., MPG Mauban LP Corporation, Redondo Peninsula Energy, Inc., MRAIL, Inc., Meralco Industrial Engineering Services Corporation and First Pacific Leadership Academy, Inc. He was a former Director of MRAIL, Inc.; former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc.; and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

11> ALFREDO S. PANLILIO, 52
Senior Vice President
Head, Customer Retail Services and Corporate Communications

Mr. Panlilio is a Board Member of CIS Bayad Center, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., MRAIL, Inc., Indra Philippines, Inc., Comstech Integration Alliance, Inc., General Electric Philippines Meter and Instrument Co., Inc., and Mabuhay Satellite Corporation; Chairman of Radius Telecoms, Inc., e-Meralco Ventures Inc., Paragon Vertical Corporation, and Manila Electric Futbol Club, Inc. (formerly known as Loyola Meralco Sparks FC); Trustee of One Meralco Foundation, Inc., Meralco Power Academy, and Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI) and Philpop Musicfest Foundation, Inc.; President of MVP Sports Foundation; Vice President for the Samahang Basketbol ng Pilipinas (SBP) and Treasurer, National Golf Association of the Philippines (NGAP). He is also the PBA Governor for the Meralco Bolts and governor for the Management Association of the Philippines. Mr. Panlilio holds a Bachelor of Science degree in Business Administration (Computer Information Systems) from the California State University – San Francisco State University and obtained his Masters in Business Administration at J. L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology. He has 30 years of experience with telecommunications and information systems. Prior to joining Meralco, he was the President and CEO of PLDT Global based in Hong Kong. Mr. Panlilio was the 2013 CEO Excel Awardee of the International Association of Business Communicators (IABC) Philippines. He was one of seven Finalists in the Rising Star (Individual) category of the PLATTS Global Energy Awards 2015 held in New York City.

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12 >RAYMOND B. RAVELO, 38

Vice President
Head, Strategy and Business Development Office

Mr. Ravelo is concurrently the President and CEO, and a member of the Board of Directors of Radius Telecoms, Inc. Prior to joining Meralco, he was part of McKinsey and Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration (with majors in Strategic Management and Marketing) at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

13 >RAMON B. SEGISMUNDO, 58

Senior Vice President
Head, Human Resources and Corporate Services

Mr. Segismundo is the Chief Human Resources Officer of Meralco. He is also the President and Trustee of Meralco Power Academy and the Chairman of Customer Frontline Solutions, Inc. He is a Board Trustee of One Meralco Foundation, Inc., Meralco Pension Fund, Loyola Meralco Sparks FC and the UP Engineering Research and Development Foundation, Inc. He is a member of the Board of Directors of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Inc., MRAIL, Inc. and General Electric Philippines Meter & Instrument Company, Inc. He served as the 2013-2014 Chairman of the Board of the Philippine Basketball Association and was a PBA Governor representing Meralco Bolts from 2010-2014. Mr. Segismundo holds a Bachelor of Science degree in Industrial Engineering and completed his Master in Business Administration, both at the University of the Philippines. He is currently taking up his PhD in Business (General Management) at the Singapore Management University (SMU). While in the U.S., he was a member of the Society of Human Resources Management and acquired Senior Professional in HR (SPHR) and Global Professional in HR (GPHR) Certifications. He has over 30 years of experience as Asia Pacific/International human resources executive and business consultant in Singapore, United Kingdom, United States, and the Philippines for major global companies such as GlaxoSmithKline, Arthur Andersen/Sycip Gorres Velayo & Co., Wyeth Pharmaceuticals, SmithKline Beecham, and Sterling Winthrop. Mr. Segismundo was also awarded as the 2014 People Manager of the Year by the People Management Association of the Philippines (PMAP) and distinguished alumni Award for 2015 by the U.P. Virata School of Business.

14 >BETTY C. SIY-YAP, 54

Senior Vice President
Chief Finance Officer

Ms. Siy-Yap is a member of the Board of Directors of Republic Surety and Insurance Company, Inc., Meralco Industrial Engineering Services Corporation, Clark Electric Distribution Corporation, General Electric Philippines Meter and Instrument Company, Inc., CIS Bayad Center, Inc., MRAIL Inc., Radius Telecoms, Inc., Indra Philippines, Inc., Philippine Commercial Capital, Inc., MERALCO PowerGen Corporation, Calamba Aero Power Corporation, Redondo Peninsula Energy, Inc., MPG Holdings Phils., Inc. and MPG Asia Limited. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund and One Meralco Foundation, Inc. She is the Treasurer of the MVP Sports Foundation, Inc. and First Pacific Leadership Academy, Inc. She is the Vice Chairman of the Board of Accountancy of the Professional Regulation Commission and a member of the Holdings Market Governance Board of the Philippine Dealing System Corp. She was a Partner at SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) before joining Meralco. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Masters in Business Administration from the J.L.Kellogg School of Management at Northwestern University/The Hong Kong University of Science and Technology.

15 >GAVIN D. BARFIELD, 37

Chief Technology Advisor

Mr. Barfield is a well-recognized expert in the Asian energy industry; having been involved in the design and development of both the Singapore National Energy Market (NEMS) and the Philippines Wholesale Electricity Spot Market (WESM). He was a key advisor to Government agencies in energy market developments and regulatory issues, including the introduction of competition and open access. Coming from a strong IT background, he worked extensively for Singapore Power in the design and development of the IT systems that support the Singapore Electricity Market. In addition, he has helped companies across multiple industries in defining and implementing their technology strategy and leading large software development projects. Prior to joining Meralco, Mr. Barfield led Pöyry Energy Consulting in Asia Pacific and PA Consulting's operations in South East Asia. Mr. Barfield holds a Bachelor of Science Degree (First Class) in Computing and Management from Loughborough University (UK).

Subsidiaries

Ricardo V. Buencamino, CEDC Dennis H. Uy, COMSTECH Manuel Lorenzo L. Tuason, CIS Bayad Center

Bayad Center continues to expand its network with the establishment of new payment platforms such as the 1-Pay Automated Payment Machine deployed in Biller Offices and major establishments, the Bayad Center Online, the 1-Pay Agent installed in neighborhood sari-sari stores, and the International Bills Pay facility for OFWs, bringing the service closer to every Filipino wherever they may be.

Solidifying its position in the over-the-counter service industry, Bayad Center now offers domestic and international Remittance Payout, Prepaid Loading of various services (mobile, electricity, transport, CTPL and Micro-insurance sales), and Financial services, making it a one-stop shop for all over-the-counter needs.

CLARK ELECTRIC DISTRIBUTION CORPORATION (CEDC)

CEDC, organized on February 19, 1997, is 65%-owned by Meralco and 35%-owned by J Ten Equities, Inc., the holding company of Angeles Electric Corporation. CEDC is the registered private distribution utility with a franchise granted by the Clark Development Corporation (CDC) to own, operate, and maintain a power distribution system, and to distribute power exclusively within the Clark Special Economic Zone (CSEZ) by virtue of Executive Order No. 80. The registered office address of the Company is Bldg. N2830, Bayanihan Street, Clark Freeport Zone, Philippines. CEDC distributes power within the CSEZ through its four substations with a capacity of 100 MVA at 230kV-69kV level and 131MVA at 69kV-13.8kV level. Its present distribution network consists of 1,496 distribution transformers, 29 circuit-km. linear length of sub-transmission lines, 138.37 circuit-km. linear length of primary lines, and 71.99 circuit-km. linear length of secondary lines. CEDC's average retail rates are one of the lowest in Luzon. CEDC aspires to be the leading electric utility of choice providing the best value in energy products and services to its customers and a major catalyst in the nation's progress.

COMSTECH INTEGRATION ALLIANCE, INC. (COMSTECH)

Comstech Integration Alliance, Inc. (Comstech) was established in 2008. The company's primary purpose is to invest in, operate or act as managers or managing agents of corporations and other entities engaged in electricity generation and distribution, hydropower or related businesses.

Comstech, with Meralco as its Technical Partner, was awarded a 20-year Investment Management Contract (IMC) for the management and operations of Pampanga II Electric Cooperative (PELCO II) in 2014.
On February 26, 2015, Meralco subscribed to the shares of Comstech representing a 60% stake in the company.

CORPORATE INFORMATION SOLUTIONS, INC. (CIS)

CIS is a wholly-owned subsidiary of Meralco. CIS, through CIS Bayad Center, Inc. (CBCI), is in the business of bills payment collection. Today, CBCI offers the largest multi-biller payment collection service in the country, covering over 4000 strategically-located sites nationwide with Bayad Center being the foremost brand in bills payment.

LIGHTHOUSE OVERSEAS INSURANCE LIMITED (LOIL)

LOIL, a wholly-owned subsidiary of Meralco and captive insurer, is registered as a Class 1 insurer under The Bermuda Insurance Act 1978 and Related Regulations. LOIL was incorporated in Bermuda in 2007 and received its license to operate in the territory in 2008. Together with RSIC, LOIL plays a major role in Meralco's business risk management model. LOIL serves as the vehicle to reinsure Meralco's major catastrophic risk exposures.

MERALCO ENERGY, INC. (MServ)

MServ is the expert in end-to-end energy solutions, providing both strategic loadside outsourcing and energy efficiency services. It offers a) strategic loadside outsourcing services to extend expert advice on power concerns and ensure that businesses have the right-sized facilities that optimize energy consumption costs; b) engineering design, procurement, construction/installation, operations

Betty C. Siy-Yap, LOIL Dexter C. Lee, MServ

Angelito D. Bermudo, MIESCOR Aaron A. Domingo, MGEN

and maintenance of electrical facilities and equipment that include regular inspection of facilities and preventive maintenance and safety audits, and equipment repairs and replacements; c) power quality solutions that include power quality audits and power factor audits; and d) energy efficiency services that include lighting efficiency programs; heating, ventilating, air-condition (HVAC) services; and electric vehicle (EV) solutions.

MERALCO FINANCIAL SERVICES CORPORATION (FINSERVE)

Finserve is a wholly-owned subsidiary of Meralco. It was established in 2002 to enhance Meralco's shareholder value creation and expand customer service through innovative consumer and customer-based products and services in support of Meralco's core business. In 2007, Finserve embarked on investing and managing commercial center operations with The Strip along Ortigas Avenue as its flagship project. At present this two-storey building with a leasable space of 1,030 square meters houses several retail establishments.

MERALCO INDUSTRIAL ENGINEERING SERVICES CORPORATION (MIESCOR)

MIESCOR is a wholly-owned subsidiary of Meralco. It is engaged in engineering, procurement, construction, operation and maintenance of facilities in the generation, transmission and distribution of power, water and communications. Its wide range of services also include building and facilities management, renovation and fit-out works, vehicle leasing and fleet management. The Philippine Contractor Accreditation Board (PCAB) classifies MIESCOR as an "AAA" (the highest category) general engineering, building and specialty electrical and mechanical contractor. A massive national infrastructure network, a depth of engineering talent, and unsurpassed experience in design, engineering and construction, allow MIESCOR to deliver on complex and logistically challenging projects all over the Philippines.

MERALCO POWERGEN CORPORATION (MGen)

MGen is a wholly-owned subsidiary of Meralco. Through MGen, Meralco aims to build a power generation portfolio of up to 3,000 MW in the next five (5) years and significantly contribute to the country's growing demand for power. Its mission is to pursue the development and construction of highly cost-competitive and reliable power plants to help provide adequate, reliable and affordable power to customers in the Meralco franchise and other areas.

MRAIL, INC. (MRAIL)

MRAIL Inc. is a wholly-owned subsidiary of Meralco. The Company started in December 2008 with the joint venture of Meralco Industrial Engineering Services Corporation (MIESCOR) and Genials Trading and Contracting Co., Inc. (GTC). In December 2013, Meralco took a stronger position on the business and acquired all the MIESCOR-GTC shares and renamed the company MRAIL, Inc.

MRAIL has a proposal to the government for a rail-based freight transport system that will serve as an alternative in-land transportation for moving shipping containers from the port of Manila to an Inland Container Depot, located within the area of manufacturing and export processing zones of CALABARZON . The Container Freight Train will run along the existing Philippine National Railways' tracks. Once operational, the freight-train service will significantly help improve the traffic condition in Metro Manila as shippers and importers and exporters alike recognize the efficiency of transporting containers using the railways vis-à-vis the current system of using trucks.

RADIUS TELECOMS, INC. (Radius)

Radius is the operating telecommunications company of e-Meralco Ventures, Inc. (e-MVI), a wholly-owned subsidiary of Meralco. Radius provides world-class data connectivity solutions over its dense fiber optic network. With more than 2,500 kilometers of fiber optic cable deployed, the Radius network extends across 26 cities and 86 municipalities in Metro Manila and adjacent provinces (reaching as far as Cavite and Laguna in the south, and Bulacan in the north) and is present in all major Telco Nodes and Data Centers. Radius is also known as the only Philippine carrier that delivers an end-to-end fiber optic platform in the Mega Manila area. Furthermore, Radius is one of only three Filipino telecommunications certified by the Metro Ethernet Forum, an international industry consortium promoting global adoption of Carrier Ethernet networks and services.

Ferdinand G. Inacay, MRAIL, Inc. Raymond B. Ravelo, Radius Jun P. Benedicto, Republic Surety

REPUBLIC SURETY AND INSURANCE COMPANY, INC. (RSIC)

RSIC is a wholly-owned subsidiary of Meralco. It is a professional, non-life insurance company, enabling a disciplined approach in managing its risk exposures. RSIC continues to renew an insurance program that provides coverage to Meralco's transmission and distribution assets. It aims to be the most dynamic, proactive risk management and underwriting company, not just for Meralco and its subsidiaries and affiliates in terms of synergistic opportunities, but for the insurance industry as a whole. It is committed to implement risk management methods with emphasis on risk analysis and mitigation, loss control management and general insurance management.

Report of the Audit Committee

The Audit Committee of MERALCO is composed of five (5) non-executive directors and one non-voting non-director; two (2) of the five are independent directors. All members of the Committee have professional qualifications and have adequate background in business, finance, law, management and accounting.

The Audit Committee performs its duties and responsibilities in accordance with its Charter and with the leading practices in good corporate governance espoused by the Philippine Stock Exchange and the Securities and Exchange Commission. The Committee held six (6) regular meetings and two (2) special meetings during the year. The following is a summary of key activities undertaken by the Committee in 2015, which were immediately reported to and approved by the Board:

On Financial Reporting

- Reviewed the unaudited Consolidated Quarterly Financial Statements and the Audited Consolidated Annual Financial Statements of the Company including Management's significant judgments and estimates in respect of the Company's financial statements.
- Reviewed the External Auditor's report on the audit of the 2015 financial statements and discussed areas of audit emphasis.
- Reviewed Management's representation letter to the External Auditors.
- Reviewed in detail and then recommended to the Board of Directors the approval of the Audited Consolidated and Parent Company Financial Statements for the year ended December 31, 2015.
- Reviewed the composition, activities and accomplishments of the Audit Committees of MERALCO's subsidiaries.

On Audit Processes, the internal and external auditors

- Assessed the independence, performance and effectiveness of the External Auditors, SGV & Co. CPAs (SGV), taking into consideration their credibility, competence, ability to understand complex transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board of Directors and the Shareholders as the External Auditors of the Company for the ensuing year.
- Reviewed and approved the audit plan, scope of work and proposed fees of SGV for the audit of the 2015 financial statements.
- Reviewed the management letter issued by the External Auditors after the completion of the audits of the financial statements of the preceding year.
- Held executive sessions with the External Auditors without the presence of Management.
- Reviewed and approved the Internal Audit Plan for CY2015, the related key performance indicators and the subsequent changes to the plan as needed.
- Discussed and dissected the results of audits reported by the Chief Audit Executive in her quarterly status reports to the Committee.
- Reviewed and discussed the 2015 Annual Report of performance of Internal Audit.
- Monitored Management's appropriate corrective actions to the audit recommendations of Internal Audit and the external auditors.
- Assessed Internal Audit's performance for the preceding year.

On internal control

- Reviewed Management's confirmation statement on the adequacy and effectiveness of the Company's internal control and risk management system.
- Evaluated the effectiveness of the internal control system of the Company based on information obtained from the External Auditors and the reasonable assurance provided by the Internal Auditor on the financial and operating controls of the Company and compliance with laws and regulations. The Committee is satisfied with the overall system and processes in place.
- Reviewed results of Management's annual Risks & Control Self-Assessment as validated by Internal Audit.

On compliance

- Obtained updates on the status of regulatory compliance as well as the remaining challenges confronting the Company, as they relate to the requirements related to safety and the environment.
- Reviewed the Internal Audit reports on the status and disposition of the funds for the Supreme Court-ordered refund as of December 31, 2014.

Others

- Performed self-assessments and reviewed the results on the overall effectiveness of the Committee vis-à-vis its Charter.
- Reviewed and updated the Audit Committee Charter.
- Reviewed and discussed the Audit Committee's continuing education program based on the survey on seminar and briefing needs of its members.
- Hosted the first Audit Committee Summit of MERALCO and its subsidiaries where technical sessions on Financial Reporting and Audit were held.

February 26, 2016

On behalf of the Audit Committee:

Retired Chief Justice ARTEMIO V. PANGANIBAN
Independent Director
Chairman, Audit Committee

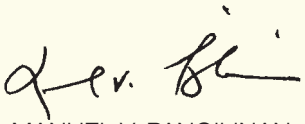
Manila Electric Company and Subsidiaries

Statement of Management's Responsibility for Consolidated Financial Statements

The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, including the following components: a) Reconciliation of Retained Earnings Available for Dividend Declaration; b) Tabular Schedule of all the Effective Standards and Interpretations; c) Map showing the Relationships among the Companies within the Group; and d) Supplementary Schedules Required by Annex 68-E, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the Stockholders.

SyCip Gorres Velayo & Co., as appointed by the Stockholders, has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



MANUEL V. PANGILINAN
Chairman of the Board

OSCAR S. REYES
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Finance Officer

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Electric Company

We have audited the accompanying financial statements of Manila Electric Company and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

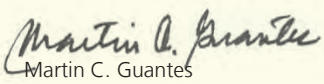
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Electric Company and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-3 (Group A),
August 25, 2015, valid until August 24, 2018
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321643, January 4, 2016, Makati City

February 26, 2016

A member firm of Ernst & Young Global Limited

Consolidated Statements of Financial Position

	Note	December 31 2015	2014
			(Amounts in millions)
ASSETS			
Noncurrent Assets			
Utility plant and others	*7, 10 and 15*	**₱124,913**	₱120,830
Investments in associates and interests in joint ventures	*8 and 23*	**13,603**	14,532
Investment properties	*9 and 15*	**1,538**	1,526
Deferred tax assets - net	*28*	**11,296**	7,089
Other noncurrent assets	*2, 7, 10, 12, 27, 29 and 30*	**35,594**	12,464
Total Noncurrent Assets		**186,944**	156,441
Current Assets			
Cash and cash equivalents	*11 and 27*	**50,840**	69,469
Trade and other receivables	*10, 12, 18 and 27*	**26,761**	30,629
Inventories	*13 and 25*	**2,273**	2,212
Other current assets	*14, 23 and 27*	**15,421**	10,302
Total Current Assets		**95,295**	112,612
Total Assets		**₱282,239**	₱269,053
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	*15*	**₱11,273**	₱11,273
Subscriptions receivable		**–**	(8)
Additional paid-in capital		**4,111**	4,111
Excess of acquisition cost over carrying value of non-controlling interest acquired		**(328)**	(328)
Employee stock purchase plan	*16*	**1,049**	1,049
Unrealized fair value gains on available-for-sale financial assets	*10*	**102**	112
Cumulative translation adjustments of subsidiaries and associates	*8*	**(72)**	355
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(12)**	(20)
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**935**	1,302
Treasury shares	*15*	**(11)**	(11)
Retained earnings:	*15*		
Appropriated		**11,000**	11,000
Unappropriated		**52,229**	50,319
Equity Attributable to Equity Holders of the Parent		**80,276**	79,154
Non-controlling Interests		**585**	320
Total Equity		**80,861**	79,474
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*17, 25 and 27*	**27,370**	27,743
Customers' deposits - net of current portion	*18, 22 and 27*	**23,584**	24,344
Long-term employee benefits	*26*	**3,620**	4,887
Provisions	*19, 22 and 29*	**21,014**	16,073
Refundable service extension costs - net of current portion	*22 and 27*	**4,234**	7,006
Deferred tax liabilities - net	*28*	**17**	5
Other noncurrent liabilities	*2, 5, 7, 24 and 29*	**28,324**	25,993
Total Noncurrent Liabilities		**108,163**	106,051

(Forward)

Consolidated Statements of Financial Position

	Note	December 31 2015	2014
			(Amounts in millions)
Current Liabilities			
Notes payable	*21, 25 and 27*	**₱1,043**	₱400
Trade payables and other current liabilities	*15, 17, 18, 19, 22, 23, 24, 27and 29*	**79,557**	73,624
Customers' refund	*2, 20 and 27*	**5,550**	5,937
Income tax payable		**1,883**	1,668
Current portion of long-term employee benefits	*26*	**3,287**	–
Current portion of interest-bearing long-term financial liabilities	*17, 25 and 27*	**1,895**	1,899
Total Current Liabilities		**93,215**	83,528
Total Liabilities		**201,378**	189,579
Total Liabilities and Equity		**₱282,239**	₱269,053

See accompanying Notes to Consolidated Financial Statements.

Manila Electric Company and Subsidiaries

Consolidated Statements of Income

		Years Ended December 31		
	Note	**2015**	2014	2013
		(Amounts in millions, except per share data)		
REVENUES				
Sale of electricity	*23, 24, 30 and 32*	**₱249,773**	₱261,740	₱294,849
Sale of other services	*9 and 23*	**8,626**	4,596	3,787
		258,399	266,336	298,636
COSTS AND EXPENSES				
Purchased power	*24 and 30*	**192,117**	203,242	238,198
Salaries, wages and employee benefits	*25 and 26*	**12,420**	11,008	11,261
Provision for probable losses and expenses from claims	*19, 24 and 29*	**11,628**	10,720	10,749
Depreciation and amortization	*7, 9 and 10*	**6,910**	6,093	6,118
Contracted services		**4,668**	4,292	3,719
Provision for doubtful accounts - net	*12*	**502**	460	504
Taxes, fees and permits		**595**	662	539
Other expenses	*23 and 25*	**6,151**	3,765	3,398
		234,991	240,242	274,486
OTHER INCOME (EXPENSES)				
Interest and other financial income	*2 and 25*	**1,538**	770	1,172
Interest and other financial charges	*7, 17, 18, 21 and 25*	**(1,216)**	(1,439)	(1,479)
Foreign exchange gains		**367**	8	353
Equity in net earnings (losses) of associates and joint ventures	*8*	**(27)**	295	(259)
Derivative mark-to-market losses		**–**	–	(24)
Others	*2, 23 and 30*	**806**	740	414
		1,468	374	177
INCOME BEFORE INCOME TAX		**24,876**	26,468	24,327
PROVISION FOR (BENEFIT FROM) INCOME TAX	*28*			
Current		**9,732**	9,961	9,889
Deferred		**(4,045)**	(1,624)	(2,835)
		5,687	8,337	7,054
NET INCOME		**₱19,189**	₱18,131	₱17,273
Attributable To				
Equity holders of the Parent	*31*	**₱19,098**	₱18,053	₱17,211
Non-controlling interests		**91**	78	62
		₱19,189	₱18,131	₱17,273
Earnings Per Share Attributable to Equity Holders of the Parent	*31*			
Basic		**₱16.94**	₱16.02	₱15.27
Diluted		**16.94**	16.02	15.27

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Note	Years Ended December 31 2015	2014	2013
			(Amounts in millions)	
NET INCOME		**₱19,189**	₱18,131	₱17,273
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gain (loss) on available-for-sale financial assets	*10*	**(14)**	10	(21)
Income tax effect		**4**	(3)	6
		(10)	7	(15)
Cumulative translation adjustments of subsidiaries and associates	*8*	**(427)**	(34)	386
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**(524)**	(215)	1,653
Income tax effect		**157**	71	(496)
		(367)	(144)	1,157
Share in remeasurement adjustments on associates' retirement liabilities		**(1)**	(20)	–
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**(805)**	(191)	1,528
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱18,384**	₱17,940	₱18,801
Total Comprehensive Income Attributable To				
Equity holders of the Parent		**₱18,293**	₱17,862	₱18,739
Non-controlling interests		**91**	78	62
		₱18,384	₱17,940	₱18,801

See accompanying Notes to Consolidated Financial Statements.

Manila Electric Company and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014, 2013 and 2012

	Equity Attributable to Equity Holders of the Parent														
	Common Stock (Note 15)	Subscriptions Receivable	Additional Paid-in Capital	Excess of Acquisition Cost Over Carrying Value of Non-controlling Interest Acquired	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains on AFS Financial Assets (Note 10)	Share in Remeasurement Adjustments on Associates' Retirement Liabilities	Cumulative Translation Adjustments of Subsidiaries and Associates (Note 8)	Remeasurement Adjustments on Retirement and Other Post-Employment Liabilities (Note 26)	Treasury Shares (Note 15)	Appropriated Retained Earnings (Note 15)	Unappropriated Retained Earnings (Note 15)	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests (Note 6)	Total Equity
	(Amounts in millions)														
At January 1, 2015	**₱11,273**	**(₱8)**	**₱4,111**	**(₱328)**	**₱1,049**	**₱112**	**(₱20)**	**₱355**	**₱1,302**	**(₱11)**	**₱11,000**	**₱50,319**	**₱79,154**	**₱320**	**₱79,474**
Net income	–	–	–	–	–	–	–	–	–	–	–	19,098	19,098	91	19,189
Other comprehensive income (loss)	–	–	–	–	–	(10)	(1)	(427)	(367)	–	–	–	(805)	–	(805)
Total comprehensive income (loss)	–	–	–	–	–	(10)	(1)	(427)	(367)	–	–	19,098	18,293	91	18,384
Effect of partial disposal of a joint venture	–	–	–	–	–	–	9	–	–	–	–	–	9	–	9
Collection of subscriptions receivable	–	8	–	–	–	–	–	–	–	–	–	–	8	–	8
Dividends	–	–	–	–	–	–	–	–	–	–	–	(17,188)	(17,188)	174	(17,014)
	–	8	–	–	–	–	–	–	–	–	–	(17,188)	(17,180)	174	(17,006)
At December 31, 2015	**₱11,273**	**₱–**	**₱4,111**	**(₱328)**	**₱1,049**	**₱102**	**(₱12)**	**(₱72)**	**₱935**	**(₱11)**	**₱11,000**	**₱52,229**	**₱80,276**	**₱585**	**₱80,861**
At January 1, 2014	₱11,273	(₱69)	₱4,111	(₱328)	₱1,049	₱105	₱–	₱389	₱1,446	(₱11)	₱11,000	₱46,197	₱75,162	₱173	₱75,335
Net income	–	–	–	–	–	–	–	–	–	–	–	18,053	18,053	78	18,131
Other comprehensive loss	–	–	–	–	–	7	(20)	(34)	(144)	–	–	–	(191)	–	(191)
Total comprehensive income (loss)	–	–	–	–	–	7	(20)	(34)	(144)	–	–	18,053	17,862	78	17,940
Collection of subscriptions receivable	–	61	–	–	–	–	–	–	–	–	–	–	61	–	61
Dividends	–	–	–	–	–	–	–	–	–	–	–	(13,931)	(13,931)	69	(13,862)
	–	61	–	–	–	–	–	–	–	–	–	(13,931)	(13,870)	69	(13,801)
At December 31, 2014	₱11,273	(₱8)	₱4,111	(₱328)	₱1,049	₱112	(₱20)	₱355	₱1,302	(₱11)	₱11,000	₱50,319	₱79,154	₱320	₱79,474
At January 1, 2013	₱11,273	(₱211)	₱4,111	(₱328)	₱1,049	₱120	₱–	₱3	₱289	(₱11)	₱6,000	₱45,607	₱67,902	₱248	₱68,150
Net income	–	–	–	–	–	–	–	–	–	–	–	17,211	17,211	62	17,273
Other comprehensive income (loss)	–	–	–	–	–	(15)	–	386	1,157	–	–	–	1,528	–	1,528
Total comprehensive income (loss)	–	–	–	–	–	(15)	–	386	1,157	–	–	17,211	18,739	62	18,801
Collection of subscriptions receivable	–	142	–	–	–	–	–	–	–	–	–	–	142	–	142
Dividends	–	–	–	–	–	–	–	–	–	–	–	(11,621)	(11,621)	(137)	(11,758)
Appropriation of unrestricted retained earnings	–	–	–	–	–	–	–	–	–	–	5,000	(5,000)	–	–	–
	–	142	–	–	–	–	–	–	–	–	5,000	(16,621)	(11,479)	(137)	(11,616)
At December 31, 2013	₱11,273	(₱69)	₱4,111	(₱328)	₱1,049	₱105	₱–	₱389	₱1,446	(₱11)	₱11,000	₱46,197	₱75,162	₱173	₱75,335

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Note	Years Ended December 31		
		2015	2014	2013
		(Amounts in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱24,876**	₱26,468	₱24,327
Adjustments for:				
Depreciation and amortization	*7, 9 and 10*	**6,910**	6,093	6,118
Provision for probable losses and expenses from claims - net	*19, 24 and 29*	**11,611**	10,720	10,736
Interest and other financial income	*25*	**(1,538)**	(770)	(1,172)
Interest and other financial charges	*25*	**1,216**	1,439	1,479
Provision for doubtful accounts	*12*	**502**	460	504
Equity in net losses (earnings) of associates and joint ventures	*8*	**27**	(295)	259
Others		**(568)**	(194)	(323)
Operating income before working capital changes		**43,036**	43,921	41,928
Decrease (increase) in:				
Trade and other receivables		**5,496**	10,075	(20,985)
Inventories		**(59)**	(750)	(1,379)
Other current assets		**(754)**	2,290	(147)
Increase (decrease) in:				
Trade payables and other current liabilities		**887**	(10,199)	25,060
Customers' refund		**(387)**	(76)	(114)
Customers' deposits		**(1,342)**	(1,079)	2,983
Long-term employee benefits		**1,496**	480	(2,997)
Cash generated from operations		**48,373**	44,662	44,349
Income tax paid		**(6,690)**	(7,167)	(7,205)
Net cash provided by operating activities		**41,683**	37,495	37,144
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Held-to-maturity investments	*10*	**(21,118)**	–	–
Available-for-sale investments	*10*	**(10,799)**	–	–
Utility plant and others	*7*	**(10,383)**	(12,062)	(9,311)
Investments in associates and interests in joint ventures	*8 and 14*	**(80)**	(1,422)	(16,383)
Intangible assets	*10*	**(707)**	(514)	(876)
Investment properties		**(33)**	(6)	–
Short-term investments	*14*	**–**	–	(4,841)
Interest and other financial income received		**698**	659	1,106
Increase in minority interest due to acquisition of a subsidiary		**174**	–	–
Proceeds from disposal of utility plant and others		**148**	166	127
Proceeds from disposal of interest in a joint venture	*8 and 23*	**330**	–	–
Dividends received from associates	*8*	**605**	554	411
Proceeds from disposal of investment properties		**20**	–	91
Decrease (increase) in other noncurrent assets		**(1,243)**	9	(716)
Net cash used in investing activities		**(42,388)**	(12,616)	(30,392)

(Forward)

	Note	Years Ended December 31		
		2015	2014	2013
		(Amounts in millions)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of notes payable	*21*	**₱929**	₱432	₱4,705
Collection of subscriptions receivable		**8**	61	142
Availment of interest-bearing long-term financial liabilities	*17*	**–**	7,330	–
Issuances of bonds, net of issue costs	*17*	**–**	–	18,314
Payments of:				
Dividends	*15*	**(16,926)**	(13,834)	(12,553)
Interest and other financial charges		**(1,882)**	(1,996)	(4,036)
Interest-bearing long-term financial liabilities		**(400)**	(9,508)	(9,424)
Notes payable	*21*	**(286)**	(1,846)	(4,678)
Increase (decrease) in non-controlling interest		**–**	69	(27)
Increase (decrease) in other noncurrent liabilities		**633**	4,031	156
Net cash used in financing activities		**(17,924)**	(15,261)	(7,401)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(18,629)**	9,618	(649)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**69,469**	59,851	60,500
CASH AND CASH EQUIVALENTS AT END OF YEAR	*11*	**₱50,840**	₱69,469	₱59,851

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Manila Electric Company *("MERALCO")* holds a congressional franchise under Republic Act *("RA")* No. 9209 effective June 28, 2003. *RA* No. 9209 grants *MERALCO* a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission *("ERC")* granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*'s congressional franchise. *MERALCO*'s participation in retail electricity supply *("RES")* is through its local *RES* unit, *MPower*.

The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, Clark Electric Distribution Corporation *("CEDC")*. *CEDC* is a registered private distribution utility granted by Clark Development Corporation ("*CDC*") a franchise to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and Meralco Industrial Engineering Services Corporation ("*MIESCOR*"), dated February 19, 1997.

MERALCO has a minority equity interest in a power generating company, Global Business Power Corporation *("GBPC")*. Separately, it is developing power generation plants through its wholly owned subsidiary, *MERALCO* PowerGen Corporation *("MGen")*. Through several subsidiaries in the services segment, *MERALCO* provides engineering, design, construction and consulting services, bill collection services, distribution and energy management services, and communications, information systems and technology services.

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

MERALCO is owned directly by two (2) major stockholder groups, Beacon Electric Asset Holdings, Inc. *("Beacon Electric")* and JG Summit Holdings, Inc. *("JG Summit")*. *Beacon Electric* is a joint venture between Metro Pacific Investments Corporation *("Metro Pacific")* and *PLDT* Communications and Energy Ventures Inc. *Metro Pacific*, First Philippine Holdings Corporation *("First Holdings")* and First Philippine Utilities Corporation, also have direct equity ownership in *MERALCO*. The balance of *MERALCO*'s common shares is held by institutional investors and the public.

The common shares of *MERALCO* are listed on 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 Board of Directors ("*BOD*") on February 26, 2016.

2. Rate Regulations

As distribution utilities *("DUs")*, *MERALCO* and *CEDC* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* and *CEDC* to customers are itemized or "unbundled" into a number of bill components that reflect the various activities and costs incurred in providing electric service. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities", which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss *("SL")* charge, (d) lifeline and inter-class rate subsidies, and (e) local business taxes, such as, franchise tax *("LFT")*; and [ii] the "Rules for the Setting of Distribution Wheeling Rates" *("RDWR")*, as modified by the *ERC* on December 1, 2009, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

The rate-setting mechanism of *CEDC* is likewise in accordance with the *ERC* regulations. The following is a discussion of matters related to rate-setting of *MERALCO* and *CEDC*:

Performance-Based Regulations ("PBR")

MERALCO

MERALCO is among the Group A entrants to the *PBR*, together with two other private *DUs*.

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

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years *("RYs")*. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The fourth ("*4th*") *RP* for Group "A" *DUs* began on July 1, 2015 and shall end on June 30, 2019.

Maximum Average Price ("MAP") for RY 2008 and RY 2009

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals, *("CA")*, questioning the decision and Order of the *ERC* on *MERALCO*'s rate translation application for *RY* 2008 and *RY* 2009. On January 29, 2010, the *CA* promulgated a decision denying the Petition. Consequently, the consumer groups brought the case to the Supreme Court *("SC")*. Comments, responses and respective manifestations have been filed by both parties. As at February 26, 2016, the case is pending decision at the *SC*.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2012 and translation into rate tariffs by customer category. In an order dated October 3, 2011, the *ERC* provisionally approved the *MAP* for *RY* 2012 of ₱1.6012 per kilowatt hour ("*kWh")* and the rate translation per customer class was implemented starting October 2011. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda. As at February 26, 2016, the application is pending final approval by the *ERC*.

MAP for RY 2013

On March 30, 2012, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2013 and the translation thereof into rate tariffs by customer category. On June 11, 2012, the *ERC* provisionally approved the *MAP* for *RY* 2013 of ₱1.6303 per *kWh,* which was reflected in the customer bills starting July 2012. Hearings on this case have been completed. As at February 26, 2016, the application is pending final approval by the *ERC*.

MAP for RY 2014

On April 1, 2013, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2014 of ₱1.6510 per *kWh* and the translation thereof into rate tariffs by customer category. On June 10, 2013, the *ERC* provisionally approved the *MAP* for *RY* 2014 of ₱1.6474 per *kWh* and the rate translation per customer class. As at February 26, 2016, the application is pending final approval by the *ERC*.

MAP for RY 2015

On March 31, 2014, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2015 of ₱1.5562 per *kWh* and the translation thereof into rate tariffs by customer category. On May 5, 2014, the *ERC* provisionally approved *MERALCO*'s *MAP* for *RY* 2015 of ₱1.5562 per *kWh* and the rate translation per customer class. As at February 26, 2016, the application is pending final approval by the *ERC*.

4th RP Reset Application

The last year of *MERALCO*'s 3rd *RP* ended on June 30, 2015. The 4th *RP* for Group "A" entrants commenced on July 1, 2015 and ends on June 30, 2019. *MERALCO* is to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its 4th *RP* reset application.

Interim Average Rate for RY 2016

On June 11, 2015, *MERALCO* filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per *kWh* and translation thereof into rate tariffs by customer category. On July 10, 2015, the *ERC* provisionally approved an Interim Average Rate of ₱1.3810 per *kWh* and the rate translation per customer class, which was reflected in the customer bills starting July 2015. On January 7, 2016, *MERALCO* presented its first witness. The next hearing for the continuation of *MERALCO*'s presentation of its evidence is scheduled on June 17, 2016.

Capital Expenditures ("CAPEX") for RY 2016

Absent the release by the *ERC* of the final rules to govern the filing of its 4th *RP* Reset Application, and in anticipation of the network system requirements and possible effect of severe weather conditions after June 30, 2015, *MERALCO* filed on February 9, 2015 an application for approval of authority to implement its *CAPEX* program for *RY* 2016 (July 1, 2015 to June 30, 2016) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. On September 30, 2015, the parties completed the presentation of their evidence, and the *ERC* required *MERALCO* to submit certain documents. With *MERALCO*'s compliance to said directive and the submission by the parties of their respective Formal Offer of Evidence *("FOE")*, the case is submitted for resolution.

CEDC

CEDC is among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. The first *RP* of *CEDC* began on October 1, 2011 and ended on September 30, 2015. *CEDC* is to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its 2nd *RP* reset application.

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 *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*'s report.

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Order dated March 20, 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 Motion for Reconsideration (*"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* acknowledged receipt of the respective Memoranda from parties and declared the case submitted for decision. As at February 26, 2016, the decision of the *CA* is still pending.

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

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities." These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, *LFT* and business tax. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the *SL* true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *DU*s in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter. On December 15, 2010, the *ERC* promulgated Resolution No. 23, Series of 2010 to govern the recovery of Senior Citizen Discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On March 31, 2011, *MERALCO* filed its application with the *ERC* to confirm its under- or over-recoveries accumulated from June 2003 to December 2010 in compliance with Resolution No. 16, Series of 2009, as subsequently amended by Resolution No. 21, Series of 2010. On December 8, 2011, *MERALCO* filed a Manifestation with Omnibus Motion praying, among other things, for the admission of the Supplemental Application, which was admitted by the *ERC* in an Order dated December 12, 2011. The filing includes net generation charge under-recoveries of ₱1,000 million, net transmission charge over-recoveries of ₱111 million, net lifeline subsidy under-recoveries of ₱9 million and net *SL* over-recoveries of ₱425 million, excluding proposed carrying charges. On June 1, 2015, the *ERC* approved with modification *MERALCO*'s application for the confirmation of its over- or under-recoveries in its pass-through costs for the period June 2003 to December 2010. The Decision directed *MERALCO* to collect net under-recoveries of ₱909 million, without any carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2015, a total of ₱61 million has been billed to the customers.

On July 6, 2012, *MERALCO* filed its application with the *ERC* to confirm its under- or over-recoveries for the calendar year 2011. The filing includes net generation charge under-recoveries of ₱1,826 million, net transmission charge under-recoveries of ₱253 million, net lifeline subsidy under-recoveries of ₱39 million and *SL* over-recoveries of ₱445 million, excluding proposed carrying charges. On June 1, 2015, the *ERC* approved with modification *MERALCO*'s application for the confirmation of its over- or under-recoveries in its pass-through costs for the period January to December 2011. The Decision directed *MERALCO* to collect net under-recoveries of ₱1,535 million, without any carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2015, a total of ₱437 million has been billed to the customers.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its under- or over- recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net Senior Citizen Discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. Hearings are ongoing and the next scheduled hearing is on June 14, 2016.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation cost for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation cost for recovery to ₱1,310 million, following the receipt of Wholesale Electricity Spot Market *("WESM")* billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues in

related cases with the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period.

2nd Generation Rate Adjustment Mechanism ("2nd GRAM")

The *ERC*'s approval of *MERALCO*'s *2nd GRAM* filing was questioned before the *SC*, for failure by *MERALCO* and the *ERC* to comply with Section 4 (e) Rule 3 of Electric Power Industry Reform Act *("EPIRA")* Implementing Rules and Regulations *("IRR")*, which required publication, notice, and hearing of an application prior to issuance of an Order. On August 16, 2006, the *SC* ruled with finality that strict compliance with the requirements under the *IRR* of the *EPIRA* is jurisdictional and applies to any adjustment to the retail rate, including those for pass-through costs. Beginning September 2006, the Automatic Generation Rate Adjustment ("*AGRA")* was suspended and *MERALCO* could adjust generation and other pass-through charges only after the filing and approval by the *ERC* of an appropriate application.

On November 12, 2010, *MERALCO* filed its application with the *ERC* for the recovery of the total generation costs refunded under the *2nd GRAM*, plus any additional amount that it will still refund to its customers pursuant to the *SC* Resolution dated August 16, 2006, and the corresponding carrying charges. In a Decision dated June 1, 2015, the *ERC* approved the application with modification and directed *MERALCO* to recover its generation costs incurred for the period from November 2003 to January 2004 amounting to ₱746 million, or an equivalent of ₱0.0207 per *kWh*, and carrying costs amounting to ₱198 million, or an equivalent of ₱0.0013 per *kWh*. As at December 31, 2015, a total of ₱484 million has been billed to the customers.

Deferred Purchased Price Adjustment ("Deferred PPA")

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 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 of ₱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 transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 26, 2016, the *MR* is still pending resolution by the *ERC*.

Application for Recovery of LFT

On March 25, 2011, *MERALCO* filed with the *ERC* its application for recovery of *LFT* paid but not yet billed to customers for the period beginning the first quarter of 1993 up to the second quarter of 2004 for five (5) provinces, namely: Bulacan, Batangas, Cavite, Laguna and Rizal; and 14 cities, namely: San Jose Del Monte, Batangas, San Pablo, Tagaytay, Lucena, Mandaluyong, Marikina, Quezon, Caloocan, Pasay, Las Piñas, Manila, Pasig and Calamba. The *LFT* is recognized as a valid and reasonable *DU* pass-through cost in the *ERC*'s unbundling decision.

In a Decision dated February 27, 2012, the *ERC* approved with modifications *MERALCO*'s application. The *ERC* approved the recovery of *LFT* amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the *ERC*, the recovery was reflected as a separate item in the *MERALCO* billing statement to its customers beginning April 2012. As at December 31, 2015, a total of ₱1,894 million *LFT* and carrying charges have been billed to affected customers. The amount recoverable within 12 months is included in the "Trade and other receivables" account while the long-term portion is included in the "Other noncurrent assets" account.

On June 13, 2013, *MERALCO* filed an application with the *ERC* for authority to collect the new *LFT* in the City of Trece Martires, with prayer for provisional authority, beginning the date of effectivity of "*The 2012 Revenue Code of Trece Martires City*" on July 1, 2012. In its Decision dated April 28, 2014, the *ERC* approved said application, with modification, and authorized *MERALCO* to recover the new *LFT* at the rate of 82.5% of 1%, prospectively, or effective its next billing cycle. With respect to the difference between the previous and the new *LFT* rates from the time said revenue code took effect, the *ERC* stated in its Decision that the same shall be considered in a separate application to be filed by *MERALCO* in accordance with the tax recovery adjustment charges *("TRAC")* Formula under *ERC* Resolution No. 16 Series of 2009. On July 24, 2014, *MERALCO* filed a motion seeking the partial reconsideration of the Decision in so far as the filing of a separate application for *LFT* for the prior years is concerned. On October 29, 2014, the *ERC* released its Order dated September 24, 2014 denying *MERALCO*'s motion. In said Order, the *ERC* maintained its position that it shall consider in a separate application the difference between the previous and the new *LFT* rates from the time said revenue code took effect. On February 23, 2015, *MERALCO* paid the full amount of said *LFT* to the City Treasurer of Trece Martires.

On July 3, 2015, *MERALCO* filed the application for authority to recover the difference between the previous and new *LFT* rate for the calendar years 2012 to 2014 in the City of Trece Martires, under the *TRAC* formula with prayer for provisional authority, where it prayed for authority to collect from the customers in the City of Trece Martires the *LFT* amounting to ₱2 million for 2012 to 2014, which it has previously paid to City of Trece Martires and the corresponding carrying cost**.** Hearings have concluded and on September 29, 2015, *MERALCO* filed its *FOE* with Manifestation and Compliance and thereby submitted the case for resolution. As at February 26, 2016, the case is 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.

See *Note 20 – Customers' Refund*.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost, and available-for-sale *("AFS")* financial assets, which are measured at fair value. *AFS* financial assets are included as part of "Other noncurrent assets" account in the consolidated statement of financial position.

All values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of *MERALCO* and its subsidiaries have been prepared in compliance with Philippine Financial Reporting Standards *("PFRS")*.

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 as at December 31, 2015 and 2014.

			2015		2014	
			Percentage of Ownership			
Subsidiaries	Place of Incorporation	Principal Business Activity	Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. ("*CIS*")	Philippines	e-Transactions	**100**	**–**	100	–
CIS Bayad Center, Inc. *("Bayad Center")*	Philippines	Bills payment collection	**–**	**100**	–	100
Customer Frontline Solutions, Inc. *("CFSI")*	Philippines	Tellering services	**–**	**100**	–	100
Fieldtech Specialist, Inc. *("Fieldtech")*	Philippines	Bills payment collection	**–**	**51**	–	–
Meralco Energy, Inc. *("MEI")*	Philippines	Energy systems management	**100**	**–**	100	–
eMERALCO Ventures, Inc. *("e-MVI")*	Philippines	e-Business development	**100**	**–**	100	–
Paragon Vertical Corporation	Philippines	Information technology *("IT")* and multi-media 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. [2]	Philippines	Power generation	**–**	**100**	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	**–**	**100**	–	100
MPG Asia Limited *("MPG Asia")*	British Virgin Island	Holding company	**–**	**100**	–	100
Meralco Financial Services Corporation *("Finserve")*	Philippines	Financial services provider	**100**	**–**	100	–
Republic Surety and Insurance Company, Inc. *("RSIC")*	Philippines	Insurance	**100**	**–**	100	–
Lighthouse Overseas Insurance Limited ("*LOIL*")	Bermuda	Insurance	**100**	**–**	100	–
MRAIL, Inc. *("MRail")*[3]	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	100	–
Meridian Atlantic Light Company Limited	Nigeria	Management of power distribution	**100**	**–**	100	–
MIESCOR	Philippines	Engineering, construction and consulting services	**99**	**–**	99	–
Miescor Builders Inc. *("MBI")*	Philippines	Electric transmission and distribution operation and maintenance services	**–**	**99**	–	99
Miescor Logistics Inc. *("MLI")*	Philippines	General services, manpower/maintenance	**–**	**99**	–	99
CEDC	Philippines	Power distribution	**65**	**–**	65	–
Comstech	Philippines	Management of power distribution	**60**	**–**	–	–

[1] *Incorporated February 15, 2011 and has not started commercial operations as at December 31, 2015.*
[2] *Incorporated January 11, 2013 and has not started commercial operations as at December 31, 2015.*
[3] *Formerly Miescorrail, Inc.*

Control is achieved when the *MERALCO Group* is exposed, or has the right, to variable returns from its involvement with the investee. Specifically, the *MERALCO Group* controls an investee if and only if the *MERALCO Group* has (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When the *MERALCO Group* has less than majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including (a) the contractual arrangement with the other vote holders

of the investee; (b) rights arising from other contractual arrangements; and (c) the *MERALCO Group*'s voting rights and potential voting rights.

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

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

Non-controlling interests represent the portion of profit or loss and net assets in *MIESCOR* and its subsidiaries, *CEDC*, *Comstech* and *Fieldtech* not held by *MERALCO* and are 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.

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.

MERALCO subscribed to the common shares of *Comstech*, equivalent to 60% equity interest in *Comstech*. *Comstech* is a company based in Clark Freeport Zone, Pampanga with the primary purpose of investing in, development and operation of electricity generation and/or distribution, hydropower plants or related businesses.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except with respect to the adoption of the following amendments and improvements to existing standards, which were effective beginning January 1, 2015.

PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to *PAS 19* are to be retrospectively applied for annual periods beginning on or after January 1, 2015. The amendments have no impact on the *MERALCO Group*'s consolidated financial statements.

PFRS 2, Share-based Payment - Definition of Vesting Condition

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements since neither the Company nor any of its subsidiaries has a share-based payment plan.

PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with *PAS 32*. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of *PFRS 9* (or *PAS 39*, if *PFRS 9* is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements.

PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The

amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements.

PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendment clarifies that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendment also clarifies that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements.

PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization

The amendment clarifies that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendment also clarifies that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements.

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

The amendment clarifies that *PFRS 3* does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the *MERALCO Group*'s consolidated financial statements.

PFRS 13, Fair Value Measurement - Portfolio Exception

The amendment clarifies that the portfolio exception in *PFRS 13* can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the *MERALCO Group*'s consolidated financial statements.

PAS 40, Investment Property

The amendment clarifies the interrelationship between *PFRS 3* and *PAS 40* when classifying property as investment property or owner-occupied property. The amendment states that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of *PFRS 3*. This judgment is based on the guidance of *PFRS 3*. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the *MERALCO Group*'s consolidated financial statements.

Future Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standards and interpretation that are already issued but will become effective subsequent to December 31, 2015.

Effective 2016

PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)

The amendments clarify the principle in *PAS 16* and *PAS 38* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the *MERALCO Group*'s consolidated financial statements since the *MERALCO Group* has not used a revenue-based method to depreciate its noncurrent assets.

PAS 16 and PAS 41, Agriculture - Bearer Plants (Amendments)

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of *PAS 41*. Instead, *PAS 16* will apply. After initial recognition, bearer plants will be measured under *PAS 16* at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of *PAS 41* measured at fair value less costs to sell. For government grants related to bearer plants, *PAS 20*, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the *MERALCO Group*'s consolidated financial statements as the *MERALCO Group* does not have any bearer plants.

PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying *PFRS* and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of *PFRS* electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to *PFRS*. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The *MERALCO Group* shall consider the amendments in the preparation of its separate financial statements.

PAS 10 and PAS 28, Investment in Associates - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

The amendments address an acknowledged inconsistency between the requirements in *PFRS 10* and those in *PAS 28* (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The *MERALCO Group* shall consider the amendments in its future transactions.

PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)

The amendments require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant *PFRS 3* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *PFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The *MERALCO Group* shall consider these amendments in future transactions.

PFRS 14, Regulatory Deferral Accounts

PRFS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of *PFRS*. Entities that adopt *PFRS 14* must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and Other Comprehensive Income ("*OCI*"). The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. *PFRS 14* is effective for annual periods beginning on or after January 1, 2016. Since the *MERALCO Group* is an existing *PFRS* preparer, this standard shall not apply.

Annual Improvements to PFRSs (2012–2014 cycle)

The *Annual Improvements to PFRSs (2012–2014 cycle)* are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the *MERALCO Group*'s consolidated financial statements. They include:

PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal (Amendment)

PFRS 5 clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the

application of the requirements in *PFRS 5*. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment is applied prospectively.

PFRS 7, Financial Instruments: Disclosures - Servicing Contracts (Amendment)

The amendment requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in *PFRS 7* in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendment.

PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (Amendment)

The amendment clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate (Amendment)

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report' (Amendment)

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The amendment is applied retrospectively.

Effective 2018

PFRS 9, Financial Instruments

PFRS 9, as issued, reflects all phases of the financial instruments project and replaces *PAS 39* and all previous versions of *PFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. *PFRS 9* is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of *PFRS 9* is permitted if the date of initial application is before February 1, 2015.

The adoption of *PFRS 9* will have an effect on the classification and measurement of the *MERALCO Group*'s financial assets but will have no impact on the classification and measurement of the *MERALCO Group*'s financial liabilities. The adoption will not have any effect on the *MERALCO Group*'s application of hedge accounting. The *MERALCO Group* is currently assessing the impact of adopting this standard.

Deferred effectivity

Philippine Interpretation *IFRIC 15*, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine Securities and Exchange Commission ("*SEC*") and Philippine Financial Reporting Standards Council ("*FRSC*") have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board or *IASB* and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not applicable to the *MERALCO Group*.

The following new standard issued by the *IASB* has not yet been adopted by the Philippine *FRSC*:

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five (5)-step model to account for revenue arising from contracts with customers. Under *IFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under *IFRS*. Either a full or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16, Leases

IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial

performance and cash flows of the entity. *IFRS 16* is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply *IFRS 15* at or before the date of initial application of *IFRS 16*.

Amendments to International Accounting Standards (IAS) 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses

In January 2016, the *IASB* issued the amendments to *IAS 12* which clarify how to account for deferred tax assets related to debt instruments measured at fair value. They also address the diversity in practice regarding the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted.

The *MERALCO Group* is currently assessing the impact of *IFRS 15, IFRS 16 and amendments to IAS 12* and plans to adopt the new standard on the required effective date once adopted locally.

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are as follows:

Utility Plant and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation and amortization and accumulated impairment losses, if any. Costs include the cost of replacing part of such utility plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the 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 and others are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transitional provisions of *PFRS 1*. The balance of revaluation increment was closed to retained earnings.

See *Note 15 – Equity* for the related discussion.

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

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10–40 years, depending on the life of the significant parts
Buildings and improvements	15–40 years
Communication equipment	5–10 years
Office furniture, fixtures and other equipment	5–20 years
Transportation equipment	5–10 years
Others	5–20 years

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

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

Construction in Progress

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

Borrowing Costs

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

Asset Retirement Obligations

Under the terms of certain lease contracts, the *MERALCO Group* is required to dismantle the installations made in leased sites and restore such sites to their original condition at the end of the term of the lease contracts. The *MERALCO Group* recognizes a liability measured at the present value of the estimated costs of these obligations and capitalizes such costs as part of the balance of the related item of utility plant and others and investment properties. The amount of asset retirement obligations is accreted and such accretion is recognized as interest expense.

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 expected useful life of the underlying asset. Assets funded by customers do not form part of *MERALCO*'s regulatory asset base.

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 *MERALCO Group*'s 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.

The consolidated statement of income reflects the *MERALCO Group*'s share of the results of operations of the associate or joint venture. Any change in *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 profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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 its 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 equity in net earnings of an associate and 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 retained 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 retained investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability will be recognized in accordance with *PAS 39*, either in profit or loss or *OCI*. 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 is no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances 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-interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding 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 period, 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 15 – 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 year these are disposed or retired.

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

Intangible Assets

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

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 10 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the 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 indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

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

Fair Value Measurement

The *MERALCO Group* measures financial instruments at fair value at each reporting date.

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

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

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

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

i. Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

ii. Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

iii. Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

Impairment of Nonfinancial Assets

The *MERALCO Group* assesses at each reporting date whether there is an indication that a nonfinancial asset (utility plant and others, investment properties, investments in associates and interests in joint ventures, receivable from the Bureau of Internal Revenue *("BIR"),* intangible assets and unbilled receivables), other than goodwill and intangible assets with indefinite useful life, may be impaired. If any such indication exists, the *MERALCO Group* makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an individual asset's or a cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm's-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their

present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. 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 Assets

Initial Recognition

Financial assets are classified as at fair value through profit or loss (*"FVPL"*), loans and receivables, held-to-maturity (*"HTM"*) investments, *AFS* financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of financial assets is determined at initial recognition and, where allowed and appropriate, re-evaluated at each reporting date.

Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets, except for financial instruments measured at *FVPL*.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchase) are recognized on the trade date, which is the date the *MERALCO Group* commits to purchase or sell the asset.

The *MERALCO Group*'s financial assets include cash and cash equivalents, trade and non-trade receivables, advance payments to a supplier, investments in Unit Investment Trust Funds (" *UITFs*"), investments in government securities and quoted and unquoted equity securities.

Subsequent Measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial Assets at FVPL

Financial assets at *FVPL* include financial assets held-for-trading and financial assets designated upon initial recognition as at *FVPL*. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Financial assets may be designated at initial recognition as at *FVPL* if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the financial assets are part of a group of financial assets, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets contain one (1) or more embedded derivatives that would need to be recorded separately.

Financial assets at *FVPL* are carried in the consolidated statement of financial position at fair value with gains or losses on fair value changes recognized in the consolidated statement of income under "Interest and other financial income" or "Interest and other financial charges" accounts. Interest earned and dividends received from investment at *FVPL* are also recognized in the consolidated statement of income under "Interest and other financial income" account.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at

fair value with gains and losses arising from changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains or losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as when these are amortized. Interest earned or incurred is recorded in "Interest and other financial income" or "Interest and other financial charges" accounts, in the consolidated statement of income. Assets in this category are included under current assets except for assets with maturities beyond 12 months from reporting date, which are classified as noncurrent assets.

HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as *HTM* when the *MERALCO Group* has the positive intention and ability to hold these assets to maturity. After initial measurement, *HTM* investments are measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated statement of income. Assets in this category are included in the current assets except for maturities beyond 12 months from the reporting date, which are classified as noncurrent assets.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as *AFS* or are not classified in any of the three (3) foregoing categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, *AFS* financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income or *OCI* until the investment is derecognized, at which time the cumulative gain or loss recorded in *OCI* is recognized in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss recorded in *OCI* is recognized in the consolidated statement of income. Interest earned from *AFS* debt securities is included under "Interest and other financial income" account in the consolidated statement of income. Dividends earned from *AFS* equity are likewise recognized in the consolidated statement of income under "Interest and other financial income" account when the right of the payment has been established. These are included under noncurrent assets unless there is an intention to dispose of the investment within 12 months from the reporting date.

Financial Liabilities

Initial Recognition

Financial liabilities are classified as financial liabilities at *FVPL*, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of the financial liability is determined at initial recognition.

Financial liabilities are recognized initially at fair value inclusive of directly attributable transaction costs, except for financial liabilities at *FVPL*.

The *MERALCO Group*'s financial liabilities include notes payable, interest-bearing long-term financial liabilities, trade payables and other current liabilities (excluding output value added tax ("*VAT*"), accrued taxes, reinsurance liabilities and deferred lease income), customers' deposits, refundable service extension costs, and customers' refund.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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. Derivative liabilities, including separated embedded liabilities are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial liabilities at *FVPL* are carried in the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement of income under "Interest and other financial income" or "Interest and other financial charges" accounts. Interest incurred on financial liabilities designated as at *FVPL* is recognized in the consolidated statement of income under "Interest and other financial charges" account.

Financial liabilities may be designated at initial recognition as at *FVPL*, if any of the following criteria is met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the financial liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain one (1) or more embedded derivatives that would need to be recorded separately.

The *MERALCO Group* does not have financial liabilities designated as at *FVPL* as at December 31, 2015 and 2014.

Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as when these are amortized. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest amortization is included under "Interest and other financial charges" account in the consolidated statement of income.

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

Derivative instruments, including separated embedded derivatives, are initially recognized at fair value on the date at which a derivative transaction is entered into or separated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments, other than those accounted for as effective hedges, are recognized immediately in the consolidated statement of income. Changes in fair value of derivative instruments accounted for as effective hedges are recognized in *OCI*. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The *MERALCO Group* does not have derivatives accounted for under hedge accounting.

An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not recognized as at *FVPL*.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed.

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

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, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment, plus or minus the cumulative amortization of premium or discount. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of effective interest.

'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the *MERALCO Group* recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the consolidated statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the *MERALCO Group* determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets

The *MERALCO Group* assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the *MERALCO Group* first assesses whether objective evidence of impairment exists individually. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment based on historical loss experience. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. *MERALCO* and *CEDC* consider termination or disconnection of service and significant financial difficulties of debtors as objective evidence that a financial

asset or group of financial assets is impaired. For both specific and collective assessments, any deposits, collateral and credit enhancement are considered in determining the amount of impairment loss.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan is subject to variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial asset together with associated allowance is written off when there is no realistic prospect of future recovery and all collateral or deposits has been realized or has been transferred to the *MERALCO Group*.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an asset written off is recovered, the recovery is recognized in the consolidated statement of income. Any reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets

In the case of equity instruments classified as *AFS*, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an *AFS* financial asset has been recognized in *OCI* and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in *OCI* is reclassified from equity to profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on the financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for investment in equity instruments are not reversed in the consolidated statement of income. Subsequent increases in fair value after impairment are recognized directly in *OCI* .

In the case of debt instruments classified as *AFS*, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest and other financial income" in the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed in the consolidated statement of income.

Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial Assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the *MERALCO Group* has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the *MERALCO Group*'s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or 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 are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of income.

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the consolidated statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the consolidated statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

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

VAT

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

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

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

Provisions

Provisions are recognized when 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 commencing January 1, 2004 were amended to provide for a defined lump sum payment only. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired commencing 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 period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

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

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

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

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*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are employee benefits provided in exchange for the severance of an employee's employment 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 they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting year.

Long-term Incentive Plan

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

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model. The 14th and last Employee Stock Purchase Plan ("*ESPP"*), which was awarded in 2009 fully vested in October 2012.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and presented as "Excess of acquisition cost over carrying value of non-controlling interest acquired" in the consolidated statements of financial position.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Retained earnings include net income attributable to the equity holders of the Parent, reduced by dividends declared on common stock. Dividends are recognized as a liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting date are disclosed as events after the financial reporting date.

Non-controlling interests represent the equity interests in *MIESCOR* and its subsidiaries, *CEDC Comstech* and *Fieldtech*, which are not held by *MERALCO*.

Employee Stock Purchase Plan

Up to 2009, *MERALCO* had an employee stock purchase plan, which covered active and retired employees. Under the plan, the qualified participant may purchase fixed number of shares of stock at a pre-agreed price. The plan features include vesting requirements and payment terms.

The cost of equity-settled transactions with employees is measured by reference to the difference between the fair value of the shares on the grant date and the price at which the share may be purchased under the award or offer. In valuing equity-settled transactions, no account is taken of any performance conditions other than market conditions.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled, ending on the date at which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and *MERALCO*'s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of the reporting date.

No expense is recognized for awards that do not ultimately vest.

When the terms of the equity-settled awards are modified and the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instrument granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the *MERALCO Group* and the revenue can be reliably measured. In addition, collectability is reasonably assured and the delivery of the goods or rendering of the service has occurred. The *MERALCO Group* assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The *MERALCO Group* concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Electricity

Revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, *VAT* and other taxes, where applicable, 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*, the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff -Allowance *("FiT-All")* are also separately presented in the customer's billing statement. *VAT* and business taxes (billed and collected on behalf of the national and local governments) and universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation ("*PSALM*") and National Transmission Corporation ("*TransCo*")] do not form part of *MERALCO* and *CEDC*'s revenues. Revenues are adjusted for the estimated over and/or under-recoveries of pass-through charges.

Sale of Services

Revenues from construction contracts are recognized and measured using the percentage-of-completion method of accounting for the physical portion of the contract work, determined based on the actual costs incurred in relation to the total estimated costs of the contract. Revenue from contracts to manage, supervise or coordinate construction activity for others and contracts where materials and services are supplied by project owners are recognized only to the extent of the contracted fees.

Contract costs principally include subcontracted costs related to contract performance. 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; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising after final contract settlements and after gross margins are recognized in the year in which the changes are determined.

Service and consulting fees are recognized when services are rendered.

Interest Income

Revenue is recognized as interest accrues, using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Dividends

Revenue is recognized when the *MERALCO Group*'s right to receive the payment is established.

Lease Income

Income arising from lease of investment properties and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under "Revenues - Sale of other services" account in the consolidated statement of income.

Expense Recognition

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

Insurance Claim Cost Recognition

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when the insured events occur.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

Company as Lessee

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which they 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 associates, *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 period, and income and expenses of an associate 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 disposal of the associate, the amount of cumulative translation adjustments recognized in other comprehensive income is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding, adjusted for the effects of any dilutive potential common shares.

Contingencies

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

Events After the Reporting Date

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

5. Management's Use of 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 disclosure of contingent assets and liabilities, at the end of the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future years.

Judgments

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

Determination of Functional Currency

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

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

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

As a lessee, the *MERALCO Group* has commercial lease arrangements covering certain office spaces, payment offices and substation sites and towers. The *MERALCO Group* has determined, based on the evaluation of the terms and conditions of the arrangements, that it has not acquired any significant risks and rewards of ownership of such properties because the lease arrangements do not transfer to the *MERALCO Group* the ownership over the assets at the end of the lease term and do not provide the *MERALCO Group* a bargain purchase option over the leased assets. Consequently, the lease agreements are accounted for as operating leases.

Arrangement that Contains a Lease

MERALCO's Purchased Power Agreements *("PPAs")* and Purchase Supply Agreements *("PSAs")* with certain power generating companies qualify as leases on the basis that *MERALCO* and these power generating companies have 'take or pay' *("ToP")* arrangements where payments for purchased power or for contracted capacity are made on the basis of the availability of the power plant and not based solely on actual consumption. In determining the lease classification, it is judged that substantially all the risks and rewards incident to the ownership of the power plants are with these power generating companies. Thus, the *PPA*s and *PSA*s are classified as operating leases. Accordingly, capacity fees, fixed operating and maintenance fees, and transmission line fees that form part of purchased power expense are accounted for similar to a lease.

Components of purchased power cost, which have been accounted for similar to a lease, amounted to ₱45,702 million, ₱44,204 million and ₱46,170 million in 2015, 2014 and 2013, respectively. These are recognized as "Purchased Power" in the consolidated statements of income.

See *Note 24 – Purchased Power*.

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

MERALCO, through *MGen*, has a 51% interest in San Buenaventura Power Ltd. Co. *("SBPL")*. While *MERALCO* owns majority of the voting rights in *SBPL,* it does not have sole control over *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.

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 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 year are discussed as follows:

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

The *MERALCO Group* estimates the useful lives of utility plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each 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 and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱6,475 million, ₱5,778 million and ₱5,941 million for the years ended December 31, 2015, 2014 and 2013, respectively. Total carrying values of utility plant and others, net

of accumulated depreciation and amortization, amounted to ₱124,913 million and ₱120,830 million as at December 31, 2015 and 2014, respectively.

Total depreciation of investment properties amounted ₱7 million, ₱6 million and ₱8 million for the years ended December 31, 2015, 2014 and 2013, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,538 million and ₱1,526 million as at December 31, 2015 and 2014, respectively.

Total amortization of intangible assets with finite lives amounted to ₱428 million, ₱309 million and ₱169 million for the years ended December 31, 2015, 2014 and 2013, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,585 million and ₱2,336 million as at December 31, 2015 and 2014, respectively.

See *Note 7 – Utility Plant and Others, Note 9 – Investment Properties* and *Note 10 – Other Noncurrent 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 and others, 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 and others, construction in progress, investment properties, investments in associates and interests in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the *MERALCO Group*'s consolidated financial position and results of operations.

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

In 2015, *MERALCO* recognized provision for probable losses on unbilled receivables of ₱2,134 million.

The carrying values of nonfinancial assets as at December 31, 2015 and 2014 subject to impairment review are as follows:

Account	**2015**	2014
	(Amounts in millions)	
Utility plant and others	**₱124,913**	₱120,830
Investments in associates and joint ventures	**13,603**	14,532
Intangible assets	**2,585**	2,336
Investment properties	**1,538**	1,526
Unbilled receivables	**851**	7,047
Receivable from the *BIR*	**181**	181
Goodwill	**36**	36

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

Goodwill

The *MERALCO Group*'s consolidated financial statements and the results of operations reflect acquired businesses after the completion of the respective acquisition. The *MERALCO Group* accounts for the acquisition of businesses using the acquisition method of accounting, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the consolidated statement of financial position. Thus, the number of items, which involve judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities, can materially affect the *MERALCO Group*'s financial position.

Realizability of Deferred Tax Assets

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

Assessment on the recognition of deferred 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 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 tax assets:

	2015	2014
	(Amounts in millions)	
Recognized deferred tax assets	**₱21,275**	₱16,855
Unrecognized deferred tax assets	**372**	332

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

Determination of Fair Values of Financial Assets and Financial Liabilities

Where fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

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

Estimating Allowance for Doubtful Accounts

If there is objective evidence that an impairment loss has been incurred in the trade and other receivables balance of the *MERALCO Group*, an estimate of the allowance for doubtful accounts related to trade and other receivables that are specifically identified as doubtful of collection is made. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In such case, use of judgment based on the best available facts and circumstances, including but not limited to, the length of the *MERALCO Group*'s relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce the *MERALCO Group*'s receivables to amounts that management expects to collect is applied. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, an assessment for collective impairment allowance against credit exposures of the customers, which were grouped based on common credit characteristics, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers is done. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total asset impairment provision for trade and other receivables and other current assets, net of recoveries, recognized in the consolidated statements of income amounted to ₱502 million, ₱460 million and ₱504 million for the years ended December 31, 2015, 2014 and 2013, respectively. Trade and other receivables, net of asset impairment, amounted to ₱26,761 million and ₱30,629 million as at December 31, 2015 and 2014, respectively.

See *Note 12 – Trade and Other Receivables* and *Note 14 – Other Current Assets*.

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the power distribution and services segments, and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes. The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and unusable are written off and charged as expense in the consolidated statement of income.

The carrying values of inventories amounted to ₱2,273 million and ₱2,212 million as at December 31, 2015 and 2014, respectively.

See *Note 13 – 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. The retirement and other post-employment benefits expense amounted to ₱1,364 million, ₱1,304 million and ₱1,434 million for the years ended December 31, 2015, 2014 and 2013, respectively. The retirement and other post-employment benefit liabilities as at December 31, 2015 and 2014 amounted to ₱3,620 million and ₱2,584 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 specific country 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 specific country.

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

Insurance Liabilities Arising from Insurance Contracts

RSIC estimates the expected ultimate costs of claims reported and claims incurred but not yet reported as at the reporting date. It takes a significant period of time to establish with certainty the ultimate cost of claims.

The primary technique adopted by *RSIC*'s management in estimating the cost of claims incurred but not yet reported is using the past claims settlement trend to predict the future claims settlement trend. At each reporting date, estimates of prior year claims are reassessed for adequacy and any changes are charged to provisions. Insurance contract liabilities are not discounted for the time value of money.

As at December 31, 2015 and 2014, gross carrying values of insurance liabilities arising from insurance contracts, included in "Other noncurrent liabilities" account, amounted to ₱242 million and ₱673 million, respectively.

Provision for Asset Retirement Obligations

Provision for asset retirement obligations is recognized in the year in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore or dismantle, on a per area basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability.

No asset retirement obligation was recognized since the amount is immaterial.

Provisions

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

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

The *MERALCO Group* recognized provisions on various claims and assessments amounting to ₱11,628 million, ₱10,720 million and ₱10,749 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

Revenue Recognition

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

Revenues from sale of electricity by *MERALCO* and *CEDC* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost in the accounts is based on calendar month as provided in the terms of the *PPA*s and *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 the generators is taken up in the subsequent year. Also, revenues from sale of electricity are adjusted for the estimated over and/or under –recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

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

Revenues and costs from construction contracts of *MIESCOR* are recognized based on the percentage of completion method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work as determined from the reports of the contractors and project consultants.

6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including revenue and expenses relating to transactions with other business segments within the *MERALCO Group*). The operating results of each of the operating segments are regularly reviewed by *MERALCO*'s chief operating decision-maker ("*Management Committee*") to determine how resources are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

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

- Power

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

  Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* franchise area and the *CEDC* franchise area in the Luzon Grid. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country. *CEDC*'s franchise area covers the Clark Freeport Zone and the sub-zone as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and *MIESCOR*.

  Power generation – The *MERALCO Group*'s re-entry in the power generation business is through investments in operating companies or participation in the development of power generation projects. *MGen*, the power generation arm of the *MERALCO Group,* has a 22% equity interest in *GBPC*. *GBPC* currently operates a total of 709 MegaWatt *("MW")* gross of coal and diesel-fired power plants, and has a 150 *MW* gross coal-fired power plant under construction in the Visayas.

  MGen owns an effective 28% equity in PacificLight Power Pte Ltd. *("PacificLight Power")* in Jurong Island, Singapore. *PacificLight Power* began commercial operations of a 2 x 400 *MW* liquefied natural gas ("*LNG*") power plant in February 2014.

  MGen is currently co-developing a 455 *MW* net supercritical coal-fired power plant in Mauban, Quezon under *SBPL*, a 2 x 600 *MW* supercritical coal-fired power plant in Atimonan, Quezon under Atimonan One Energy Inc., and 2 x 300 *MW* Circulating Fluidized Bed *("CFB"),* coal-fired power plant in the Subic Freeport Zone under Redondo Peninsula Energy, Inc. *("RP Energy").*

  MGen is also in various stages of pre-development of other power generation projects in the Philippines.

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

  RES – This covers the sourcing and supply of electricity to qualified contestable customers. *MERALCO* serves as a local *RES* within its franchise area under a separate business unit, *MPower*. Under Retail Competition and Open Access *("RCOA")*, qualified contestable customers who opt to switch to contestability and become contestable customers may source their electricity supply from competing retail electricity suppliers ("RESs"), including *MPower*.

- 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, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, and energy systems management. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as "*MIESCOR Group*"), *CIS*, *Bayad Center, CFSI and Fieldtech* (collectively referred to as "*CIS Group*"), *MRail*, *RSIC*, *LOIL, Finserve*, *e-MVI, Comstech* and *MEI*.

The Management Committee monitors the operating results of each business unit separately for the purpose of determining resource allocation and assessing performance. Performance is evaluated based on (i) net income for the year, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization or consolidated core *("EBITDA")*; and (iii) consolidated core net income *("CCNI")*. Net income for the year is measured consistent with reported net income in the consolidated statement of income.

Core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures and provision for income tax.

CCNI for the year 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 done on an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

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

	Note	Power			Other Services			Inter-segment Transactions			Total		
		2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
							(*Amounts in Millions*)						
Revenues		**₱249,773**	₱261,740	₱294,849	**₱10,422**	₱6,894	₱5,258	**(₱1,796)**	(₱2,298)	(₱1,471)	**₱258,399**	₱266,336	₱298,636
Segment results		**₱29,304**	₱31,984	₱29,730	**₱2,187**	₱951	₱1,305	**–**	₱–	₱–	**₱31,491**	₱32,935	₱31,035
Depreciation and amortization		**(6,607)**	(5,863)	(5,911)	**(303)**	(230)	(207)	**–**	–	–	**(6,910)**	(6,093)	(6,118)
Interest and other financial income	*25*	**1,506**	742	1,161	**32**	28	11	**–**	–	–	**1,538**	770	1,172
Equity in net earnings (losses) of associates and joint ventures	*8*	**(27)**	295	(259)	**–**	–	–	**–**	–	–	**(27)**	295	(259)
Interest and other financial charges	*25*	**(1,187)**	(1,426)	(1,475)	**(29)**	(13)	(4)	**–**	–	–	**(1,216)**	(1,439)	(1,479)
Derivative mark-to-market losses		**–**	–	(24)	**–**	–	–	**–**	–	–	**–**	–	(24)
Provision for income tax - net		**(5,146)**	(8,085)	(6,710)	**(541)**	(252)	(344)	**–**	–	–	**(5,687)**	(8,337)	(7,054)
Net income attributable to non-controlling interests		**–**	–	–	**–**	–	–	**(91)**	(78)	(62)	**(91)**	(78)	(62)
Net income attributable to equity holders of the Parent		**₱17,843**	₱17,647	₱16,512	**₱1,346**	₱484	₱761	**(₱91)**	(₱78)	(₱62)	**₱19,098**	₱18,053	₱17,211

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

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

	2015	2014	2013
		(*Amounts in millions*)	
EBITDA	**₱31,124**	₱32,927	₱30,682
Add (Deduct):			
Depreciation and amortization	**(6,910)**	(6,093)	(6,118)
Interest and other financial income	**1,538**	770	1,172
Interest and other financial charges	**(1,216)**	(1,439)	(1,479)
Equity in net earnings (losses) of associates and joint ventures	**(27)**	295	(259)
Foreign exchange gain	**367**	8	353
Derivative mark-to-market loss	**–**	–	(24)
Income before income tax	**24,876**	26,468	24,327
Provision for income tax	**(5,687)**	(8,337)	(7,054)
Net income	**₱19,189**	₱18,131	₱17,273

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

	2015	2014	2013
		(*Amounts in millions*)	
CCNI	**₱18,887**	₱18,128	₱17,023
Add (Deduct) non-core items, net of tax:			
Foreign exchange gain	**337**	17	366
Non-core expenses	**(126)**	(92)	(178)
Net income for the year attributable to equity holders of the Parent	**19,098**	18,053	17,211
Net income for the year attributable to non-controlling interests	**91**	78	62
Net income	**₱19,189**	₱18,131	₱17,273

7. Utility Plant and Others

The movements in utility plant and others are as follows:

		December 31, 2015								
	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						(*Amounts in millions*)				
Cost										
Balance at beginning of year		**₱148,977**	**₱15,280**	**₱5,599**	**₱2,153**	**₱2,836**	**₱3,148**	**₱3,147**	**₱7,491**	**₱188,631**
Additions		**228**	**–**	**24**	**259**	**202**	**279**	**543**	**9,028**	**10,563**
Disposals/retirements		**(1,595)**	**–**	**(2)**	**(6)**	**(34)**	**(123)**	**(9)**	**–**	**(1,769)**
Transfers from construction in progress		**7,980**	**–**	**604**	**70**	**7**	**2**	**48**	**(8,711)**	**–**
Reclassifications	*9 and 10*	**–**	**–**	**(12)**	**6**	**46**	**–**	**(16)**	**–**	**24**
Balance at end of year		**155,590**	**15,280**	**6,213**	**2,482**	**3,057**	**3,306**	**3,713**	**7,808**	**197,449**
Less Accumulated Depreciation and Amortization										
Balance at beginning of year		**59,217**	**–**	**2,266**	**917**	**1,759**	**1,770**	**1,872**	**–**	**67,801**
Depreciation and amortization		**5,309**	**–**	**163**	**182**	**303**	**311**	**207**	**–**	**6,475**
Disposals/retirements		**(1,595)**	**–**	**(1)**	**(6)**	**(31)**	**(98)**	**(9)**	**–**	**(1,740)**
Reclassifications		**51**	**–**	**–**	**1**	**4**	**–**	**(56)**	**–**	**–**
Balance at end of year		**62,982**	**–**	**2,428**	**1,094**	**2,035**	**1,983**	**2,014**	**–**	**72,536**
Net Book Values		**₱92,608**	**₱15,280**	**₱3,785**	**₱1,388**	**₱1,022**	**₱1,323**	**₱1,699**	**₱7,808**	**₱124,913**

	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						December 31, 2014				
						(Amounts in millions)				
Cost										
Balance at beginning of year		₱138,321	₱15,264	₱5,208	₱6,511	₱3,102	₱2,817	₱3,190	₱3,297	₱177,710
Additions		1,601	11	6	171	309	487	233	9,244	12,062
Disposals/retirements		(1,510)	–	(2)	(465)	(312)	(227)	(82)	–	(2,598)
Transfers from construction in progress		4,583	–	193	258	9	–	7	(5,050)	–
Reclassification and others	*10*	5,982	5	194	(4,322)	(272)	71	(201)	–	1,457
Balance at end of year		148,977	15,280	5,599	2,153	2,836	3,148	3,147	7,491	188,631
Less Accumulated Depreciation and Amortization										
Balance at beginning of year		52,596	–	2,176	4,644	2,083	1,828	1,797	–	65,124
Depreciation and amortization		4,779	–	147	140	286	255	171	–	5,778
Disposals/retirements		(1,510)	–	(2)	(465)	(312)	(227)	(82)	–	(2,598)
Reclassification and others	*10*	3,352	–	(55)	(3,402)	(298)	(86)	(14)	–	(503)
Balance at end of year		59,217	–	2,266	917	1,759	1,770	1,872	–	67,801
Net Book Values		₱89,760	₱15,280	₱3,333	₱1,236	₱1,077	₱1,378	₱1,275	₱7,491	₱120,830

As at December 31, 2015 and 2014, the net book values of customer-funded assets included in "Utility plant and others" account amounted to ₱2,031 million and ₱1,811 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2015 and 2014 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

Construction in progress mainly pertains to on-going electric capital projects *("ECPs")* and non-electric capital projects *("NEPs"). ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱180 million, ₱182 million and ₱122 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The average annual interest rates used for capitalization in 2015, 2014 and 2013 ranged from 4.4% to 4.6%, 4.4% to 5.0% and 4.6% to 5.9%, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2015 and 2014:

	Place of Incorporation	Principal Activity	Percentage of Ownership **2015**	2014
Associates				
RP Energy	Philippines	Power generation	**47**	47
FPM Power Holdings Limited *("FPM Power")*	British Virgin Islands	Power generation	**40**	40
Bauang Private Power Corporation *("BPPC")*	Philippines	Power generation	**38**	38
General Electric Philippines Meter and Instrument Company, Inc. *("GEPMICI")*	Philippines	Sale of metering products and services	**35**	35
Indra Philippines, Inc. ("*Indra Philippines")*	Philippines	Management and *IT* consultancy	**24**	–
GBPC	Philippines	Power generation	**22**	22
AF Payments, Inc. ("*AFPI*")*	Philipines	Electronic payment clearing and settlement system operator	**10**	10
Joint Ventures				
SBPL	Philippines	Power generation	**51**	51
Indra Philippines	Philippines	Management and *IT* consultancy	–	50
Rockwell Business Center	Philippines	Real estate	**30**	30

** Formerly Automated Fare Collection Services, Inc.*

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

	2015	2014
		(Amounts in millions)
Acquisition costs:		
Balance at beginning of year	**₱14,883**	₱13,461
Additions	**334**	1,422
Disposal	**(3)**	–
Balance at end of year	**15,214**	14,883
Accumulated equity in net losses:		
Balance at beginning of year	**(680)**	(421)
Equity in net earnings (losses)	**(27)**	295
Dividends	**(605)**	(554)
Disposal	**(201)**	–
Balance at end of year	**(1,513)**	(680)
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of year	**(20)**	–
Actuarial loss	**(1)**	(20)
Effect of disposal	**9**	–
Balance at end of year	**(12)**	(20)
Share in cumulative translation adjustments:		
Balance at beginning of year	**349**	382
Translation adjustments	**(435)**	(33)
Balance at end of year	**(86)**	349
	₱13,603	₱14,532

RP Energy

On July 22, 2011, *MGen* signed a Shareholders' Agreement with Therma Power, Inc. *("TPI")* and Taiwan Cogeneration International Corporation – Philippine Branch *("TCIC")* for the construction and operation of a 2 x 300 *MW CFB*, coal-fired power plant to be located in the Subic Bay Freeport Zone. The development and operations shall be undertaken by *RP Energy,* the joint venture entity.

On February 3, 2015, *RP Energy* received the *SC*'s decision denying the Writ of Kalikasan case previously filed by certain opposing parties against its planned power plant due to insufficiency of evidence. The high court upheld the validity of the Environment Compliance Certificate ("*ECC*") and its first two amendments, as well as the Lease and Development Agreement ("*LDA*") of *RP Energy* with Subic Bay Metropolitan Authority ("*SBMA*").

RP Energy has since resumed the development works and is now targeting to complete technical and commercial evaluation on the *Engineering, Procurement and Construction* proposals for the first 300 *MW* unit by the first half of 2016. An Amended and Restated *LDA* has been executed with the *SBMA*. Other development activities underway include closing the terms for the Income Tax Holiday with the Board of Investments ("*BOI*") and securing financing of the project, among others.

Construction of the first 300 *MW* unit is expected to start in 2016, with commercial operations by second half of 2019. Meanwhile, work on the permanent transmission line interconnection is proceeding in preparation for the development of the second 300 *MW* unit.

FPM Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia*, a subsidiary of *MGen,* and 60%-owned by First Pacific Company Limited *("First Pacific").* On March 28, 2013, *FPM Power* acquired a 70% 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.

BPPC

BPPC was incorporated and registered with the Philippine *SEC* on February 3, 1993 to engage in the power generation business.

In accordance with the Build-Operate-Transfer *("BOT")* Agreement signed in 1993, First Private Power Corporation *("FPPC"),* then parent company, constructed the 215 *MW* Bauang Power Plant *("Bauang Plant")*, and operated the same under a 15-year Cooperation Period up to July 25, 2010.

The *Bauang Plant* has since been turned over to the National Power Corporation *("NPC")* without any compensation and free of any liens. In 2010, the Philippine *SEC* approved the merger of *FPPC* and *BPPC*, with *BPPC* as the surviving entity. *BPPC* management continues to evaluate its investment options in power generation and allied industries.

GEPMICI

GEPMICI was established in 1979 together with General Electric Company of U.S.A., to serve the Philippine market for ANSI-type Watt-hour meters.

GBPC

On October 7, 2013, *MGen* executed a Share Sale and Purchase Agreement with First Metro Investment Corporation *("FMIC")* for the sale by *FMIC* of a 20% equity interest in *GBPC* to *MGen*, and signed a related Shareholders Agreement on October 22, 2013. In June 2014, *MGen* acquired an additional 2% equity interest in *GBPC*, bringing its equity interest to 22%.

GBPC owns an aggregate of 709 *MW* gross coal and diesel power plants in operation in the Visayas region. A 150 *MW* gross coal-fired power plant in Panay is under construction and is expected to be in commercial operation by the third quarter of 2016.

AFPI

MERALCO, through *Finserve*, has a 10% equity interest in *AFPI* since its incorporation in February 2014. AFPI was incorporated primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It shall also supply and issue fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operated and maintain the related hardware and software. While *MERALCO* has 10% equity interest, management has assessed that *MERALCO* has significant influence over *AFPI* mainly through its representation in *AFPI*'s board. *MERALCO*'s investment in *AFPI* as at December 31, 2014 amounting to ₱150 million was previously reported as part of "Other noncurrent assets" account in the consolidated statement of financial position.

SBPL

On August 29, 2013, *MGen* signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand *("EGCO")* for the development of a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon. *MGen*'s equity in the joint venture company, *SBPL*, is 51%, with the option to assign or transfer 2% thereof to a separate entity. On November 11, 2014, the *DENR* granted *SBPL* an *ECC* covering the 455 *MW* (net) coal-fired power plant.

SBPL's *EPC* was executed with the Consortium of Daelim Industrial Co. Ltd. and Mitsubishi Corporation following a competitive selection process on October 8, 2014. The construction period is set at 42 months from the commencement date of December 8, 2015.

On May 29, 2014, *MERALCO* signed a long term *PSA* with *SBPL*. The *ERC*-approved *PSA* was accepted by *SBPL* on May 30, 2015.

On October 8, 2015, *SBPL* entered into an Omnibus Agreement and related agreements with certain financial institutions providing for a term loan facility in an amount of up to ₱42.15 billion for the financing of the project. *SBPL* made its initial borrowing on

December 1, 2015. Also on December 11, 2015, *SBPL* entered into an Operation and Maintenance Agreement with Pearl Energy Philippines Operating, Inc. for the operations and maintenance of the power plant.

SBPL is targeted to achieve commercial operations by first half of 2019.

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.

In October 2015, *MERALCO* completed the sale to *Metro Pacific* and Indra Sistemas S.A. of its 84,012 shares and 337 shares, respectively, in *Indra Philippines* for an aggregate purchase price of ₱330 million.

Rockwell Business Center

The Rockwell Business Center is a joint venture between Rockwell Land Corporation (*"Rockwell Land")* and *MERALCO* over a pre-agreed cooperation period, pursuant to which *Rockwell Land* has three (3) Business Process Outsourcing *("BPO")*-enabled buildings on a non-regulatory asset base property of *MERALCO*. Investment in Rockwell Business Center represents *MERALCO*'s 30% interest in the joint venture, accounted for using the equity method. *Rockwell Land* owns 70% interest in Rockwell Business Center.

MERALCO and *Rockwell Land* share earnings before depreciation and amortization at 30:70 ratio, respectively, except from 2010 to 2014, where both agreed to apply a share ratio on the basis of 20:80 in favor of *Rockwell Land*. However, sharing of depreciation and amortization is proportionate to their contributions.

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

	2015	2014
	(Amounts in millions)	
GBPC	**₱8,186**	₱8,195
FPM Power	**2,777**	3,955
Rockwell Business Center	**1,234**	872
RP Energy	**632**	646
SBPL	**258**	280
AFPI	**230**	150
Indra Philippines	**210**	349
GEPMICI	**65**	74
BPPC	**11**	11
	₱13,603	₱14,532

The condensed statements of financial position of material associates follow:

	2015		
	GBPC	***FPM Power***	***RP Energy***
		(Amounts in millions)	
Current assets	**₱22,043**	**₱5,831**	**₱130**
Noncurrent assets	**54,218**	**48,678**	**1,118**
Current liabilities	**(12,596)**	**(17,858)**	**(7)**
Noncurrent liabilities	**(31,827)**	**(28,083)**	**(2)**
Non-controlling interests	**(4,444)**	**(1,626)**	**–**
Net assets	**₱27,394**	**₱6,942**	**₱1,239**

	2014		
	GBPC	*FPM Power*	*RP Energy*
		(Amounts in millions)	
Current assets	₱22,064	₱6,574	₱226
Noncurrent assets	64,179	47,889	1,096
Current liabilities	(10,873)	(17,312)	(52)
Noncurrent liabilities	(35,023)	(27,926)	(2)
Non-controlling interests	(12,911)	661	–
Net assets	₱27,436	₱9,886	₱1,268

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

	2015			2014			2013		
	GBPC	**FPM Power**	**RP Energy**	GBPC	FPM Power	RP Energy	GBPC	FPM Power	RP Energy
				(Amounts in millions)					
Revenues	**₱18,888**	**₱30,219**	**₱2**	₱18,993	₱32,378	₱3	₱2,824	₱262	₱11
Costs and expenses	**(15,065)**	**(32,732)**	**(31)**	(14,182)	(34,642)	(31)	(2,329)	(1,212)	(191)
Net income (loss)	**3,823**	**(2,513)**	**(29)**	4,811	(2,264)	(28)	495	(950)	(180)
Non-controlling interests	**(1,266)**	**845**	**–**	(1,235)	736	–	(172)	82	–
Net income (loss) attributable to equity holders of the parent	**2,557**	**(1,668)**	**(29)**	3,576	(1,528)	(28)	323	(868)	(180)
Other comprehensive income (loss)	**–**	**(1,085)**	**–**	–	(84)	–	–	378	–
Total comprehensive income (loss)	**₱2,557**	**(₱2,753)**	**(₱29)**	₱3,576	(₱1,612)	(₱28)	₱323	(₱490)	(₱180)
Dividends received	**₱572**	**₱–**	**₱–**	₱400	₱–	₱–	₱–	₱–	₱–

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

	December 31, 2015		
	GBPC	**FPM Power**	**RP Energy**
	(Amounts in millions, except % of ownership)		
Net assets of associates	**₱27,394**	**₱6,942**	**₱1,239**
Proportionate ownership in associates (%)	**22**	**40**	**47**
	6,027	**2,777**	**582**
Goodwill	**2,159**	**–**	**50**
	₱8,186	**₱2,777**	**₱632**

	December 31, 2014		
	GBPC	FPM Power	RP Energy
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱27,436	₱9,886	₱1,268
Proportionate ownership in associates (%)	22	40	47
	6,036	3,955	596
Goodwill	2,159	–	50
	₱8,195	₱3,955	₱646

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

	2015	2014	2013
		(Amounts in millions)	
Share in net income	**₱1**	₱30	₱4
Share in other comprehensive income	**1**	(1)	1
Share in total comprehensive income	**₱2**	₱29	₱5
Dividends received	**₱11**	₱–	₱–

Joint Ventures

The condensed statements of financial position of Rockwell Business Center, a material joint venture, follow:

	2015	2014
		(Amounts in millions)
Current assets	**₱946**	₱500
Noncurrent assets	**3,364**	2,505
Current liabilities	**(296)**	(264)
Noncurrent liabilities	**(10)**	(7)
Net assets	**₱4,004**	₱2,734

Current assets include cash and cash equivalents of ₱781 million and ₱316 million as at December 31, 2015 and 2014, respectively. Noncurrent assets represent substantially the cost of the two (2) *BPO* towers for lease and the construction costs of the third building of Rockwell Business Center. Current liabilities represent trade payables.

The condensed statements of comprehensive income of Rockwell Business Center for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
		(Amounts in millions)	
Revenues	**₱527**	₱335	₱301
Costs and expenses – net of other income	**(180)**	(182)	(142)
Provision for income tax - net	**(60)**	(54)	(57)
Net income	**287**	99	102
Other comprehensive income	**–**	–	–
Total comprehensive income	**₱287**	₱99	₱102
Dividends received	**₱23**	₱43	₱–

The foregoing condensed statements of comprehensive income include the following:

	2015	2014	2013
		(Amounts in millions)	
Depreciation	**₱199**	₱145	₱136
Interest income	**(9)**	(4)	(6)
Provision for income tax	**60**	54	57

The reconciliation of the net assets of Rockwell Business Center to the carrying amounts of the interest in Rockwell Business Center recognized in the consolidated financial statements is as follows:

	2015	2014
	(Amounts in millions, except % of ownership)	
Net assets	**₱4,004**	₱2,734
Proportionate ownership (%)	**30**	30
	1,201	820
Effect of difference between *MERALCO's* percentage share in net income and proportionate ownership	**33**	52
	₱1,234	₱872

The following is the condensed financial information of joint ventures which are not considered as material:

	2015	2014	2013
		(Amounts in millions)	
Share in net income	**₱16**	₱73	₱125
Share in other comprehensive loss	**(2)**	(16)	–
Share in total comprehensive income	**₱14**	₱57	₱125
Dividends received	**₱–**	₱13	₱11

9. Investment Properties

The movements in investment properties are as follows:

		2015		
	Note	**Land**	**Buildings and Improvements**	**Total**
			(Amounts in millions)	
Cost:				
Balance at beginning of year		**₱1,446**	**₱187**	**₱1,633**
Additions		**–**	**33**	**33**
Reclassifications	7	**–**	**6**	**6**
Disposals		**(19)**	**(2)**	**(21)**
Balance at end of year		**1,427**	**224**	**1,651**
Less accumulated depreciation:				
Balance at beginning of year		**–**	**107**	**107**
Depreciation		**–**	**7**	**7**
Disposals		**–**	**(1)**	**(1)**
Balance at end of year		**–**	**113**	**113**
		₱1,427	**₱111**	**₱1,538**

	2014		
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
Cost:			
Balance at beginning of year	₱1,446	₱181	₱1,627
Additions	–	6	6
Balance at end of year	1,446	187	1,633
Less accumulated depreciation:			
Balance at beginning of year	₱–	₱101	₱101
Depreciation	–	6	6
Balance at end of year	–	107	107
	₱1,446	₱80	₱1,526

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

The aggregate fair values of the investment properties as at December 31, 2015 and 2014 are as follows:

	2015	2014
		(Amounts in millions)
Land	**₱1,863**	₱1,863
Buildings and improvements	**170**	137

Land pertains primarily to properties where the *BPO* building and "Strip" mall are located and to other non-regulated asset base properties.

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

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱40 to ₱96,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used any 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. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the factors of location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

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

10. Other Noncurrent Assets

This account consists of:

	Note	**2015**	2014
			(Amounts in millions)
HTM investments	*14 and 27*	**₱17,167**	₱121
AFS financial assets	*27*	**10,961**	172
Intangible assets	*7*	**2,585**	2,336
Deferred input *VAT*		**1,664**	1,680
Advance payments to a supplier	*27 and 30*	**1,030**	619
Unbilled receivables - net	*2 and 12*	**851**	7,047
Receivable from the *BIR*	*29*	**181**	181
Deferred reinsurance premium		**119**	110
Goodwill		**36**	36
Others		**1,000**	162
		₱35,594	₱12,464

HTM Investments

The details of *HTM* investments are as follows:

	2015			2014		
	Current Portion (*Note 14*)	**Noncurrent Portion**	**Total**	Current Portion	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱4,072**	**₱16,476**	**₱20,548**	₱–	₱–	₱–
Private debt securities	**–**	**691**	**691**	–	121	121
	₱4,072	**₱17,167**	**₱21,239**	₱–	₱121	₱121

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

AFS Financial Assets

The details of *AFS* financial assets are as follows:

	2015	2014
		(Amounts in millions)
Investments in Unit Investment Trust Funds *("UITFs")*	**₱9,027**	₱–
Investments in government securities	**1,792**	–
Investments in ordinary shares and club shares of stock:		
Quoted	**107**	138
Unquoted	**35**	34
	₱10,961	₱172

The rollforward of unrealized gains (losses) on quoted *AFS* financial assets included in the consolidated statements of financial position follows:

	2015	2014
		(Amounts in millions)
Balance at beginning of year	**₱112**	₱105
Gains (losses) on change in fair value	**(10)**	7
Balance at end of year	**₱102**	₱112

Intangible Assets

The movements of intangible assets are as follows:

		2015			
	Note	**Software**	**Franchise**	**Land and Leasehold Rights**	**Total**
			(Amounts in millions)		
Cost:					
Balance at beginning of year		**₱3,467**	**₱49**	**₱431**	**₱3,947**
Additions		**707**	**–**	**–**	**707**
Reclassifications	*7*	**(30)**	**–**	**–**	**(30)**
Balance at end of year		**4,144**	**49**	**431**	**4,624**
Less accumulated amortization:					
Balance at beginning of year		**1,389**	**–**	**222**	**1,611**
Amortization		**410**	**–**	**18**	**428**
Balance at end of year		**1,799**	**–**	**240**	**2,039**
		₱2,345	**₱49**	**₱191**	**₱2,585**

		2014			
	Note	Software	Franchise	Land and Leasehold Rights	Total
			(Amounts in millions)		
Cost:					
Balance at beginning of year		₱2,401	₱49	₱–	₱2,450
Additions		514	–	–	514
Reclassification	*7*	552	–	431	983
Balance at end of year		3,467	49	431	3,947
Less accumulated amortization:					
Balance at beginning of year		722	–	–	722
Amortization		291	–	18	309
Reclassification	*7*	376	–	204	580
Balance at end of year		1,389	–	222	1,611
		₱2,078	₱49	₱209	₱2,336

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for in *RA* No. 9337 *("EVAT Law")*, said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due.

Unbilled Receivables

This account represents generation and other pass-through costs incurred by *MERALCO* and *CEDC* as *DUs*, which are still to be billed and which are covered by the approved recovery mechanism of the *ERC*. The balance also includes other unbilled generation and pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*.

In 2015, *MERALCO* recognized provision for impairment loss on unbilled receivables amounting to ₱2,134 million.

11. Cash and Cash Equivalents

This account consists of:

	2015	2014
		(Amounts in millions)
Cash on hand and in banks	**₱5,098**	₱5,921
Cash equivalents	**45,742**	63,548
	₱50,840	₱69,469

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.

12. Trade and Other Receivables

This account consists of:

	Note	**2015**	2014
			(Amounts in millions)
Trade:			
Electricity:			
Billed	*23 and 27*	**₱19,898**	₱23,095
Unbilled	*2 and 10*	**4,116**	4,082
Service contracts		**3,624**	2,662
Cost and estimated earnings in excess of billings on uncompleted contracts		**780**	718
Insurance receivable		**99**	102
Nontrade	*23 and 27*	**1,909**	3,397
		30,426	34,056
Less allowance for doubtful accounts		**3,665**	3,427
		₱26,761	₱30,629

Billed receivables from sale of electricity of *MERALCO* and *CEDC* consist of the following:

	2015	2014
	(Amounts in millions)	
Residential	**₱8,969**	₱10,039
Commercial	**7,574**	9,144
Industrial	**3,044**	3,413
Flat streetlights	**311**	499
	19,898	23,095
Less allowance for doubtful accounts	**3,459**	3,207
	₱16,439	₱19,888

Movements in allowance for doubtful accounts for trade and other receivables are as follows:

	2015			
	Balance at Beginning of Year	**Provisions (Reversals)**	**Write-offs**	**Balance at End of Year**
		(Amounts in millions)		
Billed trade receivables:				
Residential	**₱1,806**	**₱805**	**(₱436)**	**₱2,175**
Commercial	**963**	**23**	**(77)**	**909**
Industrial	**291**	**(11)**	**(31)**	**249**
Flat streetlights	**147**	**(20)**	**(1)**	**126**
	3,207	**797**	**(545)**	**3,459**
Other trade receivables	**218**	**(15)**	**–**	**203**
Nontrade receivables	**2**	**1**	**–**	**3**
	₱3,427	**₱783**	**(₱545)**	**₱3,665**

	2015						
	Residential	**Commercial**	**Industrial**	**Flat Streetlights**	**Other Trade Receivables**	**Nontrade Receivables**	**Total**
			(Amounts in millions)				
Individually impaired	**₱1,404**	**₱362**	**₱114**	**₱44**	**₱203**	**₱3**	**₱2,130**
Collectively impaired	**771**	**547**	**135**	**82**	**–**	**–**	**1,535**
	₱2,175	**₱909**	**₱249**	**₱126**	**₱203**	**₱3**	**₱3,665**

	2014			
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
		(Amounts in millions)		
Billed trade receivables:				
Residential	₱1,068	₱1,179	(₱441)	₱1,806
Commercial	1,165	(139)	(63)	963
Industrial	533	(217)	(25)	291
Flat streetlights	203	(55)	(1)	147
	2,969	768	(530)	3,207
Other trade receivables	181	37	–	218
Nontrade receivables	2	–	–	2
	₱3,152	₱805	(₱530)	₱3,427

	2014						
	Residential	Commercial	Industrial	Flat Streetlights	Other Trade Receivables	Nontrade Receivables	Total
			(Amounts in millions)				
Individually impaired	₱1,036	₱344	₱98	₱80	₱218	₱2	₱1,778
Collectively impaired	770	619	193	67	–	–	1,649
	₱1,806	₱963	₱291	₱147	₱218	₱2	₱3,427

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs consist largely of generation, transmission and *SL* charges, which represent 54%, 11% and 4%, respectively, of the total billed amount in 2015 and 57%, 10% and 5%, respectively, of the total billed amount in 2014. Billed receivables are due 10 days after bill date. *MERALCO*'s and *CEDC*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits.

Unbilled receivables represent electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period. This also includes the current portion of pass-through costs under-recoveries, net of over-recoveries, which are billed to the customers over the period approved by the *ERC*.

See *Note 18 – Customers' Deposits* and *Note 27 – Financial Assets and Financial Liabilities.*

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by *MIESCOR Group*, *e-MVI* and subsidiary, *CIS, Bayad Center*, *MRail*, and *MEI* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development and energy management services to third parties.

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

13. Inventories

	2015	2014
	(Amounts in millions)	
Materials and supplies:		
At net realizable value *("NRV")*	**₱160**	₱158
At cost	**2,113**	2,054
	₱2,273	₱2,212

The reversal of write-down of inventory cost to *NRV* amounted ₱2 million, ₱10 million and ₱4 million in 2015, 2014 and 2013, respectively.

14. Other Current Assets

	Note	**2015**	2014
		(Amounts in millions)	
Advances to an associate	*23 and 27*	**₱5,342**	₱4,998
HTM investments	*10 and 27*	**4,072**	–
Prepayments and advances to suppliers		**2,469**	1,520
Pass-through *VAT* - net		**1,550**	1,753
Prepaid tax		**1,438**	1,601
Input *VAT*		**477**	340
Others		**73**	90
		₱15,421	₱10,302

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.

15. Equity

Common Stock

	2015	2014
	(In millions, except par value)	
Authorized - ₱10 par value a share	**₱1,250**	₱1,250
Issued and outstanding - number of shares	**1,127**	1,127

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

The common shares of *MERALCO* were listed in the *PSE* on January 8, 1992. There are 44,193 and 46,586 shareholders of *MERALCO*'s common shares as at December 31, 2015 and 2014, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, and the balance of *MERALCO*'s revaluation increment in utility plant and others and investment properties carried at deemed cost and deferred tax assets totaling to₱40,618 million and ₱36,175 million as at December 31, 2015 and 2014, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting years.

The following are the cash dividends declared on common shares in 2015, 2014 and 2013:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 27, 2015	August 26, 2015	September 18, 2015	₱6.76	₱7,619
February 23, 2015	March 23, 2015	April 15, 2015	8.49	9,569
July 28, 2014	August 25, 2014	September 18, 2014	5.91	6,661
March 17, 2014	April 15, 2014	May 8, 2014	6.45	7,270
July 29, 2013	August 27, 2013	September 20, 2013	4.10	4,621
February 25, 2013	March 26, 2013	April 24, 2013	6.10	6,875

MERALCO pays regular cash dividends equivalent to 50% of *CCNI* for the year, which may be supplemented by a 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*.

Appropriated Retained Earnings

On February 22, 2010, retained earnings of ₱6,000 million were appropriated specifically for the *MERALCO Group*'s business expansion into power generation. The amount appropriated was increased by ₱5,000 million for the development of new projects and investments in power generation. The additional appropriation was approved on March 22, 2013 by the *BOD*. As at February 26, 2016, the development of the first project, a 2 x 300 *MW CFB* coal-fired plant through *RP Energy*, is proceeding with the decision of the *SC* denying the Writ of Kalikasan case previously filed by certain opposing parties against its planned power plant due to insuffiency of evidence. Construction of the first 300 *MW* unit is expected to start in 2016, with commercial operations by second half of 2019. Meanwhile, work on the permanent transmission line interconnection is proceeding in preparation for the development of the second 300 *MW* unit.

Separately, *MERALCO* signed a Joint Development Agreement and Shareholders Agreement to co-develop a 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon under *SBPL*, which has signed *PSA* and *EPC* contracts, has achieved financial close, and has a target completion by the first half of 2019.

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

Treasury Shares

Treasury shares represent 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. As at December 31, 2015 and 2014, a total of 172,412 shares were acquired from employees who have opted to cancel their participation in the *ESPP*.

16. Employee Stock Purchase Plan

MERALCO had an *ESPP*, which entitled participants to purchase *MERALCO*'s common shares subject to certain terms and conditions during a nominated offer period.

MERALCO allotted a total of 55 million common shares for *ESPP* awards. As at December 31, 2015, 12 million common shares are available for future offerings. There were no *ESPP* awards since October 2009.

The fair value of the offerings was estimated at the dates of the grant using the Black-Scholes Option Pricing Model.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2015	2014
		(Amounts in millions)
Long-term portion of interest-bearing financial liabilities -		
Long-term debt	**₱27,370**	₱27,743
Current portion of interest-bearing financial liabilities:		
Long-term debt	**373**	350
Redeemable preferred stock	**1,522**	1,549
	1,895	1,899
	₱29,265	₱29,642

All of the redeemable preferred shares have been called for redemption as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2015 and 2014. Interest is no longer accrued when the preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	**2015**	2014
		(Amounts in millions)
Fixed Rate Loans		
₱11.5 Billion 7-year Bonds	**₱11,500**	₱11,500
₱7.0 Billion 12-year Bonds	**7,000**	7,000
₱7.2 Billion Note Facility Agreement	**6,840**	7,200
₱130 Million Term Loan Facility	**130**	130
Floating Rate Loan		
₱2.5 Billion Term Loan Facility	**2,450**	2,463
Total long-term debt	**27,920**	28,293
Less unamortized debt issuance costs	**177**	200
	27,743	28,093
Redeemable Preferred Stock	**1,522**	1,549
	29,265	29,642
Less current portion	**1,895**	1,899
Long-term portion of interest-bearing financial liabilities	**₱27,370**	₱27,743

All of *MERALCO*'s interest-bearing long-term financial liabilities as at December 31, 2015 and 2014 are denominated in Philippine peso. The scheduled maturities of *MERALCO*'s outstanding long-term debt at nominal values as at December 31, 2015 are as follows:

	Amount
	(In millions)
Less than one (1) year	₱396
One (1) year up to two (2) years	397
More than two (2) years up to three (3) years	2,809
More than three (3) years up to four (4) years	383
More than four (4) years up to five (5) years	11,883
More than five (5) years	12,052
	₱27,920

₱18.5 Billion Fixed Rate Puttable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, where *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

On December 12, 2013, the ₱11.5 billion fixed rate puttable bonds due in 2020 and ₱7.0 billion fixed rate puttable bonds due in 2025, were listed on the Philippine Dealing and Exchange Corporation.

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

₱7.2 Billion Note Facility Agreement

In February 2014, *MERALCO* entered into a Fixed Rate Note Facility Agreement for its ₱7,200 million, 10-year note due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

₱130 Million Term Loan Facility

On June 27, 2014, *MIESCOR* obtained a ₱130 million, 7-year fixed rate term loan. The principal is payable over six (6) years with final maturity in June 2021.

₱2.5 Billion Term Loan Facility

The ₱2,500 million, 7-year Floating Rate Term Loan Facility, was drawn in January 2011 from a local bank. Interest rate is repriced every six (6) months based on 6-month *PDST-F* plus a spread. The principal is payable in nominal annual amortizations with a balloon payment on final maturity in January 2018.

The annual interest rates for the interest-bearing financial liabilities are as follows:

	2015	2014
Fixed Rate Loans	**4.38% to 5.50%**	4.38% to 5.50%
Floating Rate Loans	**2.52% to 2.63%**	2.10% to 2.19%

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.2 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2015 and 2014, *MERALCO* is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs amounted to ₱177 million and ₱200 million as at December 31, 2015 and 2014, respectively.

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

	Note	**2015**	2014
			(Amounts in millions)
Balance at beginning of year		**₱200**	₱207
Additions		**–**	36
Amortization charged to interest and other financial charges	*25*	**(23)**	(43)
Balance at end of year		**₱177**	₱200

Redeemable Preferred Stock

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

	2015	2014
Balance at beginning of year	**154,901,389**	156,189,168
Redemptions	**(2,669,975)**	(1,287,779)
Balance at end of year	**152,231,414**	154,901,389

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:

	2015			2014		
	Current Portion (*Note 22*)	**Noncurrent Portion**	**Total**	Current Portion (*Note 22*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,470**	**₱23,584**	**₱26,054**	₱3,562	₱24,344	₱27,906
Meter deposits	**497**	**–**	**497**	501	–	501
	₱2,967	**₱23,584**	**₱26,551**	₱4,063	₱24,344	₱28,407

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer in accordance with existing regulations.

As provided for under the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU* an amount equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be adjusted after one year 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.

On February 22, 2010, the amended *DSOAR,* which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR,* interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso

savings account interest rate of the Land Bank of the Philippines *("Land Bank")* or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*. Interest rate for bill deposits is 0.250% per annum starting January 1, 2014.

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

The following are the movements of the bill deposits account:

	2015	2014
	(Amounts in millions)	
Balance at beginning of year	**₱27,906**	₱27,730
Additions	**4,807**	5,209
Refunds	**(6,659)**	(5,033)
Balance at end of year	**26,054**	27,906
Less portion maturing within one year	**2,470**	3,562
Noncurrent portion of bill deposits and related interests	**₱23,584**	₱24,344

Meter Deposits

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

The *Magna Carta* for residential customers (effective June 17, 2004) and *DSOAR* (effective January 18, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released 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 the said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

As at December 31, 2015 and 2014, total meter deposits refunded by *MERALCO* amounted to ₱2,599 million (inclusive of ₱1,349 million interest) and ₱2,595 million (inclusive of ₱1,347 million interest), respectively.

19. Provisions

Provisions consist of amounts recognized for probable costs, losses and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

	Note	**2015**	2014
		(Amounts in millions)	
Balance at beginning of year		**₱30,393**	₱24,729
Additions for the year		**7,026**	5,665
Settlements		**(17)**	(1)
Balance at end of year		**37,402**	30,393
Less current portion	*22*	**16,388**	14,320
Noncurrent portion of provisions		**₱21,014**	₱16,073

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which has not yet been claimed by customers.

In June 2003, the *ERC,* in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC's* approval 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.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from various local banks. Annual interest rates range from 2.9% to 4.25% in 2015 and 2014 on peso-denominated loans.

Interest expense on notes payable amounted to ₱26 million, ₱7 million and ₱73 million for the years ended December 31, 2015, 2014 and 2013, respectively.

See *Note 25 – Expenses and Income*.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2015**	2014
		(Amounts in millions)	
Trade accounts payable	*23 and 24*	**₱29,458**	₱32,101
Provisions	*19 and 29*	**16,388**	14,320
Output *VAT* - net		**6,437**	6,323
Accrued expenses:			
Employee benefits		**1,734**	2,271
Taxes		**1,635**	1,983
Interest	*17*	**115**	109
Others		**2,007**	1,990
Current portions of:			
Bill deposits and related interests	*18*	**2,470**	3,562
Meter deposits and related interests	*18*	**497**	501
Deferred income		**1,037**	714
Refundable service extension costs		**2,502**	1,852
Dividends payable on:			
Common stock	*15*	**450**	188
Redeemable preferred stock	*17*	**250**	250
Payable to customers		**8,009**	2,046
Universal charges payable		**2,256**	1,988
Regulatory fees payable		**275**	273
Feed-in tariff allowance		**217**	18
Reinsurance liability		**86**	74
Other current liabilities		**3,734**	3,061
		₱79,557	₱73,624

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, *NPC/ PSALM*, National Grid Corporation of the Philippines *("NGCP")*, and Philippine Electricity Market Corporation *("PEMC")*, for cost of power purchased and for cost of transmission. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which consist of transformers, poles, materials and supplies, and contracted services.

Trade payables are non-interest-bearing and are generally settled within the 15- to 60-day trade term. Other payables are non-interest-bearing and are due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions* and *Note 30 – Significant Contracts and Commitments*.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities" , requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective on 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 forms part of the rate base only at the time a refund has been paid out. Customer advances are non-interest-bearing.

As at December 31, 2015 and 2014, the noncurrent portion of refundable service extension costs of ₱4,234 million and ₱7,006 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 payable are charges passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

23. 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 financial years. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with Philippine Long Distance Telephone Company ("PLDT")

MERALCO has a Pole Attachment Contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the Pole Attachment Contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups within the franchise area such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

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

Purchase of Goods and Services

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

Following is the summary of related party transactions for the years ended December 31, 2015, 2014 and 2013 and the outstanding balances as at December 31, 2015 and 2014:

	Amount of Transactions			Outstanding Receivable (Liability)			
Category	**2015**	2014	2013	**2015**	2014	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
JG Summit Group	**₱4,064**	₱3,263	₱348	**₱242**	₱289	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**1,438**	1,941	2,599	**64**	48	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**157**	179	352	**6**	7	10-day; noninterest-bearing	Unsecured, no impairment
SMC Group	**–**	–	851	**–**	–	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**786**	829	658	**(50)**	(1)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - *GEPMICI*	**399**	312	251	**(19)**	(21)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**285**	250	212	**16**	2	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	**72**	58	50	**11**	–	30-day; noninterest-bearing	Unsecured
Purchase of power:							
Panay Power Corporation ("PPC")	**143**	340	–	–	5	30-day; noninterest-bearing	Unsecured
Toledo Power Corporation ("TPC")	**100**	918	–	–	3	30-day; noninterest-bearing	Unsecured
Sale of shares of stock							
Metro Pacific	**327**	–	–	–	–	–	–
Indra Sistemas	**3**	–	–	–	–	–	–

Advances to FPM Power

On March 22, 2013, *FPM Power* availed of a non-interest-bearing loan from *MPG Asia* amounting to US$110 million, which is payable on demand. The loan is outstanding as at December 31, 2015 and 2014.

See *Note 14 – Other Current Assets*.

Transaction with MERALCO Retirement Benefits Fund ("Fund")

The *MERALCO Group's Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy.* The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2015 and 2014, the fair value of the total assets being managed by the Fund amounted to ₱36.2 billion and ₱36.4 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:

	2015	2014	2013
		(Amounts in millions)	
Short-term employee benefits	**₱635**	₱538	₱517
Long-term employee incentives and retirement benefits	**300**	297	283
Total compensation to key management personnel	**₱935**	₱835	₱800

Each of the directors is entitled to a per diem of ₱120,000 for every *BOD* meeting attended. Each member of the Audit and Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱20,000 for every committee meeting attended.

On March 22, 2013, the *BOD* approved the amendment of *MERALCO*'s By-Laws which entitles all directors 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.

Consistent with the foregoing, the *BOD* approved the increase in the compensation of all members of the *BOD* up to a maximum of the pre-agreed amount per annum. The increase in compensation shall be through a stock grant based on a pre-approved number of shares for each director. The implementation of such plan was approved by the stockholders in the annual general meeting of stockholders on May 28, 2013.

As at December 31, 2015, 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. Purchased Power

The details of purchased power are as follow:

	2015	2014	2013
		(Amounts in millions)	
Generation costs	**₱157,904**	₱169,033	₱206,507
Transmission costs	**34,213**	34,209	31,691
	₱192,117	₱203,242	₱238,198

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

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

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees, and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a lease"*. The total amounts billed by the suppliers presented as part of "Purchased power" account in the consolidated statements of income amounted to ₱45,702 million, ₱44,204 million and ₱46,170 million in 2015, 2014 and 2013, respectively. These also include the actual *SL* incurred which is within the *SL* cap of 8.5%. *MERALCO*'s actual 12 months moving average *SL* rates are 6.47%, 6.49% and 6.92% in 2015, 2014 and 2013, respectively.

The details of purchased power follow:

	2015	2014	2013
		(Amounts in millions)	
First Gas Power Corporation *("FGPC")* and FGP Corp. *("FGP")*	**₱49,111**	₱53,772	₱55,360
NGCP	**34,005**	34,016	31,691
South Premiere Power Corporation *("SPPC")*	**29,572**	36,344	34,885
QPPL	**13,605**	14,480	14,251
PEMC/WESM	**13,078**	5,975	40,600
San Miguel Energy Corporation *("SMEC")*	**12,987**	12,979	13,648
Masinloc Power Partners Co. Ltd. *("MPPCL")*	**11,462**	12,515	12,905
Sem-Calaca Power Corporation *("Sem-Calaca")*	**10,097**	10,486	10,673
Therma Luzon, Inc. *("TLI")*	**9,393**	9,334	9,538
Therma Mobile, Inc. *("TMO")*	**3,231**	3,987	495
Trans-Asia Oil and Energy Development Corporation *("Trans-Asia")*	**2,152**	2,281	2,043
NPC/PSALM	**1,636**	4,836	11,531
1590 Energy Corporation	**1,370**	1,359	–
Others	**418**	878	578
	₱192,117	₱203,242	₱238,198

In March 2014, *MERALCO* received from *PEMC* a billing adjustment amounting to ₱9.3 billion for power purchases from *WESM* in December 2013 based on an order of the *ERC*.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2015 and 2014, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱5,829 million and ₱9,046 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2015	2014	2013
			(Amounts in millions)	
Salaries, wages and related employee benefits		**₱11,056**	₱9,704	₱9,827
Retirement benefits	*26*	**1,237**	1,186	1,176
Other long-term post-employment benefits	*26*	**127**	118	258
		₱12,420	₱11,008	₱11,261

Other Expenses

	Note	2015	2014	2013
			(Amounts in millions)	
Materials used	*13*	**₱2,783**	₱820	₱693
Rent and utilities		**852**	718	753
Transportation and travel		**476**	396	360
Advertising		**306**	438	309
Insurance		**295**	327	246
Communication	*23*	**134**	101	82
Others		**1,305**	965	955
		₱6,151	₱3,765	₱3,398

Interest and Other Financial Charges

	Note	2015	2014	2013
			(Amounts in millions)	
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	*7 and 17*	**₱1,050**	₱1,210	₱1,038
Interest expense on bill deposits	*18*	**83**	84	82
Interest expense on notes payable	*21*	**26**	7	73
Amortization of debt issuance costs	*17*	**23**	43	61
Others		**34**	95	225
		₱1,216	₱1,439	₱1,479

Interest and Other Financial Income

	Note	**2015**	2014	2013
			(Amounts in millions)	
Interest income on cash in banks and cash equivalents	*11*	**₱1,012**	₱720	₱1,088
Income from *HTM* investments		**275**	–	–
Carrying costs on *ERC*-approved under-recoveries		**198**	–	–
Others		**53**	50	84
		₱1,538	₱770	₱1,172

26. Long-term Employee Benefits

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

	2015	2014
		(Amounts in millions)
Long-term incentives	**₱3,287**	₱2,303
Retirement benefits liability	**2,021**	685
Other long-term post-employment benefits	**1,599**	1,899
Total	**6,907**	4,887
Less current portion	**3,287**	–
	₱3,620	₱4,887

Defined Benefit Retirement Plans

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

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

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

	2015	2014	2013
		(Amounts in millions)	
Current service costs	**₱1,216**	₱1,101	₱1,041
Net interest costs	**14**	76	130
Net retirement benefits expense	**₱1,230**	₱1,177	₱1,171

Retirement Benefits Liability

	2015	2014
		(Amounts in millions)
Defined benefit obligation	**₱38,220**	₱37,129
Fair value of plan assets	**(36,199)**	(36,444)
Retirement benefits liability	**₱2,021**	₱685

Changes in the net retirement benefits liability are as follows:

	2015	2014
		(Amounts in millions)
Retirement benefits liability at beginning of year	**₱685**	₱1,186
Net retirement benefits expense	**1,230**	1,177
Contributions by employer	**(775)**	(1,831)
Amounts recognized in *OCI*	**881**	153
Retirement benefits liability at end of year	**₱2,021**	₱685

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

	2015	2014
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱37,129**	₱35,225
Interest costs	**1,620**	1,601
Current service costs	**1,216**	1,101
Benefits paid	**(1,720)**	(1,840)
Actuarial losses (gains) due to:		
Changes in financial assumptions	**(1,550)**	506
Experience adjustments	**1,525**	536
Defined benefit obligation at end of year	**₱38,220**	₱37,129

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

	2015	2014
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱36,444**	₱34,039
Benefits paid	**(1,720)**	(1,840)
Interest income	**1,606**	1,525
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**(906)**	889
Contributions by employer	**775**	1,831
Fair value of plan assets at end of year	**₱36,199**	₱36,444

The Board of Trustees *("BoT")* which manages the *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 independent member of the *BOD*; (ii) a member of the *BOD* who represents the largest shareholder group; (iii) an executive member of the *BOD*; and (iv) three (3) senior executives.

The *Fund* follows a generally conservative investment approach where investments are diversified to minimize risks but ensures an increase in value of the *Fund* assets. The assets of the *Fund* are managed by four (4) local trustee banks and one (1) foreign bank whose common objective is to maximize the long-term expected return of plan assets. As approved by the *BoT*, the plan assets are invested in a guided proportion of fixed income instruments, cash investments and equities.

The net carrying amount and fair value of the assets of the *Fund* as at December 31, 2015 and 2014 amounted to ₱36,199 million and ₱36,444 million, respectively. The major categories of plan assets are as follows:

	2015	2014
	(Amounts in millions)	
Cash and cash equivalents	**₱3,007**	₱3,606
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	**2,973**	2,635
Electricity, energy, power and water	**1,576**	1,585
Telecommunication	**915**	908
Property	**743**	585
Food, beverages and tobacco	**722**	1,068
Banks	**671**	743
Transportation services	**90**	345
Mining	**78**	138
Construction, infrastructure and allied services	**53**	135
Retail	**14**	130
Gaming	**–**	139
Others	**25**	461
Quoted debt investments		
"AAA" rated securities	**12,670**	10,032
Government securities	**9,813**	11,226
Unquoted investments		
Receivables	**1,895**	1,754
Property	**954**	954
Fair value of plan assets	**₱36,199**	₱36,444

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks. The *Fund* does not have any direct equity interests in *MERALCO*.

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

	2015	2014	2013
		(Amounts in millions)	
Interest costs	**₱84**	₱79	₱178
Current service costs	**39**	36	80
Actuarial loss	**4**	3	–
	₱127	₱118	₱258

Other Long-term Post-employment Benefits Liability

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

	2015	2014
		(Amounts in millions)
Balance at beginning of year	**₱1,899**	₱1,792
Interest costs	**84**	79
Current service costs	**39**	36
Benefits paid	**(70)**	(73)
Actuarial losses (gains) due to change in assumptions	**(353)**	65
Balance at end of year	**₱1,599**	₱1,899

Actuarial Assumptions

The principal assumptions used as at December 31, 2015 and 2014 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2015	2014
Annual discount rate	**5.0%**	4.5%
Future range of annual salary increases	**6.0%–8.0%**	5.0%–8.0%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2015**	2014
			(Amounts in millions)
Annual discount rate	+1.0%	**(₱4,393)**	(₱4,014)
	-1.0%	**5,407**	4,792
Future range of annual salary increases	+1.0%	**1,752**	1,139
	-1.0%	**(1,588)**	(1,047)

Funding

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

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

The following is the maturity profile of the undiscounted benefit obligation as at December 31, 2015:

	Amount
	(In millions)
Less than one (1) year	₱1,518
One (1) year up to five (5) years	9,152
More than five (5) years up to 10 years	14,068
More than 10 years up to 15 years	19,670
More than 15 years up to 20 years	19,907
More than 20 years	60,267

Risk

The *Fund* is exposed to the following risks:

Credit Risk

The *Fund*'s exposure to credit risk arises from its financial assets which comprise cash and cash equivalents, investments and rental receivable. 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 *Fund*.

Share Price Risk

The *Fund*'s exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The price share risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Fund* is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *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 on a voluntary basis. 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 ₱7 million, ₱9 million and ₱5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	2015	2014	2013
		(Amounts in millions)	
Expense recognized for defined benefit plans	**₱1,230**	₱1,177	₱1,171
Expense recognized for defined contribution plan	**7**	9	5
Retirement benefits expense	**₱1,237**	₱1,186	₱1,176

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified executives and is based on the *MERALCO Group*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three-year period as well as executives' attainment of a minimum level of performance rating. Executives 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 and trade and nontrade receivables, which are generated directly from operations, and *AFS* investments and *HTM* investments. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities as at December 31, 2015 and 2014:

	Loans and Receivables	*HTM* Investments	Fair Value through Profit or Loss	Held-for-trading	*AFS* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
			(Amounts in millions)				
Assets as at December 31, 2015							
Noncurrent							
Other noncurrent assets	**₱1,030**	**₱17,167**	**₱–**	**₱–**	**₱10,961**	**₱–**	**₱29,158**
Current							
Cash and cash equivalents	**50,840**	**–**	**–**	**–**	**–**	**–**	**50,840**
Trade and other receivables	**22,645**	**–**	**–**	**–**	**–**	**–**	**22,645**
Advances to an associate	**5,342**	**–**	**–**	**–**	**–**	**–**	**5,342**
Other current assets	**–**	**4,072**	**–**	**–**	**–**	**–**	**4,072**
Total assets	**₱79,857**	**₱21,239**	**₱–**	**₱–**	**₱10,961**	**₱–**	**₱112,057**
Liabilities as at December 31, 2015							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱27,370**	**₱27,370**
Customers' deposits - net of current portion	**–**	**–**	**–**	**–**	**–**	**23,584**	**23,584**
Refundable service extension costs - net of current portion	**–**	**–**	**–**	**–**	**–**	**4,234**	**4,234**
Current							
Notes payable	**–**	**–**	**–**	**–**	**–**	**1,043**	**1,043**
Trade payables and other current liabilities	**–**	**–**	**–**	**–**	**–**	**46,677**	**46,677**
Customers' refund	**–**	**–**	**–**	**–**	**–**	**5,550**	**5,550**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**–**	**–**	**–**	**1,895**	**1,895**
Total liabilities	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱110,353**	**₱110,353**
Assets as at December 31, 2014							
Noncurrent							
Other noncurrent assets	₱619	₱121	₱–	₱–	₱172	₱–	₱912
Current							
Cash and cash equivalents	69,469	–	–	–	–	–	69,469
Trade and other receivables	26,547	–	–	–	–	–	26,547
Advances to an associate	4,998	–	–	–	–	–	4,998
Total assets	₱101,633	₱121	₱–	₱–	₱172	₱–	₱101,926
Liabilities as at December 31, 2014							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱–	₱–	₱–	₱27,743	₱27,743
Customers' deposits - net of current portion	–	–	–	–	–	24,344	24,344
Refundable service extension costs - net of current portion	–	–	–	–	–	7,006	7,006
Current							
Notes payable	–	–	–	–	–	400	400
Trade payables and other current liabilities	–	–	–	–	–	43,176	43,176
Customers' refund	–	–	–	–	–	5,937	5,937
Current portion of interest-bearing long-term financial liabilities	–	–	–	–	–	1,899	1,899
Total liabilities	₱–	₱–	₱–	₱–	₱–	₱110,505	₱110,505

Fair Values

The fair values of the financial assets and financial liabilities are prices 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 as at December 31, 2015 and 2014.

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial Assets				
Loans and receivables -				
Advance payments to a supplier	**₱1,030**	**₱963**	₱619	₱634
AFS financial assets	**10,961**	**10,961**	172	172
HTM investments	**21,239**	**21,230**	121	125
	₱33,230	**33,154**	₱912	₱931
Financial Liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing - long-term financial liabilities	**₱29,265**	**₱30,531**	₱29,642	₱30,439

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, Advances to an Associate, 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 3.93% as at December 31, 2015 and 3.68% as at December 31, 2014.

AFS Financial Assets

The fair values were determined by reference to market bid quotes as at reporting date. The unquoted equity securities were carried at cost.

HTM Investments

The fair values were determined by discounting the expected future cash flows using the interest rate as at cut-off date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.48% to 4.22% as at December 31, 2015 and 0.51% to 4.56% as at December 31, 2014.

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:

	December 31, 2015				December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Advance payments to a supplier	**₱–**	**₱–**	**₱963**	**₱963**	₱–	₱–	₱634	₱634
AFS investments	**10,926**	**–**	**35**	**10,961**	138	–	34	172
HTM investments	**21,110**	**–**	**120**	**21,230**	–	–	125	125
	₱32,036	**₱–**	**₱1,118**	**₱33,154**	₱138	₱–	₱793	₱931
Financial liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱–**	**₱30,531**	**₱30,531**	₱–	₱–	₱30,439	₱30,439

For the years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the

Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate primarily to the long-term interest-bearing financial liabilities.

The *MERALCO Group*'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. Approximately 91% of the borrowings bear fixed rate of interest as at December 31, 2015 and 2014, respectively.

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)			
2015	**₱13**	**₱12**	**₱2,425**	**₱–**	**₱–**	**₱–**	**₱2,450**
2014	13	13	12	2,425	–	–	2,463

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 years ended December 31, 2015 and 2014 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.

	2015		2014	
	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	**+100**	**(₱25)**	+100	(₱25)
	(100)	**25**	(100)	25

Interest expense of floating rate loans for the year is computed by taking into account actual principal movements, based on management's best estimate of a +/-100 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 year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial portion of the *MERALCO Group*'s capital 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 as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2015 and 2014, translated to Philippine peso at ₱47.06 and ₱44.72 to US$1, respectively.

	2015		2014	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$240**	**₱11,295**	$119	₱5,331
Trade and other receivables	**2**	**101**	4	174
Advances to an associate	**110**	**5,177**	110	4,919
Advance payments to a supplier	**18**	**826**	14	610
	370	**17,399**	247	11,034
Financial liabilities -				
Trade payables and other liabilities	**(3)**	**(137)**	(10)	(447)
	$367	**₱17,262**	$237	₱10,587

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group*'s obligations. Further, *PBR* assumes a forecast level of foreign currency movements in its calculation of the regulatory asset base and expenditures. *PBR* also allows for adjustment of the rates the *MERALCO Group* charges should there be significant deviations in the foreign exchange forecast from what is actually realized.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the years ended December 31, 2015 and 2014 (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 statement of income.

	2015		2014	
	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**	**₱863**	+5	₱529
	–5	**(863)**	–5	(529)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the year-end balances of *U.S.* dollar-denominated cash and cash equivalents, receivables 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 commodity prices. The exposure of *MERALCO* and *CEDC* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *CEDC*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that the *MERALCO Group* is exposed to as a result of its customers, clients or counterparties failing to discharge their contracted obligations. 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.

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 month's consumption to secure credit. Also, as a policy, disconnection notices are sent three days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

The *MERALCO* subsidiaries 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.

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.

Credit risk on other financial assets, which include cash and cash equivalents and trade and other receivables, arises from the potential default of the counterparty.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position as at December 31, 2015 and 2014. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2015	2014
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱4,976**	₱5,676
Cash equivalents	**45,742**	63,548
Trade and other receivables:		
Billed electricity	**16,439**	19,888
Service contracts	**3,427**	2,444
Insurance receivable	**99**	102
Cost and estimated earnings in excess of billings on uncompleted contracts	**774**	718
Nontrade receivables	**1,906**	3,395
Other current assets:		
Advances to an associate	**5,342**	4,998
HTM investments	**4,072**	
Other noncurrent assets:		
HTM investments	**17,167**	121
AFS investments	**10,961**	172
Advance payments to a supplier	**1,030**	619
	₱111,935	₱101,681

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 as internal credit ratings. The following tables show the credit quality by asset class:

	2015					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱50,718**	**₱–**	**₱–**	**₱–**	**₱–**	**₱50,718**
Trade and other receivables:						
Billed electricity	**3,457**	**2,054**	**9,107**	**1,821**	**3,459**	**19,898**
Service contracts	**867**	**–**	**397**	**2,163**	**197**	**3,624**
Insurance receivable	**17**	**–**	**57**	**25**	**–**	**99**
Cost and estimated earnings in excess of billings on uncompleted contracts	**–**	**–**	**463**	**311**	**6**	**780**
Nontrade receivables	**1,022**	**11**	**232**	**641**	**3**	**1,909**
Other current assets:						
Advances to an associate	**–**	**5,342**	**–**	**–**	**–**	**5,342**
HTM investments	**4,072**	**–**	**–**	**–**	**–**	**4,072**
Other noncurrent assets	**17,167**	**–**	**1,030**	**–**	**–**	**18,197**
	₱77,320	**₱7,407**	**₱11,286**	**₱4,961**	**₱3,665**	**₱104,639**

	2014					
	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	₱69,224	₱–	₱–	₱–	₱–	₱69,224
Trade and other receivables:						
Billed electricity	3,954	2,335	9,857	3,742	3,207	23,095
Service contracts	1,787	–	64	593	218	2,662
Insurance receivable	20	–	67	15	–	102
Cost and estimated earnings in excess of billings on uncompleted contracts	718	–	–	–	–	718
Nontrade receivables	2,628	3	483	281	2	3,397
Other current assets -						
Advances to an associate	–	4,998	–	–	–	4,998
Other noncurrent assets	–	–	740	–	–	740
	₱78,331	₱7,336	₱11,211	₱4,631	₱3,427	₱104,936

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks and cash equivalents to counterparties with 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.

The following table shows the aging analysis of financial assets as at December 31, 2015 and 2014:

	2015					
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31–60 Days	61–90 Days	Over 90 Days		
	(Amounts in millions)					
Cash and cash equivalents:						
Cash equivalents	**₱4,976**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,976**
Cash in banks	**45,742**	**–**	**–**	**–**	**–**	**45,742**
Trade and other receivables:						
Trade:						
Billed electricity	**14,618**	**924**	**302**	**595**	**3,459**	**19,898**
Service contracts	**1,264**	**121**	**57**	**1,985**	**197**	**3,624**
Insurance receivable	**74**	**1**	**2**	**22**	**–**	**99**
Cost and estimated earnings in excess of billings on uncompleted contracts	**463**	**48**	**29**	**234**	**6**	**780**
Nontrade receivables	**1,265**	**143**	**44**	**454**	**3**	**1,909**
Other current assets:						
Advances to an associate	**5,342**	**–**	**–**	**–**	**–**	**5,342**
HTM investments	**4,072**	**–**	**–**	**–**	**–**	**4,072**
Other noncurrent assets:						
Advance payments to a supplier	**1,030**	**–**	**–**	**–**	**–**	**1,030**
HTM investments	**17,167**	**–**	**–**	**–**	**–**	**17,167**
	₱96,013	**₱1,237**	**₱434**	**₱3,290**	**₱3,665**	**₱104,639**

	2014					
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31–60 Days	61–90 Days	Over 90 Days		
	(Amounts in millions)					
Cash and cash equivalents:						
Cash equivalents	₱5,676	₱–	₱–	₱–	₱–	₱5,676
Cash in banks	63,548	–	–	–	–	63,548
Trade and other receivables:						
Trade:						
Billed electricity	16,146	1,171	453	2,118	3,207	23,095
Service contracts	1,851	24	13	556	218	2,662
Insurance receivable	87	2	2	11	–	102
Cost and estimated earnings in excess of billings on uncompleted contracts	718	–	–	–	–	718
Nontrade receivables	3,114	32	33	216	2	3,397
Other current assets -						
Advances to an associate	4,998	–	–	–	–	4,998
Other noncurrent assets:						
Advance payments to a supplier	619	–	–	–	–	619
HTM investments	121	–	–	–	–	121
	₱96,878	₱1,229	₱501	₱2,901	₱3,427	₱104,936

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 and cash equivalents, 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 institution.

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

	2015				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
			(Amounts in millions)		
Notes payable	**₱1,043**	**₱–**	**₱–**	**₱–**	**₱1,043**
Trade payables and other current liabilities	**41,208**	**–**	**–**	**–**	**41,208**
Customers' refund	**5,550**	**–**	**–**	**–**	**5,550**
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	**27**	**39**	**2,518**	**–**	**2,584**
Fixed rate borrowings	**290**	**1,216**	**5,941**	**25,741**	**33,188**
Redeemable preferred stock	**1,522**	**–**	**–**	**–**	**1,522**
Customers' deposits	**242**	**2,725**	**4,811**	**18,773**	**26,551**
Refundable service extension costs	**44**	**2,458**	**1,766**	**2,468**	**6,736**
Total undiscounted financial liabilities	**₱49,926**	**₱6,438**	**₱15,036**	**₱46,982**	**₱118,382**

	2014				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amounts in millions)		
Notes payable	₱400	₱–	₱–	₱–	₱400
Trade payables and other current liabilities	37,260	–	–	–	37,260
Customers' refund	5,937	–	–	–	5,937
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	40	34	2,725	12	2,811
Fixed rate borrowings	629	862	7,332	25,706	34,529
Redeemable preferred stock	1,549	–	–	–	1,549
Customers' deposits	815	3,248	4,880	19,464	28,407
Refundable service extension costs	106	1,746	2,673	4,333	8,858
Total undiscounted financial liabilities	₱46,736	₱5,890	₱17,610	₱49,515	₱119,751

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 interest) of ₱2,470 million and ₱3,562 million will be refunded within the 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, 2015 and 2014, respectively.

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.

	2015	2014
		(Amounts in millions, except debt to equity ratio)
Long-term debt	**₱27,743**	₱28,093
Redeemable preferred stock	**1,522**	1,549
Notes payable	**1,043**	400
Debt (a)	**30,308**	30,042
Equity attributable to the holders of the parent (b)	**80,276**	79,154
Debt to equity ratio(a)/(b)	**0.38**	0.38

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2015 and 2014 are as follows:

	Note	**2015**	2014
			(Amounts in millions)
Deferred tax assets:			
Provisions for various claims	*19 and 22*	**₱17,621**	₱14,223
Accrued employee benefits	*26*	**1,466**	1,244
Allowance for doubtful accounts	*12*	**1,039**	961
Unfunded retirement benefits cost and unamortized past service cost	*26*	**1,008**	830
Allowance for excess of cost over net realizable value of inventories	*13*	**57**	58
Others		**84**	117
		21,275	17,433
Deferred tax liabilities:			
Revaluation increment in utility plant and others	*15*	**7,285**	7,311
Depreciation method differential		**777**	929
Capitalized interest		**760**	753
Capitalized duties and taxes deducted in advance		**608**	634
Actuarial gains	*26*	**426**	578
Net book value of capitalized/realized foreign exchange losses		**3**	12
Others		**137**	132
		9,996	10,349
		₱11,279	₱7,084

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

	2015	2014
		(Amounts in millions)
Deferred tax assets - net	**₱11,296**	₱7,089
Deferred tax liabilities - net	**(17)**	(5)
	₱11,279	₱7,084

Provision for (benefit from) income tax consists of:

	2015	2014	2013
		(Amounts in millions)	
Current	**₱9,732**	₱9,961	₱9,889
Deferred	**(4,045)**	(1,624)	(2,835)
	₱5,687	₱8,337	₱7,054

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2015, 2014 and 2013, and provision for income tax as shown in the consolidated statements of income is as follows:

	2015	2014	2013
		(Amounts in millions)	
Income tax computed at statutory tax rate	**₱7,463**	₱7,941	₱7,298
Income tax effects of:			
Nondeductible expenses	**–**	454	–
Interest income subjected to lower final tax rate	**(387)**	(206)	(314)
Nondeductible interest expense	**160**	85	130
Nontaxable income	**(88)**	(55)	(113)
Equity in net losses (earnings) of associates and joint ventures	**8**	(84)	78
Others	**(1,469)**	202	(25)
	₱5,687	₱8,337	₱7,054

On December 18, 2009, the *BIR* issued Revenue Regulations *("RR")* No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions *("OSD")*. Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2015 and 2014, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter income tax return.

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover ("*NOLCO*") amounting ₱1,240 million and ₱1,105 million as at December 31, 2015 and 2014, respectively.

NOLCO totaling to ₱1,240 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2013	December 31, 2016	₱402
December 31, 2014	December 31, 2017	500
December 31, 2015	December 31, 2018	338
		₱1,240

NOLCO amounting to ₱193 million and ₱106 million expired in 2015 and 2014, respectively.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in 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 *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.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

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

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

As at December 31, 2015 and 2014, the amount of unissued *TCC*s amounting to ₱181 million, is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

See *Note 10 – 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). In a decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

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

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

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

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 26, 2016, the case is pending resolution by the *SC*.

Overpayment of Income Tax Related to Change in Tax Basis

On February 4, 2008, the *SC* denied with finality an *MR* filed by the Commissioner of Internal Revenue *("CIR")* against *MERALCO*, with respect to the issue on excess income tax paid by the latter. The *SC* affirmed a *CA* decision and ordered the *CIR* to refund or issue a *TCC* in favor of *MERALCO* for ₱107 million representing overpaid income taxes for taxable years 1987 and 1988. The overpayment is in accordance with the effectivity of Executive Order No. 72, which subjected *MERALCO* to regular corporate income tax instead of 2% franchise tax based on gross receipts it was previously liable for. On February 5, 2013, *MERALCO* filed a Motion for Issuance of a Writ of Execution with the *CTA* to enforce the judgment of the *SC*. On February 14, 2013, the *CTA* promulgated a Resolution ordering the *CIR* and the Office of the Solicitor General *("OSG")* to comment on the Motion filed by *MERALCO*. On March 14, 2013, the *CTA* promulgated a Resolution granting the Motion of *MERALCO* and directed the issuance of corresponding Writ of Execution. In March 2014, *MERALCO* received the ₱107 million *TCC* from the *BIR*. In 2014, the same amount was applied against income tax due for the year.

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.

Real Property Tax ("RPT") Assessments

Several Local Government Units *("LGUs")* assessed *MERALCO* for deficiency *RPT*s on certain assets of *MERALCO*. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGU*s, one has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers. On October 22, 2015, *MERALCO* received a copy of the *SC* Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGU*. *MERALCO* did not appeal said *SC* Decision. The cases of the other *LGU*s are pending with their respective administrative bodies or government offices.

MERALCO also filed a case against the City of Manila before Regional Trial Court-Pasig branch ("*RTC-Pasig*") to enjoin the collection of *RPT* on *MERALCO*'s *TWIP* and nullify *RPT* assessments made thereon based on the argument that these are not within the ambit of the definition of real property under the *LGC*. The case was set for mediation after the City of Manila files its comments on *MERALCO*'s petition. *MERALCO* has started presenting its evidence without prejudice to possible out-of-court settlement in light of the *SC* Decision in the case of Lucena City. Subsequently, the court has granted the motion jointly filed by *MERALCO* and the City of Manila for the withdrawal of the case subject to the terms and conditions set forth in the motion.

In the event that the assessment is sustained by the *SC* and payment is warranted or appropriate, *MERALCO* will file for the recovery of any resulting *RPT* payments from customers in the relevant *LGUs* through a separate application with the *ERC*.

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* to commence on January 1, 1995. The *CSE* and 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 *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 *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 an *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 *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. 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.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-part transmission line, which completed the 230 *kV*-line loop within Metro Manila. The two 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 or 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 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 Dr. Martin Blank, 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 Dr. Blank. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. The next hearing for this case is set on March 24, 2016.

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 start 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 *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 said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies (*"SGC*s *"*) is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *MPPCL,* Aboitiz Power Renewables, Inc. *("APRI"), TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGC*s.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGC*s against whom a petition for dispute resolution should be filed by *MERALCO*; 2) Amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; 3) 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; 4) "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; 5) Grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGC*s: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and 6) deny the respective Motions for Reconsideration 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 some of its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 26, 2016, *MERALCO*'s Manifestation and 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 Temporary Restraining Order or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution 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 *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* of the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM's MR*. On October 27, 2015, *MERALCO* received *PSALM's* Petition for Review with the *SC*. *MERALCO* is awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

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

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss . On October 11, 2013, *MERALCO* filed its Pre-trial Brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their

Sur-Rejoinder dated November 4, 2013. As at February 26, 2016, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

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

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum.

As at February 26, 2016, *PSALM*'s Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2016, 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 the *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

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

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* last December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator) 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 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 Energy, PanAsia Energy, Inc. ("*PanAsia*"), and *SMEC*, have filed motions for reconsideration questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the *ERC* denied the motions for reconsideration. The generating companies have appealed the Orders with the *CA* where the petitions are pending and have been consolidated. *MERALCO* has filed a Consolidated Motion for Leave to Intervene and to Admit Consolidated Comment in Intervention. In a Resolution dated October 9, 2015, the *CA* required the generators to file their comments on *MERALCO*'s Consolidated Motion. *MERALCO* is awaiting the resolution of the Consolidated Motion.

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2016, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

ERC Investigation 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. As at February 26, 2016, the *ERC* has yet to set a date for the hearing of the case.

SPPC vs. PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint at *RTC* Mandaluyong to nullify the termination notice for lack of factual and legal basis. On said date, the Executive Judge of *RTC* Mandaluyong issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC* Mandaluyong Branch 208 extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC* granted the prayer for preliminary injunction. *PSALM* has filed motions for reconsideration to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC* Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed an *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. The preliminary conference of the case is set on April 14, 2016.

Others

Liabilities for certain local taxes amounting to ₱6,103 million and ₱6,407 million as at December 31, 2015 and 2014, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect the *MERALCO Group*'s financial position and results of operations.

30. Significant Contracts and Commitments

Contracts for the CSE and *PSAs with Privatized Plants* and *IPPAs*

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, separate *PSAs* with *TLI* and *SMEC* were executed on February 29 and June 26, 2012, respectively. These *PSA*s are for a period of seven (7) years, extendable for three (3) years upon agreement of the parties. Thereafter, applications for approval of the *PSA*s were filed with the *ERC*.

MPower likewise signed separate *PSA*s with *SPPC*, *MPPCL*, *Sem-Calaca*, and *TLI* on December 12, 2011, March 16, 2012, June 25, 2012, October 10, 2012 and October 19, 2012, respectively.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSA*s of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

*MR*s were filed regarding the *ERC* decisions on the *PSA*s with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MR*s. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order and now await *ERC* resolution thereof.

Under the *PSA*s, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	(In Megawatt)	*(In millions)*
2016	3,080	₱40,017
2017	3,080	39,760
2018	2,880	39,481
2019	2,460	34,268
2020	455	8,159
2021	455	8,203
2022–2039	455	157,150

FGPC and *FGP*

In compliance with the *DOE*'s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* was committed to contract 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 electrical output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPA*s. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPA*s of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPA*s of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. Under the terms of the amended *PPA*, *MERALCO* is committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 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* make advances to *QPPL* of US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement *("TLA")* and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by *ERC*.

See *Note 10 – 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)*
2016	14,758	₱20,286
2017	14,758	20,416
2018	14,758	20,560
2019	14,758	20,681
2020	14,758	20,804
2021 to 2027	81,631	115,510

Philippine Power and Development Company ("PPDC")

On May 15, 2014, *MERALCO* and *PPDC* executed a *PSA*. *PPDC* operates three (3) run-of-river hydro power plants, namely: (1) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (2) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (3) 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 *PPDC*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *PPDC* as measured by the latter's billing meter. Hearings on this case have been completed. As at February 26, 2016, the case is submitted for 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.

The terms of the *CSE* with *BEI* are similar to that signed with Montalban Methane Power Corp. *("MMPC")*. 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 16, 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 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with motion to the *ERC* for approval of the extended term. As at February 26, 2016, the case is pending approval 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* has a term 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 to the *ERC* for 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. On October 29, 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. As at February 26, 2016, 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 thus 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. On 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*. As at February 26, 2016, the said Omnibus Motion is pending resolution by the *ERC*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electrical output with *SBPL*. *SBPL* will be constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. Following a number of hearings, on May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Bacman Geothermal, Inc. (*"BGI"*)

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. Hearings have been completed and as at February 26, 2016, the case is submitted for decision.

Interim Power Supply Agreements (*"IPSAs"*)

On April 1, 2014, *MERALCO* signed two separate *IPSA*s with the wholly-owned subsidiaries of *GBPC*, namely: (1) *PPC* for a 27 *MW* firm output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City; and (2) *TPC* for a 28 *MW* firm and 9 *MW* non-firm output from its 40-*MW* diesel-fired power plant in Carmen, Toledo City. Both *IPSA*s, had an initial terms of up to June 30, 2014, and were subsequently extended to October 31, 2014, and further up to July 25, 2015. In its various Decisions dated June 2, 2014, July 10, 2014 and March 15, 2015, the *ERC* approved the applications and extensions with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *IPSA*s. On July 10, 2014, the *ERC* approved the extension of the *IPSA* with *PPC* and *TPC* until October 31, 2014, subject to the same condition provided in its June 2, 2014 Decision.

Considering that *MERALCO* still needs additional capacity for the period of January 26, 2015 to July 25, 2015, it executed again separate *IPSA*s with *PPC* for 27 *MW* and with *TPC* for 28 *MW* on firm basis and nine (9) *MW* on non-firm basis. The *IPSA*s with *PPC* and *TPC*, both dated November 14, 2014, were filed with the *ERC* for approval on January 8, 2015. Hearings on this case have been completed. On March 16, 2015, the *ERC* approved the *IPSA* with *PPC* and *TPC*.

On April 3, 2014, *MERALCO* signed an *IPSA* with 1590 Energy Corporation for the 140 *MW* output from the Bauang power plant – a 225-*MW* diesel-fired power plant in Bauang, La Union for a term of up to June 30, 2014. This *IPSA* became effective upon the final approval of the *ERC* in its Decision dated May 12, 2014.

On June 30, 2014, the *ERC* approved the extension of the *IPSA* with 1590 Energy Corporation until October 31, 2014. A Memorandum of Agreement ("*MOA*") dated October 30, 2014 was executed with 1590 Energy Corporation extending the *IPSA* until July 25, 2015. Said *MOA* was filed with the *ERC* for approval on October 30, 2014. The *ERC* issued an Order dated December 15, 2014 approving the extension of the *IPSA* under the same terms as approved by the *ERC* in its Decision dated May 12, 2014.

On January 19, 2016, after the conduct of a price challenge in compliance *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 *MW* (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 225-*MW* diesel-fired power plant in Bauang, La Union. The *IPSA*, with a term until February 25, 2017, was filed for approval of the *ERC* on February 10, 2016. The *IPSA* shall become effective upon the approval of the *ERC*.

On January 21, 2016, after the conduct of a price challenge in compliance *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two separate *IPSA*s with *TPC* for the 28 *MW* (firm) output from its 40-*MW* diesel-fired power plant in Carmen, Toledo City; and (2) *PPC* for the 45 *MW* (firm) output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City. Both *IPSA*s, with a term until February 25, 2017, were filed for approval of the *ERC* on February 10, 2016. The *IPSAs* shall become effective upon the approval of the *ERC*.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation ("Alternergy")

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for their 90 *MW* Wind Farm Renewable Energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Altenergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO's* Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2016. In the Letter Agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalized their agreement as regards the extended use of said line.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for their 20 *MW* (with maximum capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*'s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*'s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter's 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*'s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*'s system.

Technical Services Agreement ("TSA") with Integrated Energy Distribution and Marketing ("IEDM"), Ibadan Electric Distribution Company ("IBEDC") and Yola Electric Distribution Company ("YEDC")

MERALCO provides technical and management services for the operations of *IBEDC* and *YEDC* in Nigeria. In consideration, *MERALCO* receives fixed monthly fees, subject to adjustment annually in accordance with the provisions of the Technical Services Agreement.

In 2015, the *TSA* was amended to limit the scope to the provision of technical services only for *IBEDC* and revised the fixed monthly fees accordingly.

Investment and Management Agreement with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO* II for a period of twenty (20) years. *PELCO* II is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* will 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

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement with a term of 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Trans-Asia* for the sale of power to *CEZ* and its locators beginning January 26, 2013.

On November 7, 2014, *MERALCO* filed an application to *PEZA* as an Economic Zone Utilities Enterprise, pursuant to the Concession Agreement between *MERALCO* and *PEZA* dated May 26, 2014, whereby *MERALCO* has been contracted to manage and operate the *PEZA* electrical distribution system in *CEZ*.

On November 12, 2014, the *PEZA* Board approved *MERALCO*'s application, subject to *MERALCO*'s signing of a Supplemental Agreement with *PEZA* under standard registration terms and conditions, through Resolution No. 14-620.

On December 19, 2014, upon compliance with the pre-registration condition under said Board Resolution, as well as the payment of application and registration fees, *MERALCO* has submitted its duly signed and notarized Supplemental Agreement with *PEZA*.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the Cavite Economic Zone.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2015	2014	2013
		(In millions, except per share data)	
Net income attributable to equity holders of the Parent (a)	**₱19,098**	₱18,053	₱17,211
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱16.94**	₱16.02	₱15.27

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2015, 2014 and 2013.

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

Revised SL Caps

On December 8, 2008, the *ERC* promulgated resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting their January 2010 billing. Said cap is one percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme *("PIS")* under the *PBR*.

On December 8, 2009, *MERALCO* filed a Petition to amend said Resolution with an urgent prayer for the immediate suspension of the implementation of the new *SL* cap of 8.5% starting January 2010. The proposed amendment is aimed at making the Resolution consistent with the provisions of *RA No. 9136* and *RA No. 7832*, by increasing the *SL* cap to not less than 9%. The hearings on this case have been completed. As at February 26, 2016, this Petition is pending decision by the *ERC*.

Benefit-Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with Private Electric Power Operators Association, Inc. *("PEPOA")* and Philippine Rural Electric Cooperative Association *("PHILRECA")*, filed a joint petition to the *ERC* to initiate rule-making to adopt the *Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users*. This was aimed to encourage the *DUs* to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower system loss charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the *Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities*. As at February 26, 2016, the Joint Petition is pending further action or decision by the *ERC*.

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 operation of *RCOA* started on June 26, 2013.

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements. The resolution mandates all *DU*s to submit to the *ERC* and *CRB* information on end-users with (1) monthly average peak demand of at least 1 *MW* for the preceding 12 months; and (2) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information in issuing the certificates of contestability.

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

On July 1, 2015, the *DOE* published Department Circular No. DC2015-06-0010, "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry". The salient points of the circular are as follows:

a. All contestable customers with average demand of 1 *MW* and above are mandated to secure their respective Retail Supply Contracts *("RSC")* no later than June 25, 2016.

b. All contestable customers with an average demand ranging from 750 *kW* to 999 *kW* for the proceeding 12-month period are mandated to secure their *RSC*s no later than June 25, 2016.

c. Aggregators with aggregated demand not lower by 750 *kW* shall be allowed to compete with *RES*, generation companies and prospective generation companies effective June 26, 2016.

d. Any electric end user with an average demand ranging from 501 *kW* to below 750 *kW* for the preceding 12 months may be allowed to choose their respective *RES* effective June 26, 2018 subject to the determination of the *ERC* on the basis of its evaluation on the performance of the retail market.

e. Any *DU* which may incur displaced contract capacity/energy ("*DCC/E*") shall inform the *ERC* of its impending *DCC/E*.

Subsequently, the *ERC* released for comments its proposed Draft Revised Rules for Contestability and "Draft Rules Governing the Issuances of Licenses or Authorization to Retail Electricity Suppliers Prescribing the Requirements and Conditions Therefor" *(Revised RES Licensing Rules*). The draft Revised Rules for Contestability proposed the following guidelines:

a. Contestable Customers shall be given up to June 25, 2016 to contract for their capacity requirements. Mandatory contestability for 1 *MW* customers shall be implemented on June 26, 2016, together with the lowering of contestability to 750 *kW*. All Contestable Customers with an average peak demand of 750 *kW* to 999 *kW* for the preceding 12-month period are also mandated to enter an *RSC*. Contestable Customer with no appointed *RES* by June 26, 2016 will either; (a) be served by the Supplier of Last Resort ("*SOLR*"); or (b) remain captive (special circumstances, but with *ERC* approval).

b. Any Contestable Customer shall be allowed to enter into an *RSC* with any legitimate prospective Generation Companies, and shall be deemed compliant with the mandatory requirement despite the commercial operation of such plant at a subsequent period of time.

c. The *DU* shall continue to serve the electricity requirements of the Contestable Customer during the period when the power plant of the Generation Company is still under construction. Such Contestable Customer shall be included in the alternative pricing scheme of the *DU*, i.e. Peak/Off-Peak *("POP")* rates program or *TOU* rate or preferential rate.

d. The aforesaid Generation Companies shall secure the corresponding *RES* license 60 days prior to commercial operation. Any Generation company that failed to put up the power plant as per its *RSC* with the Contestable Customer shall be subject to strict monitoring. To supply the affected Contestable customer, a temporary supplier shall be appointed by the *ERC* and shall be given six (6) months period to secure a *RES* license.

e. Contestable Customers within a contiguous area with an aggregate demand of at least 750*kW* shall be allowed on June 26, 2019. Nevertheless, rules for retail aggregation shall be issued separately by the *ERC* prior to its implementation.

The Draft Revised RES Licensing Rules proposed new classification of *RES* licenses and new requirements to be complied by *RES*s. The draft also proposed new limitations and restrictions on *RES* operations.

The comments on this first set of draft Rules were submitted on July 30, 2015 and the public consultation was conducted on August 14, 2015.

Subsequently, in a notice dated November 13, 2015, the *ERC* released for comments its proposed Draft Rules on the Mandatory Migration to the Competitive Retail Electricity Market ("*CREM*") ("*Rules on CREM*"). Along with such notice, the *ERC* issued a second set of draft Revised Rules for Contestability and Revised Rules on RES Licensing. Both the draft Rules on *CREM* and second draft Revised Rules on RES Licensing contain provisions (i) no longer allowing *DUs* to supply electricity to the contestable market, unless such supply is made in its capacity as a *SOLR*, and enjoining *DUs* to wind down their respective supply businesses such that no Local *RES* shall be

allowed to act as such by June 26, 2016; and (ii) no longer allowing *DU* affiliates to operate as *RES* by June 26, 2016, in which case, a winding down of its supply business is likewise enjoined. *MERALCO* submitted its comments on the second draft of Revised Rules on *RES* Licensing on December 4, 2015 and its comments on the draft *Rules on CREM* and second draft Revised Rules for Contestability on December 9, 2015. Further action of the *ERC* on this matter is pending.

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average Generated Weighted Average Price *("GWAP")* of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or Secondary Cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (1) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*, (2) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such Resolution; and (3) extend the effectivity of the Secondary Cap mechanism for a period of 120 days from August 10, 2014 or until the establishment by the *ERC* of a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given an additional period until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure to apply in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

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 day 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* of 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. The case had already been submitted for decision. 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* denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration. *MERALCO* filed its Opposition to the motion and is awaiting the decision of the *RTC* on the matter. 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 the 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.

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". 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 at the *RTC*-Pasig.

On February 4, 2015, the Court 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 Court. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the Court. In a Decision dated July 3, 2015, the *RTC* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC* dismissed the petition upon motion by *PEZA*.

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 an *MR* of the May 5, 2014, *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*'s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

During the hearing, *NGCP* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

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 Resolution dated September 21, 2015, the *CA* required the parties to submit their respective memoranda. Thereafter, the case is submitted for decision.

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* -Branch 155 of Pasig, praying for the Court to: accept and approved the consignation of the amount of ₱194.1 million; declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and 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 Branch 155, *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a Motion for Reconsideration which is pending resolution.

On December 12, 2011, *MERALCO* signed various agreements for the acquisition of certain sub-transmission assets of *TransCo* within the *MERALCO* franchise area for its sole account, as well as through a consortium with Batangas II Electric Cooperative, Inc., *("BATELEC II")* and First Bay Power Corporation *("FBPC")*. On September 18, 2012, an amended consortium agreement was executed between *MERALCO* and *FBPC*. On October 17, 2012, *MERALCO* signed two separate amended consortium agreements with *BATELEC II*, and with *FBPC* and *BATELEC II*. These amended consortium agreements superseded the agreements signed on December 12, 2011. On December 27 and 28, 2012, the Contract to Sell and Consortium Agreements, respectively, covering these sub-transmission assets were filed with the *ERC* for approval.

The applications for approval of the Consortium Agreement between *MERALCO* and *BATELEC II* and the Contract to Sell among *TransCo*, *MERALCO* and *BATELEC II* are submitted for resolution of the *ERC*.

MERALCO's POP Program

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised *TOU* rates program, also known as the *POP* Program. The *POP* is a rate program being offered by *MERALCO* to customers whose load characteristics can benefit from *TOU* rates as well as to those that can shift their loads from peak to off-peak hours. The proposed revised *POP* Rate aims to provide better savings to availees by providing them with a *TOU* program that has a wider pricing difference between peak and off-peak rates.

In an Order dated December 17, 2012, the *ERC* provisionally approved the *POP* Program. *MERALCO* started implementing the program on February 1, 2013.

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 as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board *("NREB")* filed its Petition to Initiate Rule Making for the Adoption of *FiT*. The Petition proposed a specific *FiT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FiT* Rates lower than the rates applied by the *NREB*.

To fund the *FiT* payments to eligible *RE* developers, a *FiT*-Allowance charge will be imposed on all end-users. The *FiT*-All will be established by the *ERC* upon petition by the *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT*-Allowance Disbursement and Collection 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.

On July 30, 2014, *TransCo* filed its Application for Approval of the *FiT*-All for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FiT*-Allowance of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

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 Writ of Preliminary Injunction, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT*-Allowance, the *FiT* Rules and *FIT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. Through a Notice dated March 17, 2015, the *SC* required the adverse parties to submit their comments within ten (10) days from receipt. The *ERC* and *DOE* filed a Consolidated Comment dated July 23, 2015 while the *NREB* filed its Comment dated July 14, 2015.

On April 30, 2014, the *DOE* issued a Certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its Certification, the *DOE* stated that "solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016". The *ERC* is currently conducting public hearings to determine the applicable *FiT* rate for the additional 450 *MW*.

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FiT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, the *ERC* issued a Decision dated March 27, 2015 setting the new solar *FiT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a Certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FiT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FiT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FiT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FiT*. In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a motion for reconsideration of the Decision.

Net Metering Program

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

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The rules will govern the *DU*s' implementation of the Net Metering Program. Included in the Rules are the Interconnection Standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to 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. As at December 31, 2015, *MERALCO* has already installed 386 and energized 295 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

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 "Rules to Govern the Interruptible Load Program of Distribution Utilities" promulgated under Resolution No. 08, Series of 2010, as amended by Resolution No. 08, Series of 2013.

MERALCO is working with the *DOE*, the *ERC* and other stakeholders on the mechanics to implement the expanded *ILP* to cover not only captive customers but also contestable customers with demand of one (1) *MW* or higher who have standby generating units.

As at December 31, 2015, there are 225 companies with a total generating capacity of 826.85 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity supplier 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. *MERALCO* is awaiting the decision of the *ERC* on its motion to withdraw

Prepaid Retail Electricity Service ("PRES")

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2015, there are 16,851 customers availing of *PRES*.

Competitive Selection Process ("CSP") for Power Supply Agreements

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* Approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DU*s to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy *("DASAP")*. This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, "Providing Policies for Further Enhancement of the *WESM* Design and Operations", prescribing *DU*s to procure all its uncontracted demand through *CSP*, through the participation of a Third Party and which may be done by *DU*s on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines (*"IG"*). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On even date, *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

All *DU*s are required to undergo *CSP*. Pending the *ERC's* issuance of a prescribed process, *DU*s may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.

A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.

The *CSP* requirement shall apply to *PSA*s that although executed, have not yet been filed for approval before the *ERC*.

33. Subsequent Event

On February 26, 2016, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱9.92 a share to all shareholders of record as at March 23, 2016, payable on April 15, 2016.

Glossary of Terms

AUTOMATIC ADJUSTMENT OF GENERATION, TRANSMISSION AND SYSTEM LOSS CHARGES is an automatic recovery mechanism promulgated by the ERC that allows the monthly adjustment of Generation, Transmission and System Loss Charges to reflect the actual movement in generation and transmission costs and the losses per voltage level. This mechanism allows DUs to recover, in a more timely manner, the true cost of electricity, since changes in the generation and transmission costs are immediately reflected on customers' bills. The computation of generation, transmission and system loss charges is in accordance with the formulas prescribed in ERC Resolution No. 16, Series of 2009.

AUTOMATIC LOAD DROPPING (ALD) is the process of automatically and deliberately removing pre-selected loads from a power system in response to an abnormal condition in order to maintain the integrity of the power system.

CAPTIVE CUSTOMER is an electricity end-user that belongs to the captive market.

CAPTIVE MARKET, the electricity end-users who do not have the choice of a supplier of electricity, as may be determined by the Energy Regulatory Commission (ERC) in accordance with the Electric Power Industry Reform Act (EPIRA).

CONSUMER SATISFACTION INDEX (CSI) is the weighted index that measures general and specific areas of customer satisfaction and priorities. Both satisfaction and level of importance by attribute are dictated by customers through an annual survey (quarterly reading starting 2009). This survey is conducted among residential, core and non-core customers.

CONTESTABLE CUSTOMER is an electricity end-user that belongs to the contestable market.

CONTESTABLE MARKET, the electricity end-users who have a choice of a supplier of electricity as may be determined by the Energy Regulatory Commission (ERC) in accordance with the Electric Power industry Reform Act (EPIRA).

DISTRIBUTION CHARGE refers to the cost of developing, constructing, operating and maintaining the distribution system of Meralco, which delivers power from high-voltage transmission grids to commercial and industrial establishments and residential end-users.

DISTRIBUTION SYSTEM refers to the system of wires and associated facilities of a franchised DU extending between: (a) the delivery points on the transmission or subtransmission system or generating plant connection and (b) the points of connection to the premises of end-users.

DISTRIBUTION UTILITY (DU) refers to any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a Distribution System in accordance with its franchise and the EPIRA.

ELECTRIC INDUSTRY PARTICIPANT refers to any person or entity engaged in the generation, transmission, distribution or supply of electricity.

ELECTRIC POWER GENERATION is the process of converting primary energy sources, e.g. flowing water, fossil fuels (oil, natural gas and coal), radioactive (uranium) materials, solar radiation, wind and geothermal energy into electricity.

ELECTRIC POWER PLANT refers to facilities for producing electricity through electric power generation.

ELECTRIC POWER INDUSTRY PARTICIPANT refers to any person or entity engaged in the generation, transmission, distribution or supply of electricity as defined in Chapter I, Section 4 (s) of the EPIRA.

EMBEDDED GENERATORS WHEELING POWER TO NON-MERALCO CUSTOMERS AND/OR WESM is the rate class applicable to embedded generators connected to the distribution utility system with a minimum capacity of 40 kilowatts for wheeling of power to non- Meralco customers and/or selling to the WESM.

ENERGY is the integral of the active power with respect to time, measured in watt-hour or multiples thereof.

ENERGY REGULATORY COMMISSION (ERC) is the independent, quasi-judicial regulatory body that was created pursuant to Section 38 of the EPIRA.

ENVIRONMENTAL CHARGE is a universal charge that accrues to an environmental fund to be used solely for watershed rehabilitation and management. Such fund is managed by the National Power Corporation (NPC) under existing arrangements, and, under Section 34(d) of the Republic Act No. 9136, or the Electric Power Industry Reform Act (EPIRA), is pegged at PhP0.0025 per kWh.

FEED-IN-TARIFF (FIT) system is a renewable policy mechanism which involves the obligation on the part of electric power industry participants to source electricity from RE generation at a guaranteed fixed price applicable for a given period of time.

FEED-IN-TARIFF ALLOWANCE (FIT-ALL) is a uniform charge in peso per kWh (PhP/kWh) billed to all on-grid electricity consumers nationwide. The FIT-ALL charge forms part of a fund which is used to pay the FIT-eligible developers of renewable energy-based power plants (i.e, solar, wind, biomass, run-of-river hydro) for the energy they produce. For Meralco customers, the FIT-All charge appeared on their electricity bills starting February 2015, with the label "FIT-ALL (Renewable)".

FLAT STREETLIGHTING SERVICE (FS) is the rate class applicable to customers who wish to avail of public streetlighting at a fixed monthly rate. Street lamps for this service are installed by Meralco on existing distribution poles in accordance with company specifications for equipment, installation, maintenance and operation.

GENERAL POWER (GP) is the rate class applicable to non-residential customers with a minimum demand of 40 kilowatts for general power, heating and/or lighting.

GENERAL SERVICE B is the rate class applicable to non-residential customers with a connected load of five to less than 40 kilowatts.

GENERATION CHARGE is the cost associated with Meralco's purchase of power, from its suppliers – Independent Power Producers (IPPs), via Power Supply Agreements (PSAs) and the Wholesale Electricity Spot Market (WESM).

GENERATOR WHEELING is the rate class applicable to embedded generators connected to the distribution utility system with a minimum capacity of 40 kilowatts for wheeling of power to non- Meralco customers and/ or selling to the WESM.

GIGAWATT is the unit of electric power equal to 1,000,000,000 watts.

GIGAWATT HOUR (GWh) is the unit of electric energy equal to 1,000,000,000 watt-hours.

GOVERNMENT HOSPITALS, METERED STREETLIGHTING SERVICE AND CHARITABLE INSTITUTIONS (GHMSCI) is the rate class applicable to government hospitals duly registered and certified by the Department of Health, metered streetlights, traffic lights, certain public parks under the National Park Development Committee and duly registered facilities of charitable institutions.

GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities, located in each of Luzon, Visayas and Mindanao, or as may be determined by the ERC in accordance with Section 45 (c) of the EPIRA.

INDEPENDENT POWER PRODUCER (IPP) is an existing power-generating entity not owned by the NPC.

INITIAL SWITCH/SWITCHING is the commercial transfer of a Contestable Customer from DU as Captive Customer to RES/Local RES, which took effect on June 26, 2013 or the subsequent billing period immediately following June 26, 2013, or not later than December 26, 2013.

INTERRUPTIBLE LOAD PROGRAM (ILP) is a voluntary, demand-side management program that allows customers to operate their generating sets and collectively reduce electricity drawn from the grid when power interruptions are imminent to ration limited power supply.

KILOVOLT-AMPERE (kVA) is the practical unit of apparent power, equivalent to 1,000 volt-amperes.

KILOWATT (kW) is the unit of electric power equal to 1,000 watts.

KILOWATTHOUR (kWh) is the unit of energy equal to 1,000 watthours.

LIFELINE DISCOUNT/LIFELINE SUBSIDY is a socialized pricing mechanism under Section 73 of the EPIRA to benefit marginalized/low income captive market customers. In Meralco's case, as approved by the ERC, residential customers using up to 100 kWh in a given month enjoy a Lifeline Discount to be applied to the total of the generation, transmission, system loss, distribution, supply and metering charges. The discount varies according to consumption and is funded by a Lifeline Subsidy Charge to be paid by all other customers.

LOAD is the entity or electrical equipment that consumes or draws electrical energy.

LOAD FACTOR is the ratio of the total energy delivered during a given period to the product of the maximum demand and the number of hours during the same period.

LOCAL FRANCHISE TAX is levied by provinces and cities for businesses enjoying a franchise, and paid to such local government units, in accordance with the provisions of Sections 15 and 137 of the Local Government Code. This is a pass-through charge for Meralco, paid and collected in accordance with BIR and ERC Regulations.

LOCAL RES is the non-regulated business segment of the DU authorized by the ERC to supply electricity to Contestable Customers within the DU's franchise area only, or persons authorized by appropriate entities to supply within their respective economic zones. As Local RES, the DU is not required to secure a supplier's license.

LUZON GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities located in the island of Luzon.

MAGNA CARTA FOR RESIDENTIAL ELECTRICITY CONSUMERS refers to the set of rules promulgated by the ERC which governs the rights and obligations of residential consumers.

MAINTENANCE is any activity intended to keep equipment in satisfactory working condition including tests, measurements, replacements, adjustments and repairs that are either corrective or preventive in nature.

MANUAL LOAD DROPPING (MLD) is the process of manually and deliberately removing pre-selected loads from a power system, in response to an abnormal condition, and in order to maintain the integrity of the power system.

METERING CHARGE refers to the cost of reading, operating and maintaining power metering facilities and associated equipment, as well as other costs attributed to the provision of metering service.

MISSIONARY ELECTRIFICATION CHARGE is a universal charge to fund the electrification of remote and unviable areas, as well as areas not connected to the transmission system, as mandated under Section 70 of the EPIRA.

NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP) is a privately-owned corporation which was awarded the concession to operate and maintain the Philippines' electricity transmission network. NGCP was granted a 50-year franchise under Republic Act No. 9511. As the system operator of the power grid, NGCP balances the demand and supply of electricity to efficiently serve all of its customers which are generators, private distribution utilities, electric cooperatives, government-owned utilities, ecozones, industries and directly connected companies.

NATIONAL POWER CORPORATION (NPC) is the government-owned and controlled corporation created under Republic Act No. 6395, as amended.

NATIONAL TRANSMISSION CORPORATION (TRANSCO) is a government-owned and controlled corporation created under Section 8 of the EPIRA to which NPC transferred its transmission and sub-transmission facilities.

NET METERING is a consumer-based incentive program which supports RE initiatives. It covers electric power generated by an end-user from an eligible on-site RE system, for instance, facilities with solar panels. The end-user is credited for any electric energy exported to the distribution utility. This system of distributed generation shall not exceed one hundred kilowatts (100 kw) in capacity as defined in R.A. 9513.

OPEN ACCESS refers to the system of allowing any qualified person the use of transmission and/or distribution system and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC.

PEAK/OFF-PEAK (POP) PROGRAM provides customers an incentive to take advantage of significantly lower power rates by shifting at least 46% of their operations to off peak- hours when cost of electricity is lower than the blended rates.

PERFORMANCE-BASED REGULATION (PBR) is an internationally accepted rate-setting methodology adopted by the ERC, pursuant to Section 43 (f) of the EPIRA to replace the Return-on-Rate Base (RORB) or Cost-Plus regulation. PBR is a forward-looking framework that aims to ensure that capital and operating expenditures are efficiently undertaken to provide timely, reliable, adequate and affordable power by the distribution utility to consumers in its franchise area. PBR entails the use of incentive mechanisms that reward or penalize the utility for exceeding or falling short of the prescribed performance standards.

PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA) is the Philippine government agency created under Republic Act No. 7916 tasked to promote investments, extend assistance, register, grant incentives and facilitate the business operations of investors in export- oriented manufacturing and service facilities inside selected areas throughout the country proclaimed as PEZA Special Economic Zones (ecozones).

PHILIPPINE ELECTRICITY MARKET CORPORATION (PEMC) is a nonstock and non-profit corporation constituted in November 2003 upon the initiative of the Department of Energy (DOE) with representatives from the various sectors of the electric power industry to be the governance arm of the WESM. The PEMC was likewise constituted as the autonomous group market operator (AGMO) to undertake the preparations for the establishment of the WESM and its initial operations during the interim period prior to the selection of the independent market operator (IMO). As AGMO, it acts as both the governance arm and market operator of the WESM. After the transition to the IMO, the PEMC will remain to be the governance arm of the WESM while its market operations functions will be transferred to the IMO.

POWER is the average of the instantaneous power over one period of the electrical wave, measured in watts or multiples thereof.

POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION (PSALM) is a government-owned and controlled corporation created under Section 49 of the EPIRA, which took ownership of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets.

PRIVATE ELECTRIC POWER OPERATORS ASSOCIATION, INC. (PEPOA) is an association of privately-owned electricity utilities franchised to operate an electric light and power distribution service in the urban areas outside of Metro Manila.

REGULATORY ASSET BASE (RAB) consists of the assets employed by a regulated entity to provide efficient regulated distribution services, and upon which a utility is allowed to earn a rate of return based on a Weighted Average Cost of Capital (WACC). The RAB represents the appraised or roll-forward asset value of the utility's investment in facilities, equipment and other properties used and useful in the provision of electric service.

RENEWABLE ENERGY ACT OF 2008 or the Republic Act No. 9513 was signed into law in December 2008. It aims to accelerate the exploration and development of renewable energy resources in the country. To achieve this goal, the RE Act provides fiscal and non-fiscal incentives to any entity that will engage in the business of renewable energy, including the manufacturers, suppliers and RE developers or generators. Fiscal incentives include Income Tax Holiday, duty-free importation, accelerated depreciation, special realty property tax rates, zero-rated value added tax, etc. Non- fiscal incentives include the Net Metering Program, Feed-in- Tariff System, Renewable Portfolio Standards and Green Energy Option Program.

RESIDENTIAL AND GENERAL SERVICE A (RGSA) is the rate class applicable to residential customers for all domestic purposes such as lighting, heating, etc., in a single dwelling unit. This is also applicable to non-residential customers with a connected load of less than five kilowatts.

RESTRUCTURING refers to the process of reorganizing the electric power industry to introduce higher efficiency, greater innovation and end-user choice. It will be understood as covering a range of alternatives enhancing exposure of the industry to competitive market forces.

RETAIL ELECTRICITY SUPPLIER (RES) is a person or entity authorized by ERC to sell, broker, market or aggregate electricity to end- users in the Contestable Market.

RETURN ON RATE BASE (RORB) is the ratio of operating income to the utility's rate base which is expressed as a percentage. Prior to the ERC's adoption of PBR, Meralco's unbundled tariffs were based on an RORB equivalent to its WACC for the year 2000, as determined by the ERC.

RULES FOR SETTING DISTRIBUTION WHEELING RATES (RDWR) is a price cap variation of the Performance- Based Regulation as adopted by the ERC for private distribution utilities. This is an update of the Distribution Wheeling Rates Guidelines (DWRG) considering specific entry points among private distribution utilities. RDWR includes a reward and penalty mechanism called the Performance Incentive Scheme (PIS), which includes the following: a) Price linked Incentive (S-factor) scheme which determines the rewards or penalties of DUs using a weighted performance measure, based on the performance levels achieved against a number of indices in the calendar year preceding each Regulatory Year; b) Guaranteed Service Level (GSL) scheme which provides customers guarantees regarding responsiveness and effectiveness of DUs. If GSLs are not met, predetermined penalties will be paid by distribution utilities directly to customers.

RULES GOVERNING THE AUTOMATIC COST ADJUSTMENT AND TRUE-UP MECHANISMS AND CONFIRMATION PROCESS FOR DISTRIBUTION UTILITIES is the set of Rules promulgated by ERC under Resolution 16, Series of 2009, as amended by Resolution 21, Series of 2010. This establishes the procedure for the automatic recovery or refund of pass-through costs and the confirmation process that would govern the automatic cost adjustment and true- up mechanisms for Generation Charge, Transmission Charge, System Loss Charge, Lifeline Subsidy Charge, Local Franchise Tax and Local Business Tax.

SENIOR CITIZEN DISCOUNT/SENIOR CITIZEN SUBSIDY is a socialized pricing mechanism for senior citizens provided under Republic Act No. 9994 or the Expanded Senior Citizens Act of 2010. There are two Senior Citizen Discounts provided to end-users. The first provides a maximum of 5% discount on the electricity bills of residential accounts registered under the name of a senior citizen which consume not more than 100 kWh a month. The second grants a 50% discount on the electricity bills of senior citizen institutions accredited by the Department of Social Welfare and Development (DSWD). The discounts are applied on the qualified customers' total generation, transmission, system loss, distribution, supply and metering charges amount, net of lifeline discount, and are funded through a subsidy to be paid by customers that are not availing of the Senior Citizen Discount or the Lifeline Discount.

STRANDED CONTRACT COSTS OF NPC refer to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market.

SUPPLY CHARGE refers to the cost of rendering service to customers such as billing, collection, customer assistance and other associated services.

SYSTEM LOSS in a distribution system, is the difference between the electric energy input to the system and electric energy output from the system. It refers to technical and non- technical losses occurring in a distribution system during the conveyance of electricity to end-users.

SYSTEM LOSS CHARGE refers to the cost-recovery of power lost due to technical and non-technical system losses. The maximum level of losses that may be recovered by private distribution utilities was set at 9.5% by Republic Act No. 7832 which was reduced to 8.5% starting 2010, as provided under ERC Resolution No.17, Series of 2008.

SYSTEM TROUBLES are interruptions resulting from equipment failure, operating problems, construction troubles and design deficiencies.

TIME-OF-USE RATES (TOU) are electricity prices that vary depending on the time periods in which energy is consumed. With time-of-use pricing, higher rates are charged during hours when the demand for electricity is at its highest, and lower rates during off-peak hours. Such rates provide an incentive for consumers to curb power use during peak times, thus reducing the peak system demand of the utility. These can defer the construction of new power plants, substations, transmission and distribution facilities, freeing much needed resources that can be redirected to other productive activities.

TRANSITION SUPPLY CONTRACT (TSC) is a document, that contains the agreement between a generator and a distribution utility on the terms and conditions of the supply and purchase of energy including a corresponding schedule of applicable rates and consistent with Section 67 of the EPIRA.

TRANSMISSION CHARGE refers to the cost of delivery of electricity from generators, usually located in other provinces or in remote areas outside the distribution utility's franchise area, to the distribution system of Meralco and charges for ancillary services procured by the transmission service provider, which is the National Grid Corporation of the Philippines (NGCP).

UNIVERSAL CHARGE is a charge imposed on all electricity end-users as determined, fixed and approved by the ERC, pursuant to Section 34 of the EPIRA. It is remitted to the Power Sector Assets and Liabilities Management Corporation (PSALM), a government- owned and controlled corporation created by Republic Act No. 9136. At present, this includes the stranded contract costs of NPC, missionary electrification, and environmental charges. Other possible components of the Universal Charge which are yet to be resolved by the ERC are: a) Stranded Debts of the NPC, b) Stranded Contract Costs of Distribution Utilities, and c) Equalization of the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported fuels.

VALUE ADDED TAX (VAT) is the percentage tax imposed on the value of the sale of electricity and related services through all the stages of generation, transmission, distribution and sale of electricity to the final consumer. It is a form of indirect sales tax, because the total of the VAT collected on each sale transaction in all the stages mentioned, is charged to the final consumer as part of the purchased price with sellers and utilities acting merely as tax collectors.

WHOLESALE ELECTRICITY SPOT MARKET (WESM) is the market where trading of electricity is made and was established by the DOE pursuant to Section 30 of the EPIRA.

Recognitions and Awards:

Motivating the Entire Meralco Organization

Corporate Governance Awards

Philippine Stock Exchange
PSE Bell Awards - Finalist
Top 50 ASEAN Publicly Listed Companies
4th Asian Excellence Recognition Awards

- Asia's Best CEO (Philippines) - Oscar S. Reyes
- Best Investor Relations Company in the Philippines
- Best Investor Relations Officer in the Philippines – Rafael L. Andrada
- Asia's Best CFO (Philippines) - Betty C. Siy-Yap
- Best Corporate Social Responsibility - Jeffrey O. Tarayao

Corporate Social Responsiility

- Meralco for Best CSR in the Asian Excellence Awards by Corporate Governance Asia
- Bronze Stevies Award in the Asia Pacific for the One Meralco Foundation 2013 Annual Report, International Business Awards (awarded in June 2015)
- Gold Stevies Award International for CSR Program of the Year in Asia, Australia and New Zealand, International Business Awards

Business Communication

Bronze Stevies Award in the Asia Pacific for the Meralco 2013 Annual Report, International Business Awards (awarded in June 2015)

Anvil Awards

Gold Anvil Awards for:

- Beating the summer heat: How Meralco overcame summer energy crisis threat via empowering solutions
- Salbabote: Protecting our customers' lives during typhoons and floods
- Energy access to indigenous people through school electrification

Silver Anvil Awards for:

- Getting to know you: SPARK's In the Know Series
- One Meralco rice bucket challenge

Meralco was 1st Runner-up as Company of the Year at the 2014 Philippine Quill Awards (held in 2015)

The corporate social responsibility team presents Meralco's first Gold Stevies Award for Best in CSR in Asia, Australia and New Zealand (sole winner) to Meralco Chairman Manuel V. Pangilinan and President and CEO Oscar S. Reyes.

Bronze Stevies Award in the Asia Pacific - Meralco and One Meralco Foundation 2013 Unified Annual Reports, International Business Awards (awarded in June 2015)

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COMMON STOCK

The Company's common stock is listed in the Philippine Stock Exchange (Ticker symbol: MER). The declassification of the Company's common stock removed the Class "A" and Class "B" classification effective September 3, 2007. The declassification does not entail a recall, a cancellation or a replacement of certificates previously issued. All existing stock certificates, whether Class "A" or Class "B", will remain valid. Shares are available to foreign investors up to a maximum of 40 percent of the outstanding capital stock.

2015 MERALCO ANNUAL REPORT

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Driven by Commitment

ONE MERALCO FOUNDATION

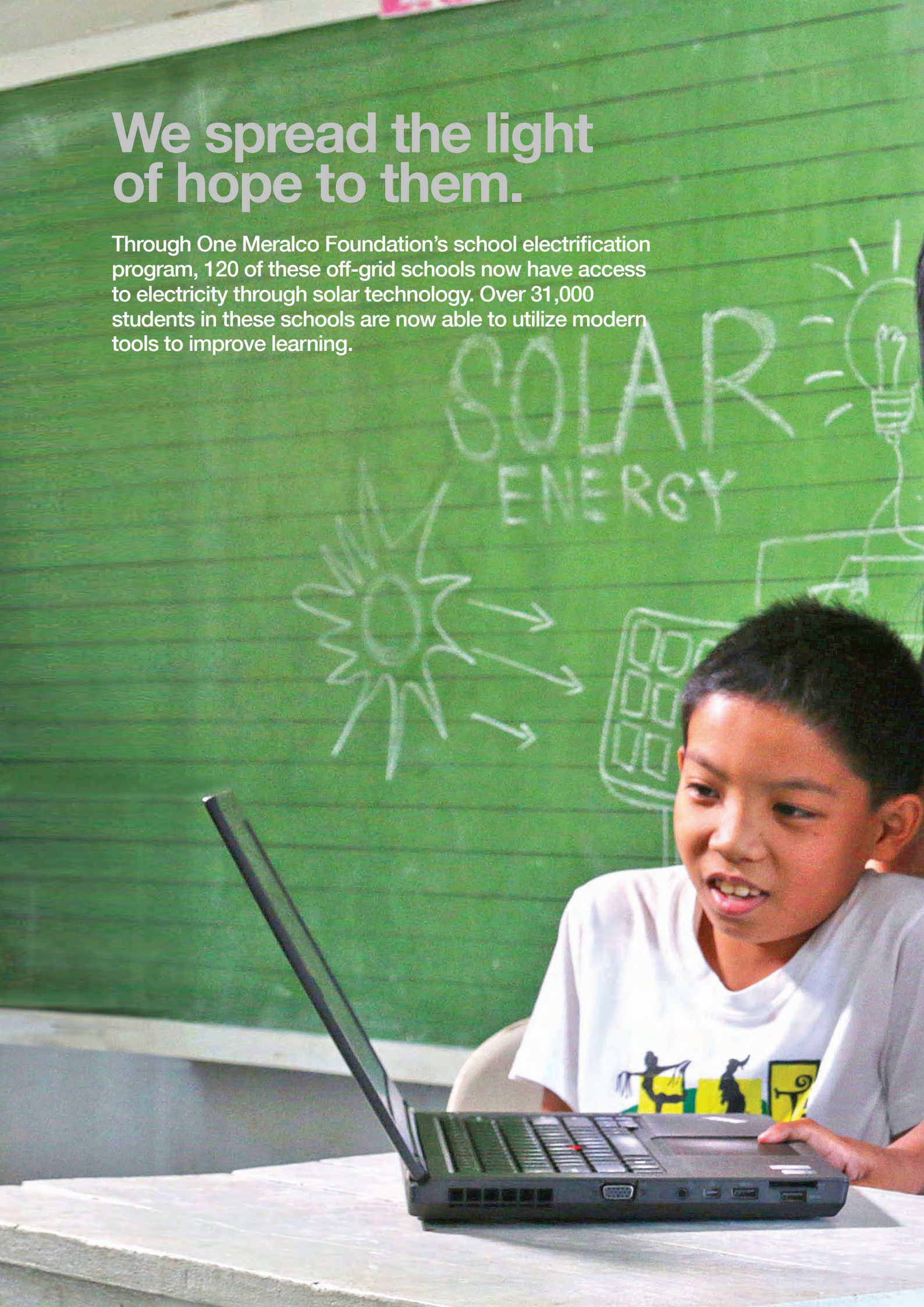
Annual Report 2015

Some people search for hope in the dark.

Many public schools in remote mountain and island communities in the Philippines are too far to gain access to electricity. Students in these communities don’t have a choice but to make do with what they have. A faint glow from a kerosene lamp or a candle is their only companion as they study their lessons at home in the darkness of night.

We spread the light of hope to them.

Through One Meralco Foundation's school electrification program, 120 of these off-grid schools now have access to electricity through solar technology. Over 31,000 students in these schools are now able to utilize modern tools to improve learning.



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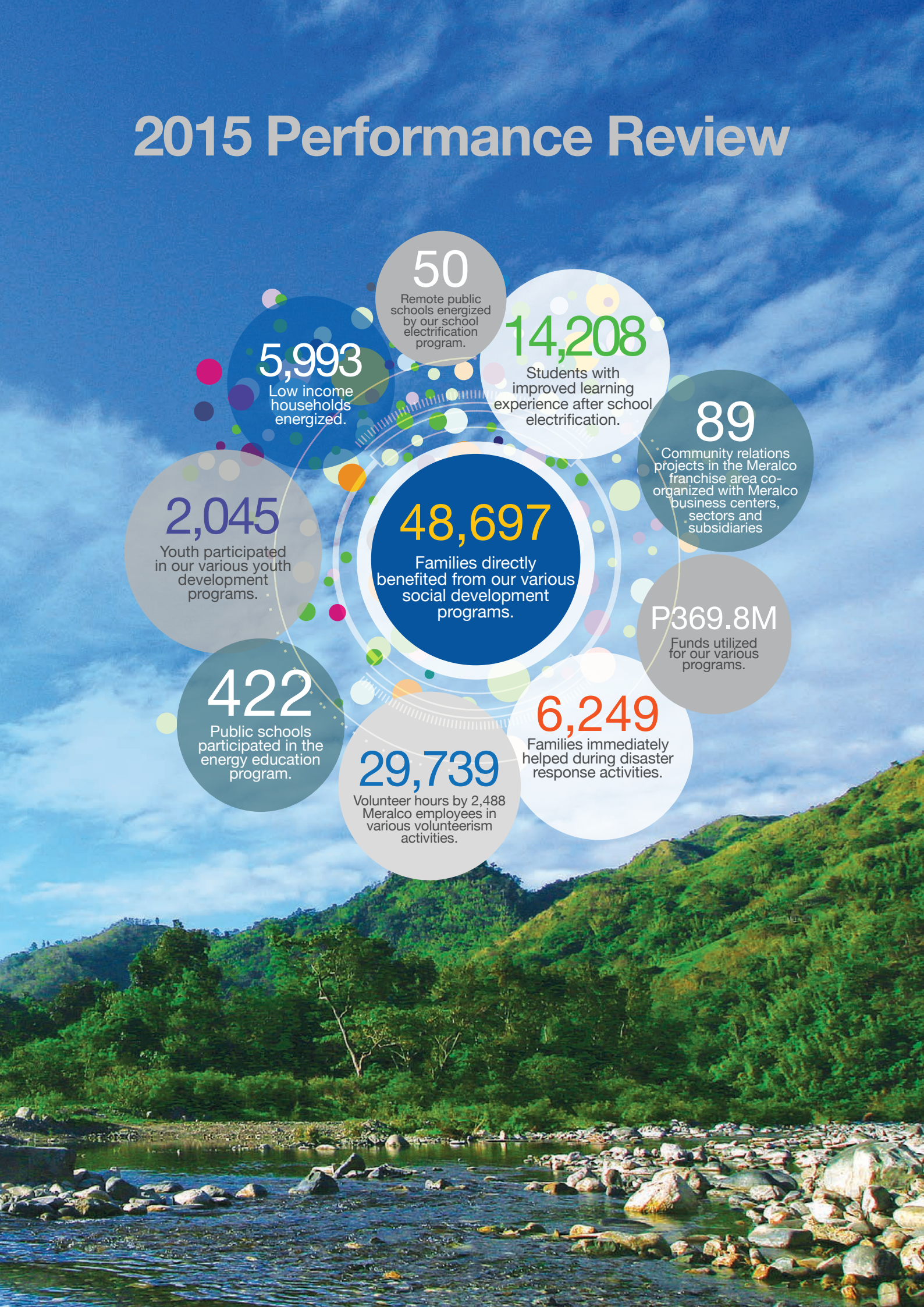


MESSAGE FROM OUR LEADERS

Driven by Commitment

One Meralco Foundation is relatively young. It built upon the pillars of the old, fortified them and expanded its core to focus on advocacies that are closer to the heart of Meralco as an electric company.

The Foundation's track record since its relaunch in 2011, as presented in this annual report, only proves that being young doesn't mean being inexperienced or weak, but being vibrant and creative, daring and optimistic, zealous and not easily fazed by obstacles.

In 2015, the Foundation not only delivered the promises it made the year before but even exceeded its own targets. Its programs and projects have also received acclaim from award-giving bodies here and abroad, a heartwarming reassurance for us that we are on the right track.

Our social development programs were conceptualized with inclusiveness in mind. We believe that our country could only move forward if none of its people is left behind. Opportunities for a more productive life must also be given to the poor, the marginalized, the underserved sectors of our society. And so our philosophy is: if the well-off could afford to have electricity in their homes, those living below the poverty line must also be able to tap into this valuable resource. We take to heart the mission to make this happen.

The Foundation's flagship program – **household electrification** – has been making giant leaps toward this goal. In 2015 alone, it brought electricity to 5,993 homes of informal settlers and relocatees in the Meralco franchise area who either did not have the financial means to apply for an electric service or were barred by legal impediments due to their landlessness. This is more than double the number of families benefited in 2011 when the program began. In the last five years, 18,997 families were energized through the program.

Meralco is duty-bound to provide excellent service to its customers in its franchise area. This does not mean, however, that its brand of service could not extend to the

"Meralco's commitment to ensure a brighter future for Filipinos is echoed by One Meralco Foundation in its mission statement to 'spread the light.'"

countryside, where help is most needed. Especially in times of calamities, the Company, through the Foundation provides assistance to smaller electric cooperatives in the regions by sending volunteer teams of Meralco engineers and linemen to help restore electricity in areas hit by strong typhoons. In December 2015, Typhoon Nona (international name: Melor) barraged southern Luzon provinces of Sorsogon and Oriental Mindoro. Hundreds of electric poles were brought down and several kilometers of wires were rendered unusable. The Foundation was quick to respond, bringing technical expertise, manpower and equipment to these hard-hit provinces and helped restore electricity service within a week. This is outside Meralco's franchise area, but the determination to serve and our commitment to the Filipino in need do not have boundaries.

Beyond Meralco's area of operations, thousands of schools are literally groping in the dark. The reason: energizing these far-flung schools is close to impossible. But we at the Foundation look at challenges with a positive perspective. While well aware of the bounds of our resources, we strive to innovate and look for ways to find the possibility in the seemingly impossible endeavors. We believe that every problem has a solution, and sometimes it is not inside our head but thousands of miles above it; in this case, the sun.

Just like our vision, the sun shines for all, not distinguishing between the rich and the poor. Its energy is for everyone, so why not use it to benefit everyone?

This is the idea behind the Foundation's **school electrification** program. It 'spreads the light' to off-grid mountain and island schools by providing an alternative source of electricity, in most cases, using solar energy. Through the program, 31,888 students in 120 remote public schools get to experience technology-aided learning, something that has been the norm in more progressive communities but almost unheard of in these far-flung villages. More than just providing electricity, the program levels off the playing field for students in these schools, giving them a head start in their quest for a better future.

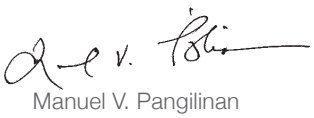
Apart from these electrification programs, the Foundation implements advocacies that aim at helping build a stronger, much brighter nation for all of us, Filipinos. We are focused on developing the youth, assisting communities in the grassroots level, giving Meralco employees the opportunity to give back to the community and prepare the future generation so they become wise energy consumers.

We've been asked questions like: "Why do we concern ourselves with bringing power to the poor when it is barely felt in the company's bottomline at the end of the day? There is no direct business benefit in doing CSR work outside of the franchise area, so why do we do it? What is driving One Meralco Foundation to continue to deliver good results year-on-year despite the challenges?"

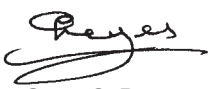
The answer to all these questions is **commitment**. Meralco's commitment to ensure a brighter future for Filipinos is echoed by One Meralco Foundation in its mission statement to 'spread the light.' The power this commitment brings is cascaded to every employee of the company, making success not a sole achievement of the Foundation but a concerted effort along with its partners both within the organization and outside of it.

On behalf of the Board of Trustees, the management and the entire OMF team, we express our heartfelt gratitude to those who helped the Foundation accomplish its goals since we committed ourselves to do more in 2011. To our partners, we hope to continue to count on you as we march on to 2016. And to our beneficiaries: now that you have received the 'light,' we challenge you to make the best out of it and to pass it on.

Together, let's spread the light!



Manuel V. Pangilinan
Chairman



Oscar S. Reyes
Vice Chairman

Jeffrey O. Tarayao
President

The new homes of these children in Cateel, Davao Oriental, who were affected by Typhoon Pablo in 2012 were energized by One Meralco Foundation as part of a concerted effort of the companies chaired by Manuel V. Pangilinan to help bring back normalcy in the lives of typhoon victims.

Reaching In. Reaching Out.

Despite the challenges, OMF holds on to its commitment to uplift the lives of individuals, families and communities through holistic development programs and by providing assistance in the worst of times.

Sherlyn Alarba and her family were among the hundreds displaced when Typhoon Ondoy (int. Ketsana) inundated low-lying areas in Metro Manila in 2009. Traumatized by the experience, they left their community and settled in a new relocation site in the uphills of Rodriguez, Rizal, now called Kasiglahan sa Creekside Association (KACSA).

"When we arrived here, we had nothing. I didn't have a job, my husband was the only one who earned a living, we didn't have electricity," recalled Alarba in Filipino. "My daughter would go to school wearing wrinkled clothes because there was no electricity to power my old flat iron -- one of the few appliances that I had managed to keep. At night, she would endure having to study under the dim light of a kerosene lamp or a candle when the kerosene ran out."

A community in Quezon City also had the same problem. Informal settlers in Taniman, Brgy. Batasan Hills, Quezon City, could not be connected to the grid due to legal impediments hounding them for years. Many of them are left without a choice but to resort to schemers who connect them to the power source of Meralco customers living nearby and charge an unreasonable monthly fee for the unauthorized connection.

One of those who fell victim to this scheme was Julieta Belmo. Having a naturally entrepreneurial mindset, she saw a business opportunity in the growing popularity of the internet especially among youngsters in her area. With a minimal capital, she bought several computer units and opened a small internet shop. Without much competition, her new business venture seemed to be paying off but not for long.

(Clockwise from top) Sherlyn Alarba, Julieta Belmo and Nori Jean Valdez.

"The fees collected from us for electricity were way too high; in fact, much higher than what Meralco customers are charged. But I had to agree to it otherwise I won't be able to continue doing business," Belmo shared.

Despite Belmo's predicament, she was lucky to at least have the means to pay for the unauthorized electricity connection. Norie Jean Valdez, a resident of Sitio Alateris, Merville, Paranaque City, was not as blessed.

Without a stable income and a job, even her own neighbors would not allow her to connect to their electricity supply fearing that she would not be able to pay them regularly.

"Just like everyone else, I badly wanted to have electricity at home but what can I do? I am at the mercy of my neighbors," she tearfully said.

But not all hope is lost for Valdez and for the hundreds of thousands of poor families living in the dark.

In 2015, One Meralco Foundation's household electrification program energized 91 communities without power, among them were Sitio Aratelis, Taniman and KACSA.

Established in 2011, the program assists low income families – including relocatees and informal settlers within the Meralco franchise area – in gaining access to electricity by working with the local government and homeowners' associations to make the initial requirements for electrification well within their reach.

"When we finally had electricity at home, the first thing that came to my mind was to put up my own sari-sari store where I could sell cold softdrinks and iced water," Alarba shared. "This enabled me to help my husband make ends meet."

"Now that I am a Meralco customer and I am sure that I am paying only for the electricity I had consumed, the difference is clearly translated into my computer shop's income. The electrification program really helped a lot in keeping my business afloat," said Belmo.

In the past five years, the program has brought electricity to the homes of 18,997 families providing the benefits of electricity and, potentially, the opportunity to start their own business.

(Above) Within the Meralco organization, the Foundation and business centers (BCs) are on the frontline of every household electrification project. Photo shows representatives from OMF, Meralco's San Pedro (Laguna) BC, and an accredited Meralco contractor.

(Below) Stakeholders of the household electrification program join hands during a lighting ceremony.

One Meralco Foundation's power restoration team worked day and night to restore electricity in Oriental Mindoro after the province was hit by Typhoon Nona in December.

Service without borders

Meralco's dream of a bright future for the Filipino people transcends business boundaries.

While the Company is bound to deliver the highest quality of service to its customers, its Foundation and employees extend its 'makabayan' brand of service to communities outside the franchise area especially in times of need.

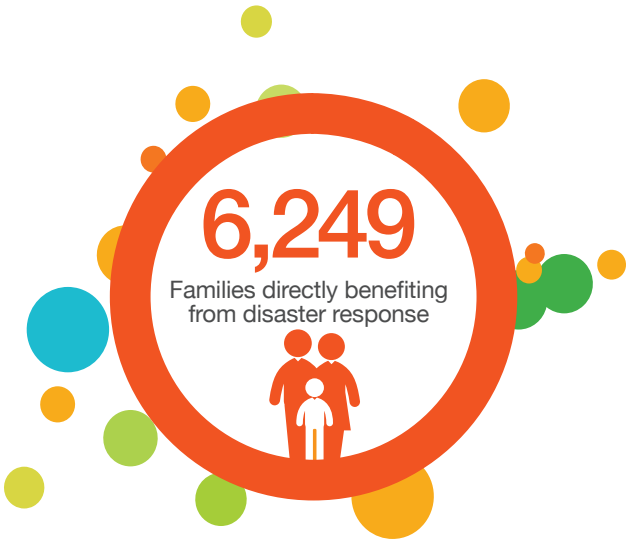
Strong partnerships with local electric cooperatives make it possible for the Foundation to help disaster affected provinces through power restoration, relief operations and livelihood rehabilitation.

When Typhoon Nona hit Sorsogon and Oriental Mindoro in December, the local electric cooperatives operating in the affected areas needed equipment and additional manpower to expedite the rehabilitation of electrical facilities destroyed by the typhoon.

The Foundation didn't have to be asked. It offered to send its power restoration volunteers -- Meralco linemen and engineers who signed up for deployment in times of calamities -- to Sorsogon and Oriental Mindoro. The teams worked alongside employees of the local electric cooperatives, starting early at dawn and packing up late in the evening for two straight weeks, making sure the typhoon victims are able to celebrate a bright Christmas season.

"We cannot thank enough the unsung heroes of Meralco's power restoration team who have helped us throughout this very difficult situation. I hope and pray that they will continue doing what they do and not lose the willingness to help those who are in need the most," expressed Nelson Melgar, the provincial administrator of Oriental Mindoro.

The Foundation's emergency preparedness and disaster response program has benefited 6,249 families affected by both natural and man-made calamities in 2015.



From Challenges to Opportunities

Committed to help bring progress to underserved communities, the Foundation sees opportunities to spread the light in the most challenging of situations.

Students of a school in Surigao del Norte gladly welcome the solar panels that will provide electricity to their off-grid school.

Prior to the electrification of their schools, students in off-grid communities could not use modern learning tools such as this laptop donated by Meralco employees to a school located in the mountains of Rizal energized by the Foundation.

The Impossible Dream

Despite its rather mundane topography, Hinatuan Island easily stands out from among its neighboring isles off the coast of Surigao del Norte. While the other islands are wrapped in greens, Hinatuan's hills are rusty orange, a hint of the metallic treasure buried beneath its crust.

Nickel, a chemical element that is an ingredient of modern batteries used in most electronic devices such as laptops, tablets and mobile phones, is mined in Hinatuan. Its rich natural reserves pave the way for large industries and urban centers to maximize the use of electricity. The irony, however, is that the island itself doesn't benefit from it.

Literally cut off from the rest of the high-tech world, Hinatuan's residents still depend on kerosene to illuminate their homes at night. Students study the old way, unable to experience modern Information and Communications Technology (ICT) tools and benefit from multimedia learning. Occasionally, their teachers hitch ride on fishing boats to get to the city where their reports are prepared and test papers are printed, and draw from their own pockets to avail of the limited power supply of a community-owned generator.

Domingo Cuarenta, Jr., principal of the island's lone public school, Hinatuan Elementary School, has big dreams for his students after graduating sixth grade. He hopes that they do well once they move on to high school on nearby Talavera Island. However, they are at a disadvantage. Talavera Island, being nearer to the mainland, is connected to the electric grid, and so, students here are already knowledgeable in advanced ICT concepts.

(Left) Principal Domingo Cuarenta, Jr. with the students of Hinatuan Elementary School.

Hinatuan Elementary School is not alone in this predicament. According to figures from the Department of Education, around 3,000 public schools all over the country still do not have access to electricity because they are located in either mountain or island communities which are very far from the electricity distribution grid.

It is, indeed, a huge challenge to bring electricity to these far-flung schools – one that the Foundation took as its own mission in 2011 as it pioneered the School Electrification Program, the first and, by far, the only electrification program of this scale which is benefiting mountain and island schools in the Philippines using solar photovoltaic technology.

Committed to help modernize education in remote communities, the Foundation began energizing schools with six in Isla Verde, Batangas in December of 2011. By the end of 2015, the school electrification program had already installed at least 1-kilowatt peak solar photovoltaic systems in 120 public schools. Each one also received a multimedia package consisting of a laptop computer, a printer and an LED TV donated by Meralco employees.

Fifty (50) schools were energized by the program in 2015: four in Luzon, 35 in the Visayas and 11 in Mindanao. Seven of the benefiting schools are attended by at least 1,200 children belonging to indigenous peoples' groups namely the Manobos and Aetas.

Today, a total of 31,888 students are reaping the benefits of the electrification program. With technology at their disposal, they now have a better chance of attaining a brighter future – a seemingly impossible mission made possible by commitment.

Empowering public school teachers

In our technology-driven world, electricity is ubiquitous. Its abundance or dearth affects the way we live. Electric power has become so much a part of our lives that sometimes we tend to forget that it is also a finite resource that needs to be conserved and used responsibly.

Being the corporate social responsibility arm of the largest electric distribution utility in the Philippines, the Foundation, took a bold step in 2014 by pioneering an education program aimed at promoting responsible energy use to the future generation.

Its primary task is to develop contextualized learning materials on energy that may be incorporated into the newly adopted K to 12 curriculum of the Department of Education.

Most available learning resources on energy are based on the experience of highly technological communities which students in the localities cannot relate to. For energy concepts to be fully understood and appreciated by the students, these must be explained in the context of their own experience with electricity.

A sample of the Energy Education kit containing 200 flashcards on energy concepts developed by public school teachers.

An OMF program officer orients students and teachers on the use of the energy education flashcards.

Instead of tapping expert content creators, the Foundation looked for outstanding public school teachers. It partnered with the Coalition for Better Education (CBE), a non-profit organization that advocates skills development and training of educators, especially those serving in public schools. OMF and CBE pooled 37 public school teachers from various regions in the country in an energy camp with the mission of creating a 200-piece flashcard energy education kit which may be integrated in various subjects in the curriculum.

In October 2015, the Foundation officially launched the Energy Ed kits with the Department of Education. Production of 1,000 such kits is underway and will soon find their way to public schools nationwide, including those energized by the school electrification program.

OMF and CBE engaged more public school teachers by conducting energy camps in Cagayan de Oro, Dumaguete and Batangas. The first batch of energy campers passed on their knowledge to their fellow educators, enabling them to create original contextualized learning materials for their students.

"The program encouraged me to be more innovative in the way I teach. The development of the flashcards was such an empowering experience -- one that I wish to share with my fellow educators. The cards were developed not only to bring knowledge but also to inculcate values and strengthen the character of today's generation of students," shared energy camper Marivi Lim-Castro, Master Teacher 1 of General Santos City's SPED Integrated School.

Given the right training, tools and opportunities, ordinary teachers can transform into extraordinary educators, not only advancing their careers but more importantly, benefiting their students, the country's future.

Nourishing the Roots of the Nation

OMF is committed to doing its share in building a stronger and brighter nation.

Nation building is like caring for a tree. No matter how much attention is paid to what lies above ground, if the roots do not get nourishment, the yield of the tree will be low. This is the philosophy behind OMF's CSR programs focused on grassroots development. While setting its sights on the ultimate goal of building a more progressive country, the Foundation starts at the bottom of the ladder, working its way up. This way, the sustainability of its social investments is ensured.

Kindness from home

Within the Meralco organization, rewards programs are in place to encourage employees to be efficient and productive. Believing that charity begins at home, the Foundation aligns itself with the Company's initiative by extending the reward system to dependents of Meralco employees through the MVP Academic Achievement Awards (MVP AAA) program.

MVP AAA recognizes deserving children and siblings of rank-and-file and supervisory Meralco and subsidiary employees who have excelled academically. In 2015, the program awarded 242 dependents, 42 of whom are top achievers (previous year winners who have maintained their academic performance). Each one received an educational grant and a medal of excellence conferred by Meralco Chairman Manuel V. Pangilinan himself.

"Making Meralco employees feel that the Foundation cares for their welfare as much as we do for those living in the margins creates a domino effect. They are encouraged to pass on the kindness either by way of participating in our volunteering activities or by donating to causes that we support," explains OMF President Jeffrey Tarayao.

Giving back is very much ingrained in the culture of Meralco. In 2015 alone, 2,488 employees logged 29,739 hours of volunteer service in 89 activities of the Foundation. These include environmental projects (tree and bamboo planting), sports-for-a-cause events and distribution of school supplies to poor students in the Meralco franchise area.

Meralco employees were also instrumental in the success of the "One Child, One Lamp" campaign in December. It aims to provide school children in remote, unenergized communities nationwide with solar lamps to keep them safe on the road to school in the early morning and back at the end of the day. Many children in these communities walk long distances going to school and back, and so they have to leave early at dawn and arrive home usually in the darkness of night. The lamps will also allow them to study at night in the comforts of their own home.

The campaign raised a total donation of P2.32 million, enough to purchase 10,000 solar lamps, which will be distributed to off-grid public schools in 2016.

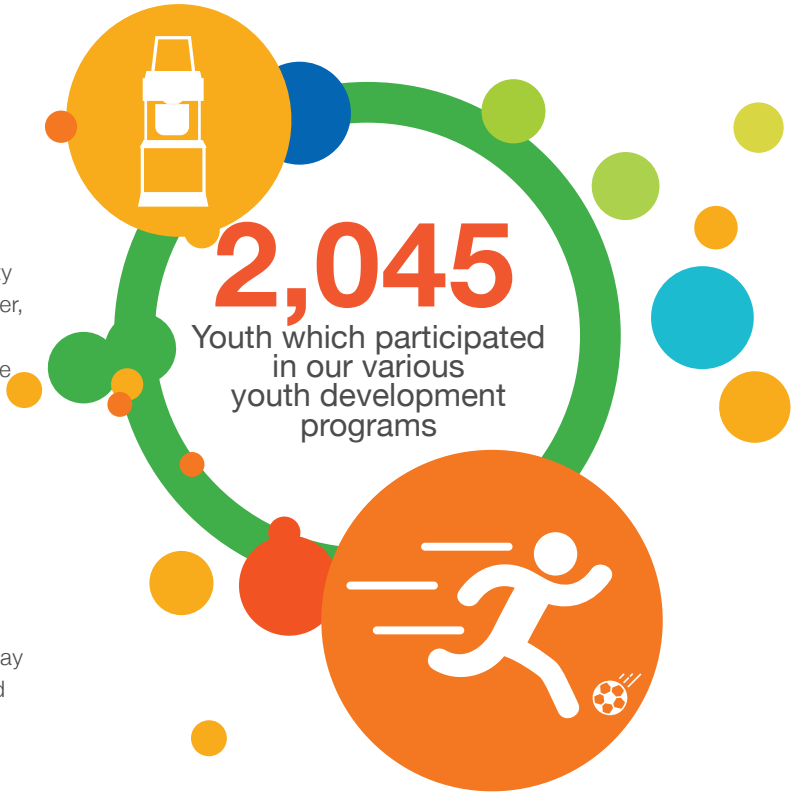
One Meralco Foundation Chairman Manuel V. Pangilinan and Department of Education Secretary Bro. Armin Luistro congratulate a Meralco employee and his daughter during the MVP AAA awarding ceremonies.

Battling violence through sports

In some rural communities, the lack of access to electricity is considered the biggest hurdle to their progress. However, for others, their problems are much harder to address: security of life and property is an uncertainty, and guns are seen as a necessity.

The armed conflict in many parts of the Autonomous Region in Muslim Mindanao (ARMM) has stifled economic development in the region, resulting in poverty and poor delivery of basic goods and services.

One afternoon in 2011, Lt Col Stephen Cabanlet of the Philippine Marine Corps and his comrades decided to play football as part of their daily recreational activity in a field just outside their detachment in Sulu. Curious about the



'new sport,' children in the area started to gather around them and observe how the game is played. They began to play, relying on their intuition, after the Marine Corps left. This awed Lt Col Cabanlet and thereafter saw the birth of "Football for Peace" program, which aims to win the hearts of these kids and instill in them peace-loving values and discipline.

"Football for Peace" evolved from an idea of one man to an institutional program that teaches children in conflict areas discipline, camaraderie, teamwork and sportsmanship through the sport with the end goal of moulding their character so they do not fall victim to extremist ideologies.

One Meralco Foundation has been a key partner in this initiative as part of its youth development program. It began its engagement with the donation of 500 soccer balls in 2012 so the participants could practice in their homes and share their knowledge about the sport to their peers.

In the following years, the Foundation beefed up its support by sponsoring a one-day football training program facilitated by Meralco's professional football team, the Loyola Meralco Sparks football club and the Meralco Football Club composed of the Company's employees.

By 2015, the program has trained over 700 "Football for Peace" participants, each one taking home not only their newly developed skills but also the experience of being taught by professional players, such as football stars Phil and James Younghusband.

Apart from the football clinic, the participants also engage in a weeklong educational tour around Metro Manila.

Loyola Meralco Sparks football club midfielder and team captain James Younghusband trains participants of the 2015 Football for Peace clinic held at the University of Makati football stadium, Makati City.

Football for Peace 2015 participants with players from the Loyola Meralco Sparks and the Meralco Football Club, and officers from One Meralco Foundation and the Philippine Marine Corps.

"The program goes much deeper than just introducing the sport to the kids. We use football only as a tool to mould their character hoping that the values they learn from playing the sport would inspire them to embrace the concept of friendly competition and adopt the culture of peace. Also, by exposing these kids to a community that was made progressive by peace, they would aspire for the same for the own hometowns," said Lt Col Cabanlet.

Apart from football, One Meralco Foundation also supports other sports development projects such as basketball and chess clinics.

Forging strategic partnerships

To achieve greater impact, the Foundation partners with local governments, private companies and other social development organizations for projects focused on grassroots development.

In 2015, OMF donated 163 computer sets to various institutions, including local government offices, informal education centers and community livelihood cooperatives.

The 'Basketboys' program trains underprivileged youths in the sport of basketball.

The Foundation also supported the technical-vocational program of Los Banos, Laguna and the International Rice Research Institute (IRRI) by offering scholarships to 700 enrollees who are now certified skilled workers and employed in various industries.

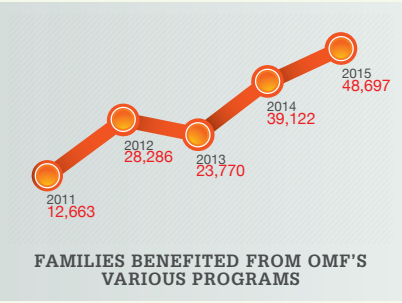
Popular encyclopedia publisher Grolier International entrusted the Foundation with a donation of thousands of encyclopedia sets, reference books and interactive learning materials worth P6.4 million. These will be distributed to 225 public schools across the country including those energized by the school electrification program. Another company, 11-FTC Enterprises, a marketing solutions provider, donated recyclable laminated 'sakolines' valued at P3 million. The 'sakolines' are being converted to reusable grocery bags through a livelihood project spearheaded by Caritas Manila, a catholic charitable institution also supported by the Foundation.

Through the years, One Meralco Foundation has proven its integrity and has been recognized with awards for transparency and good governance both locally and internationally. It has earned the trust and confidence of companies and has become their preferred partner for social development initiatives.

A Meralco employee tutors elementary pupils as part of his volunteering work.

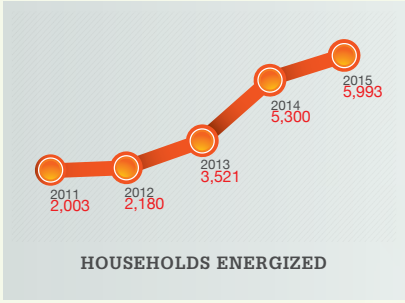
2011-2015 Accomplishments

152,538 FAMILIES



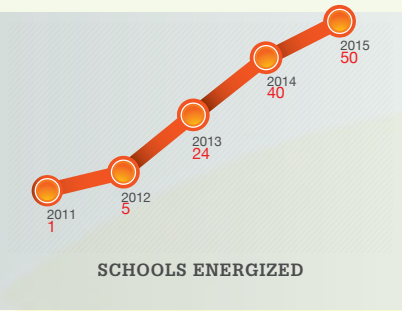
FAMILIES BENEFITED FROM OMF'S VARIOUS PROGRAMS

18,997 HOUSEHOLDS



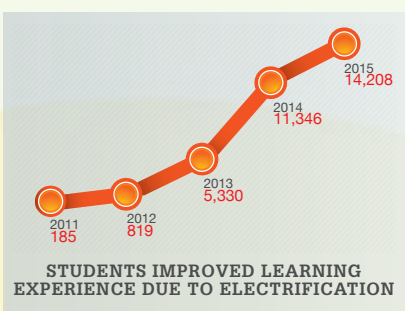
HOUSEHOLDS ENERGIZED

120 SCHOOLS



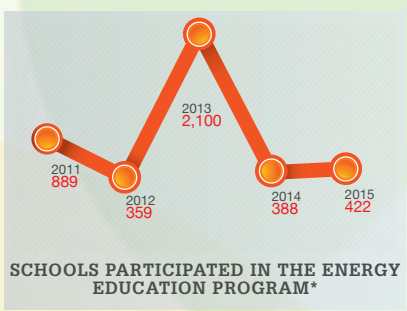
SCHOOLS ENERGIZED

31,888 STUDENTS



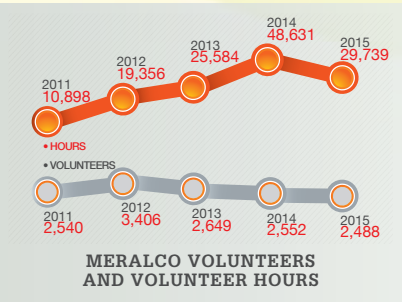
STUDENTS IMPROVED LEARNING EXPERIENCE DUE TO ELECTRIFICATION

4,158 SCHOOLS



SCHOOLS PARTICIPATED IN THE ENERGY EDUCATION PROGRAM*

13,635 VOLUNTEERS • **134,208** HOURS



MERALCO VOLUNTEERS AND VOLUNTEER HOURS

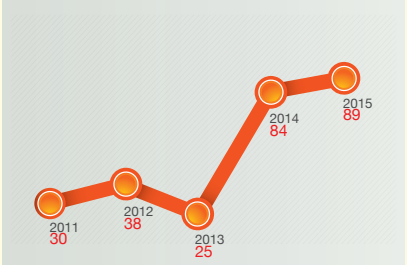
PHP**49,211,120.00**

PESO VALUE OF VOLUNTEER HOURS**

256 COMMUNITY RELATIONS PROJECTS

COMMUNITY RELATIONS PROJECTS IN SUPPORT OF BUSINESS CENTERS AND SECTORS

266 PROJECTS



TOTAL NUMBER OF PROJECTS PER YEAR

*More public schools were assessed for electrical safety in 2013 in preparation for use as polling centers during the national elections held that year.

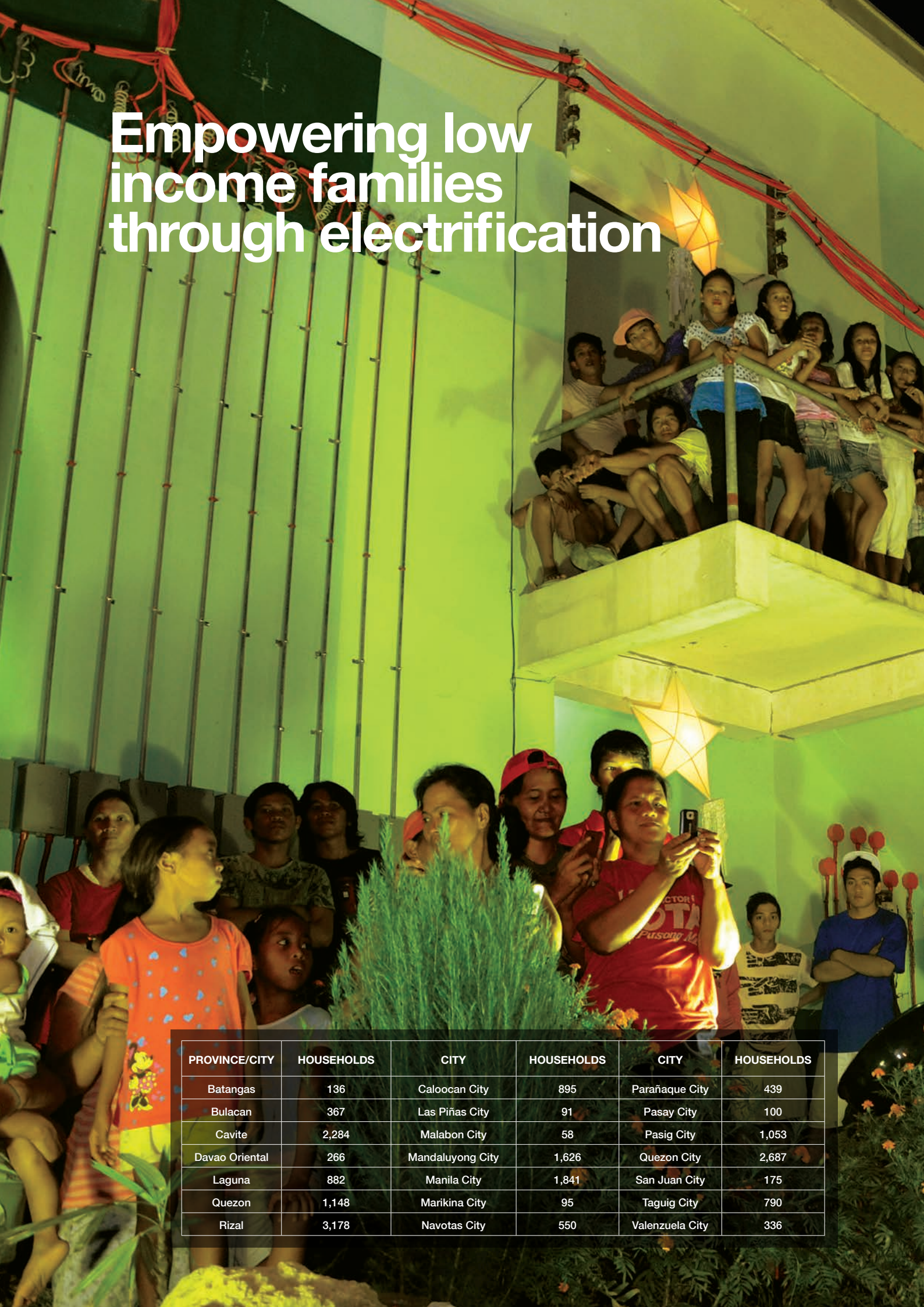
**The spike in 2014 was due to the extension of Yolanda-related power restoration activities during the first quarter of the year.

Our journey so far

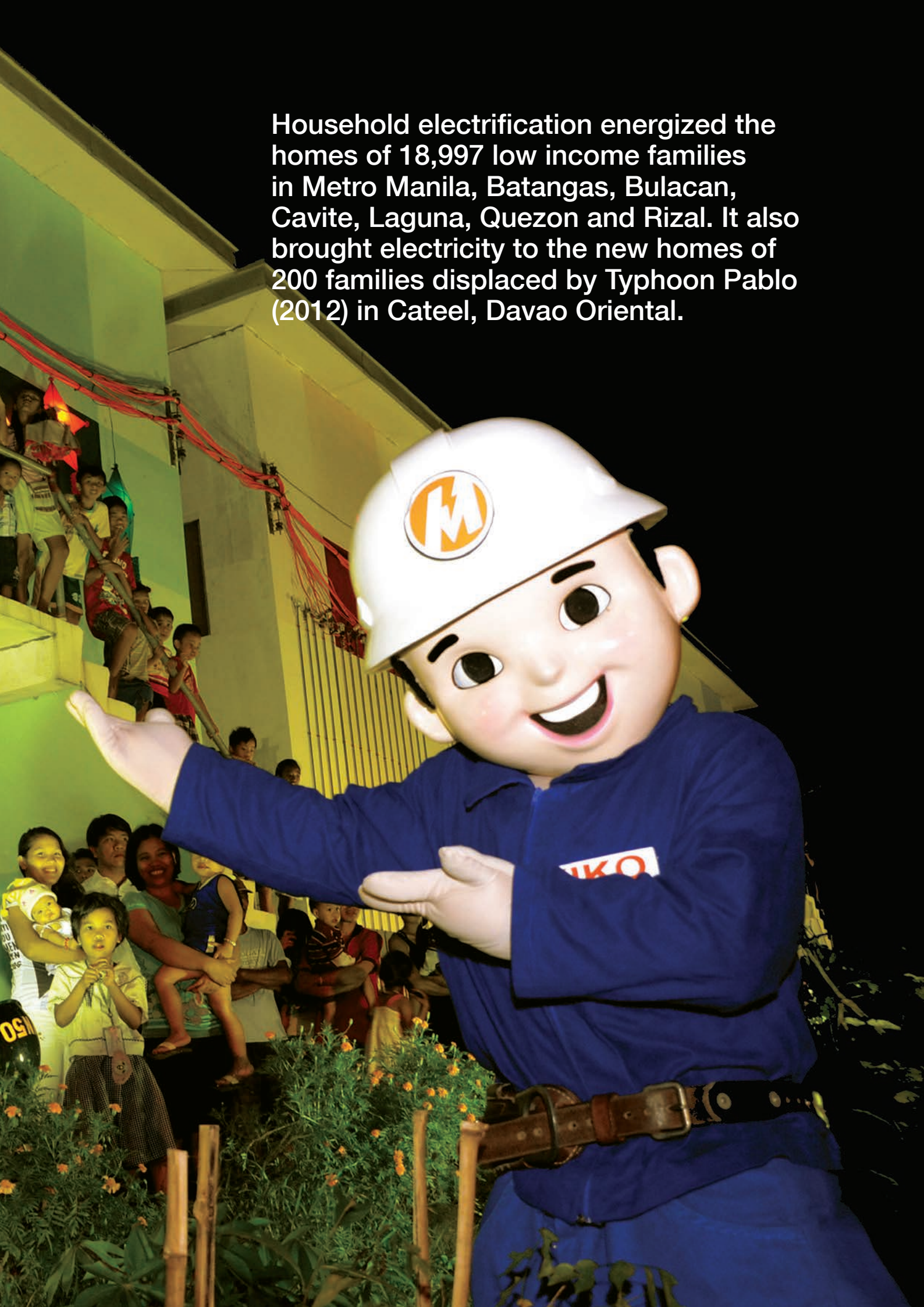
Meralco's relaunch of its corporate foundation as One Meralco Foundation in 2011 signified a unified, purposive and focused approach in doing CSR.

The new social development arm of the Philippine's largest electricity distribution company zoomed in on what the parent company does best–electrification–and expanded its footprint to include communities outside of the company's franchise area. Going out of the comfort zones is always a risky and challenging endeavor. But the results of our five-year journey from the nearest to the farthest, most underserved communities in the country are a proof that the road not taken is a road worth taking.

Empowering low income families through electrification



PROVINCE/CITY	HOUSEHOLDS	CITY	HOUSEHOLDS	CITY	HOUSEHOLDS
Batangas	136	Caloocan City	895	Parañaque City	439
Bulacan	367	Las Piñas City	91	Pasay City	100
Cavite	2,284	Malabon City	58	Pasig City	1,053
Davao Oriental	266	Mandaluyong City	1,626	Quezon City	2,687
Laguna	882	Manila City	1,841	San Juan City	175
Quezon	1,148	Marikina City	95	Taguig City	790
Rizal	3,178	Navotas City	550	Valenzuela City	336



Household electrification energized the homes of 18,997 low income families in Metro Manila, Batangas, Bulacan, Cavite, Laguna, Quezon and Rizal. It also brought electricity to the new homes of 200 families displaced by Typhoon Pablo (2012) in Cateel, Davao Oriental.

Energizing off-grid schools in the countryside

School electrification made technology-assisted learning possible in 120 remote off-grid public schools nationwide through solar power.

BATANGAS
Parang Cueva ES (Isla Verde, Batangas City)
Liponpon ES (Isla Verde, Batangas City)
San Agustin Kanluran ES (Isla Verde, Batangas City)
San Agustin Silangan ES (Isla Verde, Batangas City)
San Agapito ES (Isla Verde, Batangas City)
San Andres ES (Isla Verde, Batangas City)

PALAWAN
San Fernando NHS (El Nido)
Teneguiban NHS (El Nido)
Bulawit NHS (El Nido)
Sta. Teresita NHS (Rizal)
Caruray NHS (Rizal)
Tagusao NHS (Taytay)
Candagawa NHS (Dumaran)
Speaker Ramon Mitra Jr. NHS (Quezon)
Casian NHS (San Vicente)

QUEZON
Cagbalete Island NHS (Mauban)
Cagsiay III NHS (Mauban)
Cagbalete I ES (Mauban)
Cagbalete II ES (Mauban)
Cagsiay III ES Annex (Mauban)
San Jose ES (Mauban)
Rosario ES (Mauban)
Remedios II ES (Mauban)
Sto. Nino ES (Mauban)
Mararaot ES (General Nakar)

BOHOL
Pandanon NHS (Getafe)
CabulAn NHS (Buenavista)
Cataban IS (Talibon)
Cuaming ES (Inabanga)
Cuaming HS (Inabanga)

DINAGAT ISLANDS
Rizal NHS (Basilisa)
Cabilan NHS (Dinagat)
Cabilan ES (Dinagat)

RIZAL
Casili ES (Montalban)
Macabud NHS (Rodriguez)
Macaingalan ES (Rodriguez)
Macaingalan HS (Rodriguez)
Cayabu ES (Tanay)
Cayabu HS (Tanay)
San Andres ES (Tanay)
Laiban ES (Tanay)
Laiban HS (Tanay)
Mamuyao ES (Tanay)
Tinucan ES (Tanay)
Pinagsabiran ES (Tanay)
Tablon ES (Tanay)
Sto Nino HS (Tanay)
Magata Mangahan HS (Tanay)

CEBU
Doong Island NHS (Bantayan)
Hilotongan IS (Bantayan)

SOUTH COTABATO
Proper Ned NHS (Lake Sebu)
Kibang NHS (Lake Sebu)
Pulo Subong IS (Lake Sebu)
Lubol IS (Surallah)

CAGAYAN
Camiguin NHS (Calayan Island)
Calayan HS Dibay Extension (Calayan Island)
Dilam HS (Calayan Island)
Calayan NHS (Cagayan Island)

SARANGANI
Danao IS (Malongon)
Nian IS (Malongon)
Tangali IS (Malongon)
Lamlabong IS (Maasim)

SOUTHERN LEYTE
Limasawa NHS (Limasawa Island)

ROMBLON
Concepcion NHS Annex (Concepcion)
Concepcion NHS – Main (Concepcion)
Tungonan NHS (Banto)
Banton NHS (Banto)
Mabini NHS (Corcuera)
Corcuera NHS (Corcuera)

WESTERN SAMAR
Villa Hermosa NHS (Sto. Nino Island)
Almagro NHS (Almagro Island)
Cabungaan IS (Sto. Nino Island)
Sto. Nino NHS (Sto. Nino Island)

NORTHERN SAMAR
Marubay NHS (Laoang)
Batad NHS (Laoang)
CapulAgro IS (Capul)
Mongolbongol NHS (San Vicente)
San Vicente School of Fisheries (San Vicente)
Landusan NHS (Capul)
San Antonio NHS (Biri)
Silvino Lubos Vocational HS (Silvino Lubos)

SURIGAO DEL NORTE
Alegria ES (Surigao City)
Buenavista ES (Surigao City)
Juan P. Cedro Sr. Memorial NHS (Surigao City)
Alegria NHS (Surigao City)
Libuac ES (Surigao City)
Hinatuan ES (Taganaan)
Suyangan NHS (Siargao)
Suyangan ES (Siargao)
Halian ES (Del Carmen)

SURIGAO DEL SUR
Lower Bagyang ES (San Miguel)
Bitauhan ES (San Miguel)
Calatnhan ES (San Miguel)
Bagyang ES (San Miguel)
Pakwan IS (Lanuza)

DAVAO DEL SUR
Mabila Central ES (Balut Island)
Angel F. Olarte Sr. ES (Balut Island)
Alberto Olarte Sr. NHS (Balut Island)
Sangkokdatal ES (Balut Island)
Jose De Arce Memorial NHS (Balut Island)

EASTERN SAMAR
Homonhon ES (Guiuan)
Homonhon NHS (Guiuan)
Hilabaan NHS (Dolores)
Sta. Monica IS (Oras)

ANTIQUE
Sibay ES (Caluya)
Sibay NHS (Caluya)
Bonbon ES (Caluya)
Bacong ES (Caluya)
Harigue ES (Caluya)

NEGROS OCCIDENTAL
Damutan ES (Hinobaan)
Bonifacio ES (Hinobaan)
Cemeco ES (Hinobaan)
BilbaoUybico NHS – Annex (Hinobaan)
Jerusalem ES (Cauayan)
Agogolo ES (Moises Padilla)
Cuyaoyao ES (Moises Padilla)
Nacurohan ES (Moises Padilla)

PAMPANGA
Diaz ES (Porac)
Haduan Negrito ES (Mabalacat)
Calapi Negrito ES (Mabalacat)

ES - Elementary School
HS - High School
IS - Integrated School
NHS - National High School

ONE MERA
FOUNDA
How do you protect yourself
from direct and excessive
least 3 ways.
Electrical energy makes our
appliances and gadgets work

Developing responsible energy users

Energy education aims to develop programs and tools that educate the country's future leaders about energy and the responsible use of this valuable resource.

Under the program, the Foundation and the Coalition for Better Education (CBE) trained 37 select public school teachers to become content creators of a 200-piece energy education flashcard kit covering energy-related topics, integrating the subject in the K to 12 curriculum. The kits will be initially distributed to 1,000 schools nationwide including those energized by the school electrification progam.

The Foundation and CBE continue to empower more educators by conducting energy education camps. To date, 141 teachers have participated in camps held in Cebu, Batangas, Cagayan de Oro and Dumaguete.

200	141	1,000
Energy Education flashcards developed	Public school teachers trained in four (4) energy camps	Public Schools to benefit from the first batch of Energy Education flashcards

Honing the talents and skills of our youth

The MVP Academic Achievement Awards (MVP AAA), a program that recognizes the academic achievement of dependents of Meralco and subsidiary employees, has given educational grants to 860 winners and 277 top achievers in the last five years.

2011	2012	2013	2014	2015
100 Winners	180 Winners & 56 Top Achievers	180 Winners & 84 Top Achievers	200 Winners & 95 Top Achievers	200 Winners & 42 Top Achievers

Akapela Open

“Akapela Open,” an annual a cappella group singing competition organized by the Music School of Ryan Cayabyab and supported by One Meralco Foundation, opened its doors to some of the best talented groups such as Baguio’s “Pinopela” and Bulacan’s “Acapellago.”

2013	2014	2015
Acapellago	Pinopela	Acapellago

Moulding the values of disadvantaged youth with 'Basketboys'

One Meralco Foundation's utilizes sports like basketball to help instill values in the minds of the youth.

Through the 'Basketboys' program, the Foundation has engaged 2,440 youth in various basketball clinics in Bataan, Batangas, Bulacan, Cagayan de Oro, Cavite, Iloilo, Pampanga, Rizal, Zambales, Mandaluyong City, Manila City, Marikina City, Muntinlupa City, Quezon City, San Juan City and Taguig City.

AREA	PARTICIPANTS
Bataan	100
Batangas	100
Bulacan	357
Cagayan De Oro	130
Cavite	230
Iloilo	180
Pampanga	116
Rizal	60

AREA	PARTICIPANTS
Zambales	130
Mandaluyong City	290
Manila City	100
Marikina City	294
Muntinlupa City	108
Quezon City	45
San Juan City	100
Taguig City	100

Promoting peace though football

Since 2012, the Foundation has been supporting the 'Football for Peace' advocacy of the Philippine Marine Corps.

The advocacy promotes long-term peace by engaging through the sport children from the conflict zones in Mindanao, particularly in the Autonomous Region in Muslim Mindanao (ARMM). Around 200 children are brought to Manila not only to train and compete in football but also to embark on an educational tour of the country's capital. By exposing these kids to a peaceful and progressive community, the advocacy hopes that they would take home the aspiration for peace and progress.

The program has so far benefited 776 children from Tawi-Tawi, Sulu, Basilan, Maguindanao, Sultan Kudarat, Misamis, Lanao del Sur, Pagadian and Palawan. In September, OMF brought the "Football for Peace" clinic to Tawi-Tawi to engage more aspiring athletes from the region, especially those who have not participated in the previous festivals. It was the first time for the clinic to be held in Mindanao.

(OMF donated 500 soccer balls in 2012)	
YEAR	**NO. OF PARTICIPANTS**
2013	176
2014	150
2015	450

Working with communities

The Foundation provides support to grassroots institutions and other social development organizations by means of partnerships or institutional donations. Through the years, OMF has helped bring progress to communities living in the margins through the following organizations, among others:

COMMUNITY GRANTS

Antonio & Luzviminda Francisco Educational and Environmental Foundation, Inc.
Balai Obrero Foundation, Inc.
Bambang United Movement for Peace and Progress, Inc.
Buklod ng Arienda Neighborhood Association, Inc.
GKonomics International, Inc.
Tiberiade Community Foundation, Inc.
Women for Progress of Nagpayong Multi-purpose Cooperative

SPONSORSHIPS

Ad Jesum Development Foundation, Inc.
Alagang Kapatid Foundation, Inc.
Girl Scouts of the Philippines
Boy Scouts of the Philippines
Caritas Manila, Inc.
Children's Museum and Library, Inc.
Children's Joy Foundation
Corporate Network for Disaster Response
Coalition for Better Education
Foundation for Rural Electrification for Economic Development
Franciscan Movement for Justice, Peace & Integrity of Creation, Inc.
Igan Pilipinas Foundation, Inc.
International Coastal Cleanup
International Rice Research Institute
National Relief Aid Organization, Inc.
Ophthalmological Foundation of the Philippines
Philippine Business for Education, Inc.
Philippine Marine Corps
Philippine National Police Special Action Force (SAF 44 Families)
Philippine Nuclear Research Institute
Philippine Science High School Foundation
Philippine Tuberculosis Society
Run to End Polio Now
Serving Humanity through Empowerment, Inc.
TOYM Foundation, Inc.
World Vision Philippines
Yes2Life Foundation, Inc.
Young Musicians Development Foundation

Restoring power in times of crisis

In times of disasters, One Meralco Foundation, lends a hand to local electric cooperatives in affected communities by sending its power restoration team to help immediately restore power in these areas.

2012
Typhoon Pablo
(international name: Bopha)
Areas Affected:
Cateel and Boston, Davao Oriental
Electric Cooperative/Company Assisted:
Davao Oriental Electric Cooperative (DORECO)
Meralco Contingent:
40 Volunteers

2013
Typhoon Santi
(international name: Nari)
Areas Affected:
Cabanatuan City, Nueva Ecija
Electric Cooperative/Company Assisted:
Cabanatuan Electric Corporation (CELCOR)
Meralco Contingent:
69 Volunteers

2013
Typhoon Yolanda
(international name: Haiyan)
Areas Affected:
Iloilo, Aklan, Capiz, Leyte
Electric Cooperative/Company Assisted:
Albay Power and Energy Corporation (APEC)
Sorsogon Electric Cooperative (SORECO)
Meralco Contingent:
218 Volunteers

2014
Typhoon Glenda
(international name: Rammasun)
Areas Affected:
Albay and Sorsogon
Electric Cooperative/Company Assisted:
Iloilo Electric Cooperative (ILECO)
Aklan Electric Cooperative (AKELCO)
Capiz Electric Cooperative (CAPELCO)
Leyte Electric Cooperative (LEYECO)
Meralco Contingent:
63 Volunteers

2015
Typhoon Nona
(international name: Melor)
Areas Affected:
Oriental Mindoro and Sorsogon
Electric Cooperative/Company Assisted:
Oriental Mindoro Electric Cooperative (ORMECO)
Sorsogon Electric Cooperative (SORECO)
Meralco Contingent:
146 Volunteers

Serving beyond the call of duty

Meralco's employees are the force behind One Meralco Foundation's volunteering activities.

During the past five years, 13,635 employee-volunteers logged a total of 134,208 hours of service in various social development projects of the Foundation such as:

- Youth and Sports activities such as 'Basketboys' and 'Football for Peace' clinics, and Meralco Rapid Chess Tournaments
- Medical missions, dental clinics and blood donation activities
- Environmental advocacies such as tree planting, eco-marathons and coastal clean-ups
- Reaching out to less fortunate families through 'Maliwanag ang Pasko', community service and feeding activities
- Restoration of power in provinces affected by typhoons

YEAR	NO. OF EMPLOYEE VOLUNTEERS	VOLUNTEER HOURS	PESO VALUE OF VOLUNTEER HOURS
2011	2,540	10,898	4,663,908
2012	3,406	19,356	7,466,618
2013	2,649	24,584	3,541,369
2014	2,552	48,631	20,812,123
2015	2,488	29,739	12,727,102
TOTAL			49,211,120

Recognition from the Community

(2011-2015)

Platts Global Energy Award for Corporate Social Responsibility
New York City, USA (2013)

Asia Corporate Excellence and Sustainability (ACES) Awards, Singapore
Most Socially Responsible Company in Asia, Singapore (2014)

International Business Awards (Stevies)
Gold Stevie Award, CSR Programs of the Year in Asia, Australia and New Zealand, awarded in Toronto, Canada (2015)
Bronze Stevie Award, Meralco and One Meralco Foundation Best Annual Report, awarded in Shanghai, China (2015)

Global CSR Award
Silver Award for Best Workplace Practices category (2012)
Silver Stevie Award for Community Program category (2011)

Corporate Governance Asia Awards
Best Corporate Social Responsibility, Hongkong (2014)
Best Corporate Social Responsibility, Hong Kong (2013)
Best Corporate Social Responsibility, Hong Kong (2012)

PR News Online's CSR Awards
Finalist and Honourable Mention under the Social Good category for energizing Public Schools in Isla Verde, Washington DC, USA (February 2013)

International Association of Business Communicators (IABC Philippines) – Philippine Quill Awards
Award of Excellence, One Meralco Foundation School Electrification Launches (2014)
Award of Excellence, One Meralco's Energizing Schools in the Countryside Video (2014)
Award of Excellence, Project 9 Mornings (2014)
Award of Excellence, One Meralco Typhoon Yolanda Disaster Response (2014)
Award of Merit, Football for Peace Friendship Games in Manila (2014)
Award of Merit, MVPAAA Awards Program (2014)
Award of Merit, One Meralco Power Restoration Program (2014)
Award of Merit, Determined to Serve: Makabayan Volunteerism Program (2014)
Award of Merit, One Meralco School Electrification Program (2014)
Award of Excellence for Typhoon Pablo Power Restoration (2013)
Award of Excellence for Community Electrification Program (2013)
Award of Merit for Makabayan Volunteerism Program (2013)
Award of Merit for MVP Academic Assistance Award 2013 (2013)
Award of Merit for Engaging Employees for nation Building (2013)
Award of Excellence for Energizing Public Schools in Isla Verde (2012)
Award of Excellence for Meralco Basketboys Program (2012)
Award of Excellence for One Meralco Makabayan Volunteerism Program (2012)
Award of Excellence for Transforming Communities through the Meralco Community Electrification Program (2012)
Award of Excellence for 2012 Sabado Night Run (2012)
Award of Excellence for Communicating One Meralco Foundation Initiatives via the News Media (2012)
Award of Merit for Maliwanag Ang Pasko Employees Treat for Children (2012)
Award of Merit for Isla Verde School Electrification Community Launch (2012)
Award of Merit for Meralco Community Electrification Program and Community Launches (2012)
Award of Merit for Bio Intensive Gardening (2011)
Award of Merit for Meralco's Water Lily for Life (2011)
Award of Merit for One Meralco Foundation Makabayan Employee Volunteerism 2011)
Award of Merit for Meralco Sibol School Project (2011)
Award of Merit for Meralco Community Electrification Program (2011)

Public Relations Society of the Philippines (PRSP) – Anvil Awards
Gold Anvil, Energy Access to Indigeneous People Through School Electrification (2015)
Silver Anvil, One Meralco Rice Bucket Challenge (2015)
Gold Anvil, One Meralco School Electrification Community Launches (2014)
Gold Anvil, One Meralco School Electrification Program (2014)
Gold Anvil, One Meralco Typhoon Yolanda Disaster Response (2014)
Silver Anvil, One Meralco Household Electrification Program (2014)
Silver Anvil, One Meralco's Energizing Schools in the Countryside Video (2014)
Silver Anvil, Determined to Serve: Makabayan Volunteerism Program (2014)
Award of Merit for Spreading the Light through Community Electrification (2014)
Award of Merit for Let there be Light – The Davao Oriental Power Restoration Project (2014)
Award of Merit for The Meralco Community Electrification Program and Community Launches (2013)
Award of Merit for Isla Verde School Electrification Community Launch (2013)
Award of Merit for Energizing Public Schools in Isla Verde (2012)
Award of Merit for Transforming Communities through the Meralco Community Electrification Program (2012)
Award of Merit for Bio Intensive Gardening (2011)
Award of Merit for Lighting Up Lives through the Isang Litrong Liwanag (2011)
Award of Merit for Meralco's Water Lily for LIFE Project: Community Building for Wealth Creation (2011)

2015 Financial Review

As we pursue the foundation's objectives, we ensure that measures are in place to advance our work for social development in the most responsible manner. This demands that we manage our resources well and bring a disciplined approach to both our grant making and grant operating programs. We believe that by sustaining our programs well, we will be able to contribute solutions to social problems over the long term.

To enable the foundation to continuously perform this role, we've put in place various good governance guidelines that our people and partners must comply with.

In 2015, we further improved in managing our resources through the following:

- For grant operating, the Foundation spent 66% (P54M) of the total project costs in community electrification projects, our core program.
- For grant making, it increased donations by 131% from P123M in 2014 to P285M due to a grant restricted for the various sports programs of our partner foundation, MVP Sports Foundation.
- It increased employee giving from P2M in 2014 to P3.3M in 2015 attributed to two fundraising initiatives: the Back-to-School campaign and the "One Child, One Lamp" program
- Managed its general and administrative expenses at 1% of both the total donations received and total expenses incurred. This is below the 30% and 20% caps set by the Philippine Council for NGO Certification (PCNC) and the Department of Social Welfare and Development (DSWD), respectively.

Our Board of Trustees (BOT) approves program and operational budgets every year. The approved programs are funded primarily through a grant from Meralco. Donations and contributions may either be in cash or in kind. All donations and contributions received by the Foundation may be spent in any of its social development program pillars unless restricted by the donors for use in specific projects.

For proper cash management, funds that are not earmarked for project and general administrative purposes are invested in time deposits with a term of 30 to 90 days.

2015 Organizational Highlights

Recognized as a National Social Welfare and Development Agency (SWDA) of DSWD.

Improved project-staff ratio from 9:1 in 2014 to 10:1 in 2015

Worked closely with Meralco frontliners in implementing the various CSR programs.

Migrated to the SAP accounting system in compliance with the recommendation of the Philippine Council for NGO Certification (PCNC) for more efficient and accurate accounting and project tracking.

Improved resource mobilization skills resulting in an increase in external donations.

Increased the participation of frontliners in the business in the implementation of CSR programs in their respective business areas (e.g. BCs include RAISE as one of their key result areas)

Board of Trustees

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Chairman, Meralco

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2 > OSCAR S. REYES
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Executive Director, Caritas Manila

Independent Trustee
9 > DR. EMERLINDA R. ROMAN
Member of the Board,
International Rice Research Institute

1 >

2 >

3 >

4>

5>

6>

7>

8>

9>

One Meralco Foundation Team

1 > JEFFREY O. TARAYAO
President

2 > ATTY. MARIA ZARAH R. VILLANUEVA-CASTRO
Corporate Secretary

3 > ANNA MARIE C. LERMA
Treasurer

4 > MICHAEL J. DEL ROSARIO
Program Manager, Household Electrification

5 > RAINIER R. MANGUIAT
Program Manager, School Electrification

6 > EDDIELYN J. ADDUN
Program Manager, Energy Education

7 > GRACE G. NOCHE
Program Manager, Grassroots Partnerships

8 > NEIL CELESTE T. RARA
Program Manager, Social Marketing and Communications

9 > MARY ANN E. ORBETA
Finance Manager

10 > RHEA F. ILIGAN
Administrative Officer

11 > RONALD B. APOLONIO
Project Assistant

12 > RAYMOND A. BUENAVENTURA
Administrative Assistant

…and to the countryside.

An advocate of inclusive growth, the Foundation extends the scope of its social development programs to benefit communities outside of Meralco's area of operations -- even to the farthest, hardest-to-reach villages.

We spread the light at home...

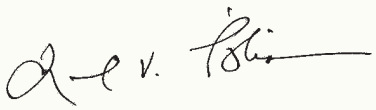
In 2015, One Meralco Foundation's household electrification program brought electricity to the homes of 5,993 low income families within the Meralco franchise area by helping them meet the initial requirements for electrification.

Statement of Management's Responsibility for Financial Statements

The management of One Meralco Foundation, Inc. (the "Foundation") is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Trustees reviews and approves the financial statements and submits the same to the members.

R.G. Manabat & Co., the independent auditors appointed by the members, has audited the financial statements as at and for the years ended December 31, 2015 and 2014 of One Meralco Foundation, Inc. in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.



MANUEL V. PANGILINAN
Chairman of the Board

JEFFREY O. TARAYAO
President

ANNA MARIE C. LERMA
Treasurer

Signed this March 18, 2016.

Report of Independent Auditors

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The KPMG Center, 9/F
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Branches: Subic · Cebu · Bacolod · Iloilo

The Board of Trustees
One Meralco Foundation, Inc.
Lopez Building, Meralco Center
Ortigas Avenue, Pasig City

Report on the Financial Statements

We have audited the accompanying financial statements of One Meralco Foundation, Inc., which comprise the statements of assets, liabilities and fund balances as at December 31, 2015 and 2014, and the statements of revenues and expenses, statements of changes in fund balances and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report of Independent Auditors

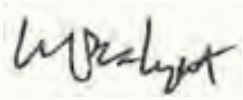
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of One Meralco Foundation, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.



ENRICO E. BALUYUT
Partner
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Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-26-2014
Issued September 26, 2014; valid until September 25, 2017
PTR No. 5320739MD
Issued January 4, 2016 at Makati City

April 15, 2016
Makati City, Metro Manila

ONE MERALCO FOUNDATION, INC.
(Formerly Meralco Millennium Foundation, Inc.)
(A Non-stock, Non-profit Organization)

Statements of Assets, Liabilities and Fund Balances

		December 31	
	Note	**2015**	2014
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 5*	**P206,524,758**	P193,059,385
Advances to program officers	*6*	**349,071**	546,586
Other current assets	*4, 7*	**7,812,163**	635,209
Total Current Assets		**214,685,992**	194,241,180
Noncurrent Assets			
Held-to-maturity investments	*4, 8, 15*	**11,000,000**	11,000,000
Property and equipment - net	*9*	**1,451,355**	2,115,450
Total Noncurrent Assets		**12,451,355**	13,115,450
		P227,137,347	P207,356,630
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	*4, 10*	**P11,450,698**	P7,864,100
Fund Balances	*14*	**215,686,649**	199,492,530
		P227,137,347	P207,356,630

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(Formerly Meralco Millennium Foundation, Inc.)
(A Non-stock, Non-profit Organization)

Statements of Revenues and Expenses

		Years Ended December 31	
	Note	**2015**	2014
REVENUES			
Donations and contributions	*11, 15*	**P383,438,164**	P219,460,925
Interest income	*5, 8*	**2,428,047**	1,825,313
Unrealized foreign exchange gain		**97,608**	95,173
Other income		**69,968**	39,505
		386,033,787	221,420,916
EXPENSES			
Program costs	*12*	**367,602,261**	190,011,671
General and administrative expenses	*13*	**2,237,407**	1,681,464
		369,839,668	191,693,135
EXCESS OF REVENUES OVER EXPENSES		**P16,194,119**	P29,727,781

See Notes to the Financial Statements.

Statements of Changes in Fund Balances

		Years Ended December 31			
	Note	**Restricted Fund**	**General Fund**	**Corpus Fund**	**Total**
Balance at January 1, 2014		P10,645,276	P30,390,873	P128,728,600	P169,764,749
Excess (deficiency) of revenues over expenses		(4,192,974)	33,920,755	-	29,727,781
Balance at December 31, 2014		6,452,302	64,311,628	128,728,600	199,492,530
Excess of revenues over expenses		237,035	15,957,084	-	16,194,119
Balance at December 31, 2015	*14*	**P6,689,337**	**P80,268,712**	**P128,728,600**	**P215,686,649**

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(Formerly Meralco Millennium Foundation, Inc.)
(A Non-stock, Non-profit Organization)

Statements of Cash Flows

		Years Ended December 31	
	Note	**2015**	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses		**P16,194,119**	P29,727,781
Adjustments for:			
Depreciation	*9, 12*	**664,095**	669,509
Interest income	*5, 8*	**(2,428,047)**	(1,825,313)
Unrealized foreign exchange gain		**(97,608)**	(95,173)
Excess of revenues over expenses before changes in working fund		**14,332,559**	28,476,804
Changes in operating assets and liabilities			
Decrease (increase) in:			
Advances to program officers		**197,515**	158,163
Other current assets		**(7,210,212)**	(350,987)
Increase (decrease) in accounts payable and accrued expenses		**3,586,598**	(12,451,843)
Net cash generated from operations		**10,906,460**	15,832,137
Interest received	*5, 7, 8*	**2,461,305**	1,779,516
Net cash provided by operating activities		**13,367,765**	17,611,653
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement on a held-to-maturity investment	*8*	**-**	(5,000,000)
Additions to property and equipment	*9*	**-**	(176,060)
Net cash used in investing activities		**-**	(5,176,060)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**97,608**	95,173
NET INCREASE IN CASH AND CASH EQUIVALENTS		**13,465,373**	12,530,766
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*5*	**193,059,385**	180,528,619
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5*	**P206,524,758**	P193,059,385

See Notes to the Financial Statements.

Notes to the Financial Statements

1. Corporate Information

One Meralco Foundation, Inc. (the "Foundation") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 2002 as a non-stock, non-profit organization. It is the corporate social responsibility (CSR) arm of Manila Electric Company (Meralco). The thrusts of the Foundation are: (i) community electrification; (ii) energy education; (iii) grassroots partnerships; (iv) youth and sports advocacy; (v) emergency preparedness and disaster response.

On March 6, 2012, the Philippine Council for Non-Government Organization (NGO) Certification approved the renewal of the Foundation's application as a registered donee institution. This certification is valid for five (5) years up to March 5, 2017, unless revoked earlier, or withdrawn.

As a non-stock, non-profit organization, the Foundation is exempt from payment of income tax on income received by it pursuant to Section 30(G) of the Tax Code of 1997.

The Foundation was recognized by the Department of Social Welfare and Development (DSWD) for its efforts to contribute to the upliftment of the poor, vulnerable and disadvantaged sectors of society. As such, the Foundation is included in the Registry of Social Welfare and Development Agencies of the DSWD from October 20, 2011 to October 19, 2014. On April 18, 2015, the Foundation renewed its certification effective April 28, 2015 to April 27, 2018.

The registered office address of the Foundation is Lopez Building, Meralco Center, Ortigas Avenue, Pasig City.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

The financial statements of the Foundation were approved and authorized for issuance by its Board of Trustees (BOT) on March 18, 2016.

Basis of Measurement
The financial statements of the Foundation have been prepared using the historical cost basis of accounting.

Functional and Presentation Currency
The financial statements are presented in Philippine peso, which is the Foundation's functional currency. All financial information presented in Philippine peso has been rounded-off to the nearest peso, except when otherwise indicated.

Use of Judgments and Estimates
The preparation of the Foundation's financial statements in conformity with PFRS for SMEs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in preparing the financial statements are based on management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in a period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Judgments

In the process of applying the Foundation's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the financial statements.

Determining Functional Currency

The Foundation considers factors, including but not limited to, the currency in which revenues and expenses from the operating activities are usually made. Based on the economic substance of the underlying circumstances relevant to the Foundation, the functional currency has been determined to be the Philippine peso.

Classification of Held-to-Maturity (HTM) Investments

The Foundation follows the guidance in PAS 39, *Financial Instruments: Recognition and Measurement,* on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making such judgment, the Foundation evaluates its intention and ability to hold such investment to maturity. If the Foundation fails to keep these investments to maturity other than for the specific circumstances, for example, selling more than an insignificant amount close to maturity, the entire portfolio shall be reclassified as available-for-sale (AFS) financial asset and would therefore be measured at fair value and not at amortized cost.

As at December 31, 2015 and 2014, the Foundation classified its investments amounting to P11,000,000, as HTM investments.

Estimates

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

Estimating Impairment Loss on HTM Investments

The Foundation assesses at each reporting date whether there is any objective evidence that the HTM investments are impaired as a result of one or more loss events that has an impact on the estimated future cash flows of the investments. Determining the future cash flows requires the Company to make estimates and assumptions that can materially affect the financial statements. As at December 31, 2015 and 2014, the Foundation's HTM investments amounted to P11,000,000 (see Note 8). No impairment loss was recognized on the Foundation's HTM investments for the years ended December 31, 2015 and 2014.

Estimating Useful Lives of Property and Equipment

The Foundation estimates the useful lives of property and equipment based on the period over which the property and equipment are expected to be available for use. The estimated useful lives (EUL) of the property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the EUL of the property and equipment would increase the recorded expenses and decrease the balance of noncurrent assets.

The carrying amount of property and equipment amounted to P1,451,355 and P2,115,450 as at December 31, 2015 and 2014, respectively (see Note 9).

Estimating Impairment Losses on Property and Equipment

The Foundation assesses at each reporting date whether there is an indication that an item of property and equipment may be impaired. The Foundation assesses the carrying amount of property and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, and require the Foundation to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Foundation to conclude that property and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the Foundation's financial position and financial performance.

As at December 31, 2015 and 2014, the Foundation assessed that there were no impairment indicators, which may suggest that the carrying amounts of property and equipment may not be recoverable.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

Amendments to the PFRS for SMEs
On August 12, 2015, the Financial Reporting Standards Council (FRSC) has adopted the 2015 Amendments to the IFRS for SMEs as 2015 Amendments to the PFRS for SMEs, which will become mandatory for annual periods on or after January 1, 2017. Earlier application is permitted.

Addition of an option to use the revaluation model for property, plant and equipment in Section 17, *Property, Plant and Equipment* is the significant amendment to the PFRS for SMEs which is applicable to the Foundation.

Other amendments pertain to undue cost or effort exemptions, recognition and measurement requirements, and presentation and disclosure requirements.

These amendments have no significant impact on the Foundation's financial statements.

Financial Instruments
The Foundation adopted the recognition and measurement provisions of PAS 39, *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12 of the PFRS for SMEs to account for all its financial instruments.

Date of Recognition. The Foundation recognizes a financial asset or a financial liability in the statements of assets, liabilities and fund balances when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using trade date accounting.

Initial and Subsequent Recognition of Financial Instruments. Financial instruments are recognized initially at the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

Subsequent to initial recognition, the Foundation classifies its financial instruments in the following categories: financial assets and liabilities at FVPL, HTM investments, AFS financial assets, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2015 and 2014, the Foundation has no financial assets and liabilities at FVPL and AFS financial assets.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables are recognized in the "Interest income" account in the statements of revenues and expenses on an accrual basis.

The Foundation's cash and cash equivalents and interest receivable are included in this category.

Cash includes cash on hand and in banks, which are stated at face value. Cash equivalents are short-term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Foundation's management has the positive intention and ability to hold to maturity. Where the Foundation sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statements of revenues and expenses when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Foundation's investments in fixed rate bonds as at December 31, 2015 and 2014 are included under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as "at FVPL". After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction cost that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Foundation's accounts payable and accrued expenses.

Impairment of Financial Assets

The Foundation assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For assets carried at amortized cost such as loans and receivables and HTM investments, the Foundation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Foundation includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions, indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is immaterial. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in statements of revenues and expenses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in statements of revenue and expenses, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Instruments

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation's continuing involvement in the asset. 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 Foundation could be required to repay.

Financial Liability. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the carrying amount of the original liability and the recognition of a new liability at fair value, and any resulting difference in the respective carrying amounts is recognized in the statements of revenues and expenses.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of assets, liabilities and fund balances if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the statements of assets, liabilities and fund balances.

Advances to Program Officers

Advances to program officers are carried at cost and subsequently recognized as an expense when project costs are incurred.

Project Supplies and Materials

Project supplies and materials under "Other current assets" account are initially recognized at the cost incurred by the donor. Project supplies and materials are recognized as expense when utilized in projects and programs.

Prepaid Insurance

Prepaid insurance under "Other current assets" account are carried at cost and are subsequently amortized over the terms of the contract to which the payment applies.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. When assets are sold or retired, their costs and accumulated depreciation and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statements of revenues and expenses.

The useful life of each of the property and equipment is estimated based on the period over which the asset is expected to be available for use.

Depreciation is computed on a straight-line method over the EUL of the assets as follows:

	Number of Years
Transportation equipment	5
Computer and office equipment	3 - 5
Emergency equipment	5

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, if there is an indication of significant change since the last reporting date.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of revenues and expenses in the year the item is derecognized.

Impairment of Non-financial Assets

The Foundation assesses as at reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Foundation makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. A cash-generating unit is the smallest identifiable asset group that generates cash flows and largely independent from other assets of the Foundation. Where the carrying amount of an asset exceeds it recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the statements of revenues and expenses in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of revenues and expenses unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Foundation and the amount of the revenue can be measured reliably. The Foundation measures revenue at the fair value of the consideration received.

Donations and Contributions and Fund Raising Activities

Donations and contributions are recognized upon receipt, except for those received in relation to the Foundation's fund raising activities, which are recognized upon the occurrence of the event and the right to receive the asset is established.

Donations and contributions received can either be cash or in kind. Donations and contributions received in kind are valued at either the fair value of asset received or at the acquisition cost of the donee, whichever is available. Fair value is usually determined based on the current market price of the donations received in kind. All donations and contributions received are considered as available for general use unless otherwise restricted by donors for use in specific projects.

Interest Income
Interest income is recognized as it accrues, using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument. Interest income is recognized net of applicable taxes.

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in the fund balance. Program costs and general and administrative expenses are recognized in the statements of revenues and expenses upon utilization of the service or when incurred.

Program Costs
Program costs refer to the donations to charitable institutions and costs incurred in the projects carried out by the Foundation and are generally recognized when the services are rendered or the expenses are incurred.

General and Administrative Expenses
General and administrative expenses represent costs incurred related to the direction and general administration of day-to-day operations of the Foundation and are generally recognized when the services are rendered or the expenses are incurred.

Provisions and Contingencies
A provision is recognized if, as a result of a past event, the Foundation has a present legal or constructive obligation that can be estimated reliably, and it is probable that a transfer of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Foundation does not recognize a provision for future operating losses.

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

Events After the Reporting Date
Post-year-end events up to the date of approval of the financial statements by the BOT that provide additional information about the Foundation's financial position at reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Categories of Financial Assets and Financial Liabilities

	Note	**2015**	2014
Financial Assets			
Financial assets that are debt instruments measured at amortized cost	*5, 7, 8*	**P217,629,173**	P204,197,058
		P217,629,173	P204,197,058
Financial Liabilities			
Financial liabilities measured at amortized cost	*10*	**P11,252,235**	P7,282,010
		P11,252,235	P7,282,010

The Foundation's non-derivative financial assets consist of cash and cash equivalents, accrued interest receivable under "Other current assets" account and HTM investments. Non-derivative financial liabilities include accounts payable and accrued expenses, excluding withholding taxes payable.

5. Cash and Cash Equivalents

This account consists of the following:

	2015	2014
Petty cash fund	**P30,000**	P4,000
Cash in banks	**54,826,782**	33,512,704
Short-term investments	**151,667,976**	159,542,681
	P206,524,758	P193,059,385

Cash in banks pertains to deposits held at call with banks, which earns interest at the respective bank deposit rates. Short-term investments are made for varying maturity periods of up to three (3) months, depending on the immediate cash requirements of the Foundation, and earn interest ranging from 1.25% to 1.50% in 2015 and 0.88% to 1.25% in 2014.

Total interest income earned on cash and cash equivalents amounted to P2,044,902 in 2015 and P1,503,008 in 2014.

The Foundation's cash and cash equivalents include cash donations which are restricted for projects as specified by the donor. Total donor-restricted funds included in cash and cash equivalents amounted to P8,478,845 and P8,807,990 as at December 31, 2015 and 2014, respectively.

Corpus fund as at December 31, 2015 and 2014 consists of the following:

Cash in banks	**P2,290,857**
Short-term investments	**126,437,743**
	P128,728,600

6. Advances to Program Officers

These advances relate to the following projects:

	2015	2014
Community Electrification Program	**P229,503**	P77,500
Makabayan Volunteerism Program	**61,447**	56,880
Energy Education	**26,600**	26,600
Youth and Sports Advocacy Projects	**16,000**	119,500
Grassroots Partnership	**1,193**	89,350
Emergency Preparedness and Disaster Response	**-**	21,068
Sponsorships and Special Projects	**14,328**	155,688
	P349,071	P546,586

Advances are provided to program officers to settle project costs incurred during implementation (see Note 12). Such advances are liquidated within 60 days after the project is completed. The Foundation's uncompleted projects as at December 31, 2015 and 2014 are expected to be completed within the subsequent fiscal year.

7. Other Current Assets

	2015	2014
Project supplies and materials	**P7,636,358**	P379,524
Accrued interest receivable	**104,415**	137,673
Prepaid insurance	**48,877**	61,126
Others	**22,513**	56,886
	P7,812,163	P635,209

Project supplies and materials consists of, among others, books and footballs from various donors to be used in the Foundation's projects and programs.

Accrued interest receivable represents interest earned from HTM investments but not yet been credited to the Foundation's bank account.

8. HTM Investments

This account consists of the following in 2015 and 2014:

	Note	Amounts
Investments in bonds issued by:		
Meralco	*15*	**P6,000,000**
Manila North Tollways Corporation (MNTC)		**5,000,000**
		P11,000,000

Investments in bonds in Meralco and MNTC represent peso denominated 7-year fixed rate notes maturing on December 12, 2020 and March 31, 2021, respectively. Interest income earned amounted to P383,145 in 2015 and P332,305 in 2014.

9. Property and Equipment

The movements for each class of property and equipment are as follows:

	Transportation Equipment	Computer and Office Equipment	Emergency Equipment	Total
Gross Carrying Amount				
As at January 1, 2014	P2,218,000	P248,782	P1,347,385	P3,814,167
Acquisitions	-	176,060	-	176,060
As at December 31, 2014	2,218,000	424,842	1,347,385	3,990,227
Acquisitions	-	-	-	-
As at December 31, 2015	**2,218,000**	**424,842**	**1,347,385**	**3,990,227**
Accumulated Depreciation				
As at January 1, 2014	833,833	137,655	233,780	1,205,268
Depreciation for the year	302,000	98,032	269,477	669,509
As at December 31, 2014	1,135,833	235,687	503,257	1,874,777
Depreciation for the year	302,000	87,649	274,446	664,095
As at December 31, 2015	**1,437,833**	**323,336**	**777,703**	**2,538,872**
Carrying amount as at December 31, 2014	P1,082,167	P189,155	P844,128	P2,115,450
Carrying amount as at December 31, 2015	**P780,167**	**P101,506**	**P569,682**	**P1,451,355**

Depreciation expense is included under program costs (see Note 12).

10. Accounts Payable and Accrued Expenses

	Note	2015	2014
Accounts payable		**P11,195,286**	P6,788,931
Withholding taxes payable		**198,463**	582,090
Accrued expenses		**56,949**	160,636
Due to Meralco	*15*	**-**	332,443
		P11,450,698	P7,864,100

Accounts payable include unpaid liabilities to various suppliers which are noninterest-bearing and are payable within 15 to 60 days from the invoice date.

The amount due to Meralco in 2014 represents rentals of Meralco's theater and transportation costs incurred by the Foundation.

11. Revenues

Donations and contributions received either in cash or in kind are considered available for general use unless otherwise restricted by the donor to be used for specific projects. Restricted and unrestricted donations and contributions received are as follows:

	Note	2015	2014
Restricted			
Youth and Sports Advocacy Projects		**P265,014,256**	P110,886,695
Educational Development		**6,411,913**	-
Grassroot Partnership		**1,299,651**	1,000,000
School Electrification Program		**887,514**	
Emergency Preparedness and Disaster Response		**-**	14,121,872
Sponsorship and Others		**3,991,901**	-
		277,605,235	126,008,567
Unrestricted		**105,832,929**	93,452,358
	15	**P383,438,164**	P219,460,925

12. Program Costs

Program costs consist of:

	Note	2015	2014
Donations and charitable contributions		**P284,820,293**	P123,438,778
Project costs		**78,721,918**	61,702,350
Events and marketing expenses		**1,534,261**	2,525,631
Salaries, wages and employee benefits		**938,721**	834,221
Depreciation	*9*	**664,095**	669,509
Office meetings and supplies		**439,950**	216,481
Transportation and travel		**213,070**	399,367
Entertainment and representation		**194,489**	72,552
Insurance		**52,112**	24,932
Communications		**23,352**	32,936
Professional fees		**-**	94,914
		P367,602,261	P190,011,671

Donations and charitable contributions were made by the Foundation to various charitable institutions under the following programs:

	2015	2014
Youth and Sports Advocacy	**P264,062,219**	P108,832,000
Grassroots Partnership	**8,047,000**	2,047,900
Emergency Preparedness and Disaster Response	**-**	2,402,066
Makabayan Volunteerism Program	**-**	250,000
Energy Education Program	**-**	137,106
Sponsorships and Special Projects	**12,711,074**	9,769,706
	P284,820,293	P123,438,778

Project costs comprise direct expenses related to the following programs:

	2015	2014
Community Electrification	**P54,379,139**	P24,448,620
Youth and Sports Advocacy	**6,861,477**	4,979,934
Energy Education Program	**5,351,164**	2,483,664
Grassroots Partnership	**3,183,864**	3,641,887
Emergency Preparedness and Disaster Response	**2,874,343**	24,505,939
Makabayan Volunteerism Program	**412,045**	891,958
Sponsorships and Special Projects	**5,659,886**	750,348
	P78,721,918	P61,702,350

The following are the programs undertaken by the Foundation:

Community Electrification
The program develops feasible electrification alternatives through workable socialized schemes for various types of community beneficiaries in partnership with Local Government Units (LGUs), NGOs, and other community institutions.

Youth and Sports Advocacy
The program promotes the development of sports among youth in various communities not only to enhance their fitness, well-being and health, but also to develop leadership, character and discipline that will ultimately make them productive citizens of the country.

Energy Education Program
The program aims to build an energy awareness society by providing learning and teaching materials on energy to students and teachers.

Grassroots Partnerships
The program promotes responsible stewardship among residents that spurs growth and development in communities.

Emergency Preparedness and Disaster Response
The program provides support and assistance by lending the Foundation's experience and resources in emergency and disaster preparedness to other utility companies and communities to further improve response to major emergency situations, natural calamities and disasters.

Makabayan Volunteerism Program
The program provides opportunities for employees of Meralco and its subsidiaries and affiliates to do their share in nation-building by volunteering in the community. Through a structured volunteer program, volunteers now have unlimited options and opportunities where they can participate and share their time, talent and contribute to uplifting the lives of communities located in their work areas.

Sponsorships and Special Projects
This consists of Meralco's "Maliwanag Ang Pasko" event, Aksyon Semana Santa, National Teachers Month Celebration and participation in various corporate social responsibility and public communication events.

13. General and Administrative Expenses

The details of general and administrative expenses incurred in 2015 and 2014 are as follows:

	2015	2014
Salaries, wages and employee benefits	**P1,050,744**	P866,685
Dues and fees	**332,722**	148,884
Professional fees	**318,200**	360,812
Entertainment and representation	**278,379**	38,654
Office meetings, communications and supplies	**85,024**	123,656
Transportation and travel	**58,477**	46,718
Repairs and maintenance	**41,005**	37,868
Seminars and trainings	**23,654**	500
Taxes, permits and licenses	**15,673**	8,512
Bank charges	**4,688**	4,257
Others	**28,841**	44,918
	P2,237,407	P1,681,464

14. Fund Balances

Restricted Fund
Restricted Fund represents the accumulated excess of revenues over expenses pertaining to donations and contributions received for specific projects, net of related expenses.

General Fund
General Fund represents the accumulated excess of revenues over expenses pertaining to donations and contributions received for general use, net of related expenses.

Corpus Fund
Corpus Fund was set aside from the General Fund to serve as seed money to ensure the sustainability of the Foundation.

The BOT approved the creation of a Corpus Fund. The principal amount shall remain intact until such time that the BOT deems it necessary to use said fund. The interest earned from the placement of the funds may be used for the projects of the Foundation and for any operational expenses.

15. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes relationship that exists between and/or among entities, which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel or trustees.

Significant transactions and outstanding balance of the Foundation with Meralco as at December 31, 2015 and 2014 are as follows:

				Outstanding Balance		
Transaction	**Year**	***Note***	**Amount of Transaction**	**Due from Meralco**	**Due to Meralco**	**Terms / Conditions**
Donations and contributions	**2015**	*11*	**P309,794,640**	**P -**	**P -**	
	2014		191,312,809	-	-	
Investment in fixed rate bond	**2015**	*8*	-	**6,000,000**	**-**	Due on a fixed date; interest-bearing
	2014		-	6,000,000	-	
Reimbursement of expenses	**2015**	*10*	**-**	**-**	**-**	Payable on demand; non-interest-bearing
	2014		221,247	-	19,241	
Theater rentals	**2015**	*10*	**200,766**	-	**-**	Payable on demand; non-interest-bearing
	2014		512,622	-	313,202	
TOTAL	**2015**			**P6,000,000**	P -	
TOTAL	2014			P6,000,000	P332,443	

The Foundation's program officers are employees of Meralco who volunteered and provided their services without compensation.

16. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS for SMEs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year based on Revenue Regulations No. 15-2010. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS for SMEs. The following are the tax information / disclosures required for the taxable year ended December 31, 2015:

A. Withholding Taxes

Withholding tax - expanded	**P1,119,209**
Tax on compensation and benefits	**194,707**
	P1,313,916

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes, permits and licenses" account under General and Administrative Expenses	
Local	
Business permits	**P14,663**
Community tax certificate	**510**
National	
BIR annual registration fee	**500**
	P15,673

Information on the amount of output value added tax, custom duties and tariff fees paid or accrued and the amount of excise taxes is not applicable since there are no transactions that the Foundation entered into that resulted in the payment or accrual of such taxes.

As at December 31, 2015, the Foundation has no pending tax cases nor tax assessment notice from the BIR.

2015 Donors and Partners

MANILA ELECTRIC COMPANY
Meralco Officers And Employees
Meralco's Various Departments
Meralco's Employee Organizations
- Meralco Employees Fund Charity, Inc. (MEFCI)
- Meralco Pastoral Council
- Meralco Sports and Youth Advocacy (MSYA)

MERALCO SUBSIDIARIES AND AFFILIATES
- Meralco Energy, Inc.
- Meralco Power Generation Corporation
- Meralco Industrial Engineering Services Corporation (MIESCOR)
- Millenium Energy, Inc.
- MRAIL, Inc.
- Radius Telecoms, Inc.
- Republic Surety & Insurance Company

PARTNER DONORS
- 11FTC Enterprises, Inc.
- A.C. Quick Electrical Services
- Active Realty & Development, Inc.
- AGC Flat Glass Philippines, Inc.
- Asian Hospital, Inc.
- AV Lich Graphics & Prints, Inc.
- Cavitex Infrastructure Corporation
- Central Luzon Doctor's Hospital
- Cityland Development Corporation
- Cofta Mouldings Corporation
- Colinas Verdes Hospital Managers Corporation
- Davao Doctor's Hospital
- Davies Paints Philippines, Inc.
- Delos Santos Medical Center
- Dina & Kristine Fashion Creation
- DMCI Homes Corporation
- Eagle Cement Corporation
- Eurotiles Industrial Corporation
- Greenhouse, Inc.
- Grolier International, Inc.
- James Hardie Philippines, Inc.
- Makati Medical Center
- Manila North Tollways Corporation
- Maybank Atr Kim Eng Securities, Inc.
- Maynilad Water Services, Inc.
- Megaclinic, Inc.
- Metro Pacific Investment Corporation
- Metro Pacific Tollways Corporation
- Moldex Products, Inc.
- MVP Sports Foundation, Inc.
- Netlogic Solutions Asia, Inc.
- One World Play Project (a B Corporation)
- Our Lady of Guadalupe Neighborhood Association, Inc.
- Our Lady of Lourdes Hospital
- Philex Mining Corporation
- Philippine Vending Corporation
- Powerhouse Contracting Business
- Riverside Medical Center, Inc.
- Rohm Electronics Philippines, Inc.
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- Goblet Catering Services
- Kusina Ni Kambal Catering Services
- Queen J Catering & Food Services
- Yayang's Canteen & Catering Services

And all the generous individuals and anonymous donors who have helped the Foundation, in one way or another, in spreading the light of hope wherever it is most needed.

About this Report

This report presents the 2015 accomplishments of One Meralco Foundation for its advocacy pillars namely Household Electrification, School Electrification, Energy Education, Youth Development, Emergency Preparedness and Disaster Response, Grassroots Partnerships and Employee Volunteerism.

To protect our integrity as a social development institution, we exercised utmost transparency in preparing this report, making sure that our benefactors and beneficiaries are provided a clear and factual information about our accomplishments and financial performance in accordance with generally accepted accounting principles.

About the Cover

Children reach for their dreams, something they had never thought possible before, aspirations triggered by a new hope that One Meralco has audaciously challenged them to receive. Education, health care, nutrition, shelter, and most importantly, Light, to drive away the darkness of their poverty, of their lack, and to bring to their attention that life is all about possibilities, of great opportunities, of wonderful blessings.

CREDITS
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One Meralco Foundation is the social development arm of Meralco. It is a donee institution accredited by the Philippine Council of NGO Certification (PCNC), a registered social welfare and development agency under the Department of Social Welfare and Development (DSWD), and a member of the Philippine Business for Social Progress, Philippine Business for the Environment and the League of Corporate Foundations.

For more information on One Meralco Foundation's programs and activities, visit www.onemeralcofoundation.org.

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