

COVER SHEET

P W - 1 0 2

M A N I L A E L E C T R I C C O M P A N Y

Company's Full Name

L O P E Z B U I L D I N G , O R T I G A S

A V E N U E , P A S I G C I T Y

(Business Address: No. Street City/ Town / Province)

Atty. William S. Pamintuan

Contact Person

632 8014

Company Tel. No.

SEC FORM

LAST TUESDAY OF
MAY IN EACH YEAR

1 2

Month

3 1

Day

Fiscal Year

17 - A

FORM TYPE

0 5

Month

2 6

Day

N/A

Secondary License Type, If Applicable

Dept. Requiring this Doc.
Number/Section.

N/A

Amended Articles

Total Amount of
Borrowings

46,586 as at
December 31,
2014

Total No. of Stockholders

P30,042
Million

Domestic

N/A

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**



1. For the fiscal year ended **DECEMBER 31, 2014**
2. SEC Identification Number **PW-102** 3. BIR Tax Identification No. **000-101-528-000**
4. Exact name of issuer as specified in its charter **MANILA ELECTRIC COMPANY**
5. **REPUBLIC OF THE PHILIPPINES** 6. (SEC Use Only)
Province, Country or other jurisdiction Industry Classification Code:
of incorporation or organization
7. **LOPEZ BUILDING, ORTIGAS AVENUE, PASIG CITY** **1605**
Address of principal office Postal Code
8. **(+632) 631-5567**
Issuer's telephone number, including area code
9. **NOT APPLICABLE**
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the
RSA

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	1,127,098,705
Debt Securities - bonds	Amount of Debt Outstanding ₱18,500 million

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

Yes [/] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

PHILIPPINE STOCK EXCHANGE

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [/] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [/] No []

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

The aggregate market value of voting stock held by non-affiliates of the registrant as of March 31, 2015:

Shares: 210,863,202

Closing Price: P267.00

Aggregate: P56,300 Million

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

1) Business Development

The name of the issuer is Manila Electric Company, also known as *MERALCO* or “the *Company*”, was duly organized on May 7, 1919 under the laws of the Republic of the Philippines. *MERALCO*, is a private distribution utility or *DU*, which holds a congressional franchise under Republic Act or *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 or *ERC*, granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the end of *MERALCO*'s congressional franchise.

MERALCO has a unit for its participation in retail electricity supply or *RES*. The *MERALCO* local *RES*, *MPower*, is a business unit within *MERALCO*.

Consistent with *MERALCO*'s franchise obligations and applicable laws, subsidiary companies were created to meet the *Company*'s specific needs for support, service, or enhancement that may either add value, savings, or profitability to, or improve the efficiency of, the core business. Separately, these subsidiaries also provide services to non-related entities.

The following are the subsidiaries of *MERALCO*, all of them incorporated in the Philippines except for Lighthouse Overseas Insurance Company, Limited or *LOIL* and MPG Asia Limited. *MERALCO* and its subsidiaries are herein referred to as “*MERALCO Group*”.

Meralco Industrial Engineering Services Corporation or *MIESCOR* is 99%-owned by *MERALCO* with the remaining 1% owned by the *MIESCOR* Provident Fund. It was incorporated on December 5, 1973 and has been a holder of the highest contractor license Category AAA since 1982. *MIESCOR* is engaged in engineering, procurement, construction and maintenance activities related to power generation, transmission and distribution, as well as industrial plants, water resources and telecommunications.

In 2014, *MIESCOR* slowly shifted focus to bigger ventures. Major projects outside of the National Capital Region include substation and transmission projects in Cagayan de Oro and Davao for clients such as Cagayan Electric Power and Light Company, Inc., Aboitiz, and National Grid Corporation of the Philippines. *MIESCOR* also received several Awards of Perfect Safety Record for various projects and an Award of Excellence from the Safety Organization of the Philippines, Inc.

Corporate Information Solutions, Inc. or *CIS* is a wholly-owned subsidiary of *MERALCO*, and was incorporated in 1974 to provide information technology services and integrated business solutions to enterprise clients. In 1997, *CIS* engaged in the business of bills payment collection, which was spun off as *CIS Bayad Center, Inc. or CBCI*, and was incorporated in 2006. Today, *CBCI* offers the largest multi-biller payment collection service in the country, covering more than 3,000 strategically located sites nationwide, with the *Bayad Center* being the foremost brand in bills payment.

CBCI's pioneering payment collection service is the industry's dominant and trusted service provider for top corporations and government institutions. Relaunched as the Bayad Center "1 PaySystem," it accepts payments for 180 industry-leading household brands and government agencies, through its revitalized branded stores and partner chain of outlets.

To complement its bills payment business, *CBCI* formed its subsidiary Customer Frontline Solutions Inc. or *CFS* (formerly Outsourced Telleserve Corp.), in 2008. *CFS* provides outsourced tellering and frontline services initially for *MERALCO* and *CBCI*. Starting 2012, it expanded to serve the MVP Group of Companies. As of end of 2014, its clientele includes Philippine Long Distance Telephone Company, Cardinal Santos Medical Center, Smart Communications, Inc. and Digitel Mobile Phils Inc. (Sun Cellular). Its more than 1,400 frontliners are deployed in over 360 sites nationwide contributing significantly to *CBCI's* growth.

CBCI also offers remittance cash pick-up, electronic cash management services (i.e. vehicle compulsory third party liability insurance processing), prepaid loading, and service applications acceptance. *CBCI* continues to lead the payment collection industry in the country by providing a suite of services to the paying public.

Meralco Energy, Inc. or *MEI*, operating as *MServ*, is a wholly-owned subsidiary of *MERALCO* established in June 2000 to provide the highest quality beyond-the-meter energy services to *MERALCO's* key accounts. *MServ* aims to be the country's premier Energy Services Company or *ESCO* through its two flagship services: Strategic Loadside Outsourcing or *SLO*, and Energy Efficiency or *EE* Solutions.

SLO offers customers the opportunity to outsource their load side electricity requirements. This allows customers to focus on their respective core businesses as their electrical concerns are being handled *MServ*. *MServ's SLO* services offered include 1) design, procurement, and installation of right-sized electrical facilities; 2) managed services; and 3) power quality and power factor services. *MServ* provides service levels such as guaranteed continuous power, 24-hours replacement of critical equipment, and 24/7 technical support.

MServ's EE solutions provide customers with energy-saving alternatives. *MServ* can diagnose a customer's energy usage habits, and recommend different solutions that can help optimize their consumption. These solutions include 1) lighting efficiency services; 2) heating, ventilation, and air conditioning or *HVAC* efficiency services; and 3) e-vehicle service leasing.

MServ has been responsible for the design, installation, operation, and maintenance of electrical facilities of industrial buildings, state-of-the-art data centers, large commercial centers, and even high-profile event arenas, among many others. *MServ* has also been trusted by dozens of companies in different industries, from manufacturing to universities to government agencies, for their emergency electrical concerns. Through their services and expertise, *MServ* aims to provide their customers with the most cost-efficient, effective, and reliable energy solutions.

e-Meralco Ventures, Inc. or *e-MVI* is a wholly-owned subsidiary of *MERALCO* established on June 22, 2000. Its wholly owned subsidiary, Paragon Vertical, Inc. or *Paragon* owns Radius Telecoms, Inc. or *Radius*, which, in turn, holds a congressional telecommunications franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunications services in the Philippines and between the Philippines and other countries and territories.

Radius is the only Philippine carrier that delivers connectivity services on a pure fiber optic infrastructure within the Mega Manila area. With this distinctive value proposition, *Radius* is recognized as a preferred last-mile data transport partner of major telecommunications and information and communication technology or *ICT* companies in the country. It is also known as a premium connectivity provider by leading companies in the banking, business process management, retail and distribution, and manufacturing sectors.

Moreover, as a Metro Ethernet Forum-certified Carrier Ethernet provider, *Radius* can assure clients that its connectivity services meet global standards, thereby staying true to the its commitment of providing world class connectivity solutions.

Meralco Financial Services Corporation or *Finserve* was incorporated on March 19, 2002 as a wholly-owned subsidiary of *MERALCO*. It aims to enhance *MERALCO*'s shareholder value creation and expand customer service through innovative consumer and customer-based products and services that support *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.

Clark Electric Distribution Corporation or *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. It is a private *DU* registered with Clark Development Corporation or *CDC*, formed as a corporate body and a subsidiary of the Bases Conversion and Development Authority or *BCDA* to be the operating and implementing arm of the *BCDA* to manage the Clark Special Economic Zone or *CSEZ* and vested with the specific powers provided for in Sec. 4 of Presidential Decree No. 66 (1972), as amended, including the power to grant a franchise to operate and maintain exclusively within the *CSEZ* electric light, heat or power system, by authority of Executive Order No. 80, Series of 1993. The registered office address of *CEDC* is Bldg. N2830, Bayanihan Street, Clark Freeport Zone, Philippines.

CEDC distributes power within *CSEZ* through its three substations with a total capacity of 131 *MVA*. Its present distribution network consists of 1,425 distribution transformers, 132.30 circuit- km linear length of primary lines and 64.49 circuit-km linear length of secondary lines. Its system loss has continuously improved from 7.01% in 2002 to 4.37% in 2014. *CEDC*'s supply rates are one of the lowest in Luzon.

CEDC is now on its Fourth Regulatory Year or *RY* of the Second Regulatory Period or *RP* of the *ERC*-approved Annual Revenue Requirement or *ARR* under the Performance-Based Regulation or *PBR* for the *RP* October 1, 2011 to September 30, 2015. *CEDC* aspires to be a world-class electric distribution facility and *CSEZ*'s partner towards the nation's progress.

Republic Surety and Insurance Company, Inc. or *RSIC* is a professional non-life insurance company, which *MERALCO* acquired in 2007 as a wholly- owned subsidiary to align with *MERALCO*'s recognition of 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*, its subsidiaries and affiliated companies in terms of synergistic opportunities, but for the insurance industry as a whole, with a commitment to implement risk management methods with emphasis on risk analysis and mitigation, loss control management and general insurance management.

In June 2013, *RSIC* launched its corporate website, www.republic-insurance.ph, to improve communication with its customers and other stakeholders. The corporate website also serves as a medium for the company to comply with the ASEAN Corporate Governance Scorecard requirements of the Insurance Commission. Documents related to *RSIC*'s commitment to the fundamental principles of sound strategic business management can be found on the Corporate Governance page.

RSIC, together with the Society of Risk Management Professionals, co-organized the 3rd Risk Management Summit in the Philippines on October 27, 2014, with the theme, "Achieving Resilience Amidst Evolving and Emerging Risk via Sustained RM Interventions".

In June 2014, *RSIC* ranked first¹ in Corporate Governance in a study conducted by the Institute of Corporate Directors in the Philippines. Also in 2014, *RSIC* got the Bureau of Internal Revenue or *BIR* accreditation for General Insurance Information System or *GENIISYS*. *GENIISYS*, a software solution customized for non-life insurance companies, is designed to support operations and greatly improve workflow efficiency by integrating different functions such as underwriting, accounting, reinsurance and claims.

Lighthouse Overseas Insurance Company, Limited or *LOIL* is a wholly owned subsidiary and captive reinsurer of *MERALCO*. *LOIL* was incorporated in Bermuda on August 24, 2007. It is registered as a Class 1 insurer under The Bermuda Insurance Act 1978 and Related Regulations and received its license to operate in the territory in March 2008 but with effective date of September 27, 2007.

Together with *RSIC*, *LOIL* plays a major role in *MERALCO*'s business risk management and cash flows benefit model. *LOIL* serves as the vehicle to reinsure *MERALCO*'s risk exposures, including windstorm, natural catastrophes and other major perils.

MERALCO PowerGen Corporation or MGen is a wholly owned subsidiary of *MERALCO*. *MGen* aims to develop, build, own and operate a diversified power portfolio. Its mission is to pursue the development and construction of highly cost-competitive and reliable power plants to ensure the provision of adequate, reliable and affordable power to customers in the *MERALCO* franchise area and other areas.

MGen's vision is to be a leading player by 2020 not only in the *MERALCO* franchise area but in the country's power industry as a whole. In October 2013, *MGen* signed a Share Sale and Purchase Agreement SSPA with First Metro Investment Corporation or *FMIC* for the acquisition of a 20% equity interest in Global Business Power Corporation or *GBPC* for ₱7.15 billion.

In May 2014, *MGen* acquired additional 2% equity interest in *GBPC* bringing its equity interest to 22%.

In the latter part of 2013, *MGen* signed a Joint Development Agreement with New Growth B.V., a wholly-owned subsidiary of Electricity Generating Public Company Limited or *EGCO* of Thailand, paving the way for the start of development activities for a 455 MW (net) super critical coal-fired power plant in Mauban, Quezon.

In March 2013, *MGen* acquired an effective 28% equity in PacificLight Power Pte Ltd. or *PacificLight Power*, in Jurong Island, Singapore. The *PacificLight Power* plant's full commercial operation was achieved in February 2014.

MGen is currently developing a 455 MW net capacity of supercritical coal-fired power plant in Mauban, Quezon. On the other hand, land development for its 2 x 300 MW Circulating Fluidized Bed or *CFB*, coal-fired power generation plant in the Subic Freeport Zone under Redondo Peninsula Energy, Inc. or *RP Energy* whose site development is substantially completed.

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

2) Business of Issuer

The principal business of *MERALCO* is the distribution and sale of electric energy through its distribution network facilities in its franchise area. Its market is categorized into four (4) classes. Following are the percentage contribution to sales of each customer segment based on kWh-sales:

	2014	2013	2012
Residential	29.48%	30.03%	29.84%
Commercial	39.29%	39.03%	38.90%
Industrial	30.86%	30.56%	30.86%
Streetlights	0.37%	0.38%	0.40%
TOTAL	100.00%	100.00%	100.00%

MERALCO sources the electricity it distributes from different power suppliers as follows:

	2014	2013	2012
First Gas Power Corporation or <i>FGPC</i> – <i>Sta. Rita Power Plant</i> and <i>FGP Corp.</i> or <i>FGP</i> – <i>San Lorenzo Power Plant</i>	28.47%	28.96%	31.38%
South Premier Power Corporation or <i>SPPC</i> – <i>Ilijan Power Plant</i>	22.19%	20.52%	23.42%
Quezon Power (Phils.) Ltd.	8.88%	7.95%	8.39%
San Miguel Energy Corporation or <i>SMEC</i> – <i>Sual Coal-fired Plant</i>	9.19%	9.23%	4.07%
AES Corporation or Masinloc Power Partners Co., Ltd. or <i>AES - MPPCL</i>	9.19%	8.40%	6.45%
Sem-Calaca Power Corporation or <i>SCPC</i>	8.71%	8.11%	4.51%
Therma Luzon, Inc. or <i>TLI</i> – <i>Pagbilao Coal Plant</i>	7.02%	7.91%	8.38%
Philippine Electricity Market Corporation or <i>PEMC</i> , - Wholesale Electricity Spot Market or <i>WESM</i>	2.81%	6.13%	6.42%
National Power Corporation or <i>NPC</i>	0.00%	0.24%	0.86%
Aboitiz Power Renewables, Inc. or <i>APRI</i> – <i>Makban Geothermal Plant</i>	0.00%	1.04%	5.94%
Others	3.54%	1.51%	0.18%
TOTAL	100.00%	100.00%	100.00%

The franchise area of *MERALCO* over specified areas in Luzon is approximately 9,337 square kilometers, covering 35 cities and 76 municipalities. This includes Metro

Manila, industrial estates, and suburban and urban areas of the adjacent provinces. The franchise of *CEDC* covers 320 square kilometers in *CSEZ*.

Government Approval of Principal Products or Services

On June 9, 2003, then President Gloria Macapagal-Arroyo signed into law Republic Act or *RA* No. 9209, otherwise known as the “An Act Granting the Manila Electric Company A Franchise To Construct, Operate and Maintain A Distribution System for the Conveyance of Electric Power to the End-Users in the Cities/Municipalities of Metro Manila, Bulacan, Cavite and Rizal and Certain Cities/Municipalities/Barangays in Batangas, Laguna, Quezon and Pampanga”, which took effect on June 28, 2003.

MERALCO is involved in the distribution and supply of electricity and is subject to the rate-making regulations and regulatory policies of the *ERC*. *MERALCO*'s billings to customers are itemized or “unbundled” into a number of bill components that reflect the various costs incurred in providing electric service.

The adjustment of 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 in the following bill components: Generation Charge, Transmission Charge, System Loss Charge, Lifeline subsidies, local business taxes such as local franchise or *LFT*; and (ii) the “Rules for the Setting of Distribution Wheeling Rates” or *RDWR*, as modified by *ERC* Resolution No. 20, Series of 2008, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

Costs and Effects of Compliance with Environmental Laws

Compliance with environmental laws is part of *MERALCO*'s good governance, which enhances its relationships with environmental groups. Specific programs such as “Trash to Cash for a Cause”, energy and water conservation, air pollution control, and wastewater management have been implemented by *MERALCO* to ensure compliance with environmental laws and preservation of the natural resources within its franchise area. *MERALCO* has incurred a total amount of ₱250,000 representing renewal and application of permits for new or expansion projects; ₱9.36 million accounted for the maintenance of Sewage Treatment Plants or *STPs* and ₱300,000 for solid waste collection and disposal.

Government Approval and Regulation

MERALCO is subject to regulation by the *ERC* and recognizes the rate-making policies of the *ERC*.

Number of Employees

MERALCO's total regular employees as at December 31, 2014 is 5,766.

Item 2. Properties

MERALCO's assets include utility plant assets, which are part of the regulatory asset base or *RAB*. *RAB* consists of electric capital assets and non-electric capital assets. In addition, *MERALCO* also hold non-*RAB* consisting of assets held for future substation or branch sites or retired office or sector sites, which are recognized as “Investment Properties” in the statements of financial position.

MERALCO's facilities in Pasig City host the networks system, which is the heart of the electric distribution operations, the telecommunications and trunk radio system, logistics process, Customer Retail Services and other support services organizations.

As at December 31, 2014, in addition to the head office, *MERALCO* has 10 networks sector offices, 30 branches and 7 auxiliary offices, 14 extension offices, 1 payment office and 1 customer assistance office. Its network facilities consist of 114 substations (total capacity of 16,381.25 MVA), 853 circuits (total of 17,409.14 circuit-kms.) and 167,381 distribution transformers in service.

Separately, *CEDC's* facilities consist of subtransmission and distribution assets and buildings and improvements located in *CSEZ*. *CEDC's* distribution facilities include three (3) substations with a total capacity of 131 MVA and 1,425 distribution transformers. Its distribution network consists of 132.30 circuit-km linear length of primary lines and 46.49.17 circuit-km of secondary lines.

MGen, through its subsidiaries, *CAPC* and *Atimonan*, own several parcels of land for the development of a peaking plant (in Calamba, Laguna) and a Liquefied Natural Gas or *LNG*, plant (in Atimonan, Quezon), respectively.

Radius, *MERALCO's* telecommunications subsidiary owns 2,000 kilometers of fiber optic cables and telecommunications infrastructure.

For more information on these properties, see *Note 7 – Utility Plant and Others* to the accompanying audited consolidated financial statements in Item 7.

The properties of the *DUs* (*MERALCO* and *CEDC*) are located within the franchise area to efficiently serve the customers. In our opinion, these properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The properties of *MERALCO* and its subsidiaries are free from any mortgage, charge, pledge, lien or encumbrance.

The *MERALCO* Group also has various lease contracts as lessee for periods ranging from one year to 30 years covering certain office spaces, payment offices and substation sites and towers.

Item 3. Legal Proceedings

In accordance with the Securities Regulation Code Implementing Rules and Regulations or *SRC-IRR* the following are the material legal proceedings to which the registrant (also referred to as, *MERALCO*,) or its subsidiary, is a party, or to which any of their property is a subject, including pending claims for damages against the registrant exceeding ten percent (10%) of its current assets:

1. **In the matter of the Joint Application for Approval of the Settlement Agreement between Manila Electric Company or MERALCO and National Power Corporation or NPC, with Prayer for Provisional Authority, NPC and MERALCO, Applicants**

ERC Case No. 2004-109

(Filed by NPC and MERALCO on April 15, 2004)

This is a joint application filed by MERALCO and the National Power Corporation or NPC for the approval of their Settlement Agreement which resolved their dispute concerning their 10 year Contract for Supply of Electricity or CSE.

Under the Settlement Agreement, MERALCO was compensated by NPC for the losses incurred by the former due to NPC's act of serving directly-connected customers in violation of MERALCO's franchise rights, and for transmission line delays affecting MERALCO's Independent Power Producers or IPPs. On the other hand, MERALCO shall pay NPC the net settlement amount of ₱14,320 million, representing NPC's minimum charges corresponding to the fixed costs it incurred for the period 2002-2004. Variable costs, such as fuel and similar operating expenses that were not incurred by NPC, were not included in the minimum charge computation.

The proceedings in this case are currently suspended, upon motion of MERALCO, pursuant to the ERC Order dated September 14, 2009 in order to obtain ruling from a regular court on issues raised by the Office of the Solicitor General or OSG which are outside the jurisdiction of the ERC.

MERALCO v. NPC, Power Sector Assets and Liabilities Management Corporation or PSALM) and the Republic of the Philippines, represented by the Office of the Solicitor General.

S.C.A. Case No. 3392, RTC Pasig City, Branch 71

(Filed on November 23, 2009)

In connection with the Settlement Agreement between MERALCO and NPC, MERALCO filed a petition seeking the declaration by the court that said Settlement Agreement, independent of the pass-through provision which is reserved for approval by the ERC, is valid and binding.

The Regional Trial Court or RTC-Pasig rendered a Decision dated May 29, 2012 declaring the Settlement Agreement, independent of the pass-through provision which is reserved for ERC approval, valid and binding. The OSG filed a Notice of Appeal and, in an Order dated June 28, 2012, the RTC-Pasig forwarded the records to the Court of Appeals or CA for appeal proceedings.

MERALCO v. NPC, Power Sector Assets and Liabilities Management Corporation or PSALM, and the Republic of the Philippines, represented by the Office of the Solicitor General.

CA-GR CV No. 99110, Court of Appeals

Republic of the Philippines v. MERALCO v. NPC, Power Sector Assets and Liabilities Management Corporation (PSALM).

GR No. 212268, Supreme Court

This is an appeal filed by the OSG questioning the RTC-Pasig Decision dated May 29, 2012 which declared the Settlement Agreement valid and binding. In a Notice dated October 16, 2012, the CA required the OSG to file its appeal brief. Acting on a motion for

extension filed by the OSG, the CA, in a Resolution dated December 20, 2012, granted the OSG the maximum extension of ninety (90) days, or until March 20, 2012, within which to file its appeal brief. Both parties have submitted their respective appeal briefs. In a Decision dated April 15, 2014, the CA affirmed the validity of the *RTC-Pasig* Decision.

The OSG then filed a Petition for Review with the Supreme Court or SC to question to CA Decision. *MERALCO* has filed its Comment thereon and is awaiting further action of the SC on the matter.

Republic of the Philippines, represented by the Office of the Solicitor General v. Hon. Franco T. Falcon, in his capacity as the Presiding Judge of Branch 71 Regional Trial Court (RTC), National Capital Judicial Region, Pasig City, Manila Electric Company (*MERALCO*) and National Power Corporation (NPC).
CA-GR SP No. 116863, Court of Appeals

Republic of the Philippines v. Manila Electric Company (*MERALCO*) and National Power Corporation (NPC).
GR No. 201715, Supreme Court

This is a petition for certiorari, prohibition and mandamus with the CA filed by the OSG on November 22, 2010 due to the denial of its motions to dismiss or to stay the proceedings, and for deferral of the pre-trial conference and referral of the case to arbitration in S.C.A. Case No. 3392.

In a Decision dated October 14, 2011, the CA denied the petition holding that the trial court did not err in finding the OSG in default due to its failure to participate in the proceedings. The appellate court ordered trial court to proceed with dispatch in hearing the case *ex-parte*, as against the OSG. The OSG filed a motion for reconsideration which was denied by the CA in a Resolution dated April 25, 2012.

The OSG appealed the CA decision to the SC. *MERALCO* filed its Comment on October 29, 2012. *NPC* likewise filed its Comment to the Petition.

In a Decision dated December 11, 2013, the First Division of the SC denied the Petition for Review on Certiorari by the OSG and affirmed the decision promulgated by the CA on October 14, 2011 in C.A.–G.R. SP No. 116863.

2. In The Matter of the Application for the Approval of the Unbundled Rates Pursuant to the Provision of Republic Act No. 9136, Manila Electric Company, Applicant.
ERC Case No. 2001-900 RC
(Filed on October 30, 2001)

In connection with the decision of the SC in G.R. Nos. 166769 and 166818, where the *ERC* was directed to request the Commission of Audit or COA to undertake a complete audit of the books, records and accounts of *MERALCO*, the COA submitted its Report on the Rate Audit of the Unbundled Charges of *MERALCO* for Calendar Years 2004 to 2007 to the *ERC*.

In an Order dated June 21, 2011, the *ERC*, acting on the COA Audit, resolved to maintain and affirm its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 20, 2003 in the original Unbundling case.

National Association of Electric Consumers for Reforms or *NASECORE* filed its motion for reconsideration of the Order, which was opposed by *MERALCO*. In an Order dated February 4, 2013, the *ERC* denied *NASECORE*'s motion for reconsideration for lack of merit.

**National Association of Electricity Consumers for Reforms, Inc.
(NASECORE) v. Energy Regulatory Commission and Manila
Electric Company**
C.A.-G.R. SP No. 129052
(Petition dated April 2, 2013)

NASECORE filed a Petition for Review before the *CA* questioning the June 21, 2011 and February 4, 2013 Orders of the *ERC*. *MERALCO* has filed its Comment to the Petition and is awaiting further action of the *CA* on this matter.

**3. In the Matter of the Application for Refund of Overcharge (sic)
Distribution Rates in the Residential Rates of P39 Billion in 2004-
2007.**

ERC Case No. 2008-092 CC
(Filed by the Applicant on July 15, 2008)

This application was filed against *MERALCO* by a customer, seeking the refund to residential consumers a total of P39 Billion on the ground that *MERALCO* allegedly overcharged its distribution costs (distribution, metering, supply and systems loss charges) for the period of 2004-2007. *MERALCO* received the Joint Memorandum filed by the *NASECORE*, Federation of Village Association or (FOVA and Federation of Las Pinas Village Association or FOLVA on October 22, 2008. *MERALCO* filed its Memorandum on October 24, 2008. On the other hand, *MERALCO* received the customer's Memorandum on October 28, 2008. On September 14, 2010, the *ERC* issued a Decision dismissing the case. The customer filed a Motion for Reconsideration which is pending resolution by the *ERC*.

**4. In the matter of the Application to Implement MERALCO's PBR
rates for Regulatory Years 2008 and 2009, under the ERC's
Performance Based Regulation.**

ERC Case Nos. 2008-004-RC and 2008-018-RC
(Filed on January 11 and April 1, 2008)

NASECORE, FOVA and FOLVA v. MERALCO.
C.A. GR SP No. 108663, Court of Appeals
(Filed by petitioners on May 28, 2009)

NASECORE, FOVA and FOLVA v. MERALCO.
G.R. No. 191150, Supreme Court
(Filed by petitioners on March 26, 2010)

On January 11 and April 1, 2008, *MERALCO* filed separate applications for the approval of its proposed translation of the Maximum Average Price or MAP for RY 2008 and 2009, respectively, into different rate schedules for *MERALCO*'s various customer segments. In its Decision dated May 29, 2008, the *ERC* approved *MERALCO*'s applications with modification. To avoid price shocks and mitigate the rate impact on end-users, the *ERC* subjected the proposed rate to side constraints and approved a MAP for the RY 2009 of P1.2280 per kWh. The *ERC*'s Decision also directed *MERALCO* to implement its approved distribution, supply and metering charges starting July 1, 2008. On April 23, 2009, the *ERC* released an Order resolving, among other things, to amend its Decision dated May 29, 2008

to reflect the new *MAP* 2009 of ₱1.2227 which reflects a zero corporate income tax component.

On June 2, 2009, *MERALCO* received the Petition filed by *NASECORE*, *FOVA* and *FOLVA* elevating the Decision dated May 29, 2008 and Order dated April 13, 2009 to the *CA*. In a Decision dated January 29, 2010, the *CA* dismissed the Petition and affirmed the decision dated May 29, 2008 and Order dated April 13, 2009 of the *ERC*. However, *NASECORE* and the other consumer groups elevated the case to the *SC*. *MERALCO* filed its comment on the petition and the case is awaiting the decision of the *SC*.

- 5. In the Matter of the Application for Approval of: a) *MAP* for RY 2012; and b) Translation of the *MAP* for RY 2012 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, Manila Electric Company (*MERALCO*), Applicant.**
ERC Case No. 2011-088 RC
(Filed on June 21, 2011)

This is *MERALCO*'s application for the verification of its *MAP* for RY 2012 and its translation into tariffs by customer category. In an Order dated October 3, 2011, the *ERC* provisionally granted *MERALCO*'s proposed *MAP* of ₱1.6012 and rate structure. *MERALCO* started implementing the provisionally approved *MAP* 2012 in the October 2011 billing month. *MERALCO* has completed the presentation of its evidence and the parties have submitted their respective memoranda. On March 20, 2013, *MERALCO* received the customer's *Motion for Reconsideration with Compliant (sic) (on Order docketed 8 March 2012)*. In its Order dated March 26, 2013, the *ERC* denied the motion filed by the customer and held that it will no longer rule on similar motions since the matter has already been adequately addressed. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda. The application is pending final approval by the *ERC*.

- 6. In the Matter of the Application for Approval of: a) *MAP* for RY 2013; and b) Translation of the *MAP* for RY 2013 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, Manila Electric Company (*MERALCO*), Applicant.**
ERC Case No. 2012 - 054 RC
(Filed on March 29, 2012)

This is *MERALCO*'s application for the verification of its *MAP* for RY 2013 and its translation into tariffs by customer category.

On March 29, 2012, *MERALCO* filed an application for the verification of its *MAP* for RY 2013 of ₱1.6333 per kWh and its translation into tariffs by customer category. The public hearings started on May 24, 2012. On June 11, 2012, the *ERC* released an Order provisionally approving a *MAP* for RY 2013 of ₱1.6303 per kWh which was reflected starting with the July 2012 customer bills. Hearings on this case have been completed and *MERALCO* is awaiting the final decision of the *ERC*.

7. In the Matter of the Resolution Issued by the Board of Directors of the Philippine Electricity Market Corporation (PEMC) Directing the Adjustment of Settlement Prices in the Wholesale Electricity Spot Market, PSALM v. PEMC and MERALCO

G.R. No. 190199

Supreme Court

(Petition dated November 25, 2009; Received by the Company on December 4, 2009)

This is a petition filed by *PSALM* with the *SC* appealing the Decision dated August 28, 2009 of the *CA* in C.A. G.R. SP No. 106322, which affirmed the Decision dated January 30, 2008 of the *ERC* in *ERC* Case No. 2006-080RC, setting the Wholesale Electricity Spot Market or *WESM* settlement prices for the third and fourth billing periods at the *ERC*-approved *NPC-TOU* rates. With filing of *MERALCO*'s comment, the petition is now ripe for decision by the High Court.

It may be recalled that in a Decision dated August 14, 2007, the *ERC* confirmed its December 13, 2006 Order and declared as invalid the action of the Philippine Electricity Market or *PEM* Board in adjusting the *WESM* settlement prices for having been carried out beyond the scope of its authority and in violation of the Electric Power Industry Reform Act or *EPIRA* and the *WESM* Rules. The *ERC* further directed the implementation and adjustment of the *WESM* settlement prices for the 3rd and 4th billing periods and allowed *PEMC* to institute adjustments in its billing and settlement process to mitigate the impact of said Decision upon the *WESM* members. *MERALCO*, however, moved for a reconsideration of the Decision due to its impact on customers. It argued that the use of *WESM* settlement prices would result in additional imposition of ₱6.00 per kWh and translate to an increase in the generation charge by about ₱0.90 and ₱2.05 per kWh, for the supply months of September 2006 and October 2006, respectively. On January 30, 2008, the *ERC* rendered its Decision granting *MERALCO*'s motion and set the *WESM* settlement prices for the subject billing periods at the *ERC*-approved *NPC-TOU* rates.

ERC's decision directing the *WESM* settlement price for the 3rd and 4th billing months to be *NPC-TOU* rates prompted *PSALM* to file a Petition with the *CA*, which was denied on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC* where the petition is pending resolution.

8. In Re Petition for Dispute Resolution. Manila Electric Company v. Philippine Electricity Market Corporation, National Transmission Corporation or TransCo, National Power Corporation and Power Sector Assets and Liabilities Management

ERC Case No. 2008-083 MC

(Filed on September 9, 2008)

This is a petition filed by *MERALCO* for dispute resolution against *PEMC*, *TransCo*, *NPC* and *PSALM* as a result of the congestion in the transmission system of *TransCo* arising from the outage of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, followed by the outage of the 500 kV 600 MVA Transformer Bank #2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The petition seeks, among others, to 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 Cost on *MERALCO* by *NPC* for the Transition Supply Contract or *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/collect line rental adjustment to/from *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*. On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to *ERC*'s directive and on July 28, 2011, *MERALCO* filed a counter-proposal which effectively simplified *PEMC*'s proposal.

On November 11, 2011, *MERALCO* filed its Motion to Implement the Decision dated March 10, 2010. 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 the present. On July 4, 2012, *MERALCO* filed its Manifestation with Motion to Admit Attached Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions.

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 ₱73.944 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 or *SGCs* is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC* and *SCPC*, within thirty (30) days from receipt thereof, to recover the line loss collected by them. On 19 April 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 an additional period of fifteen (15) days from its receipt of the *ERC*'s Order resolving its Motion for Clarification within which to file its Petition against the *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions:

1) *SPPC* should be included as one of the *SGCs* 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 and Petition to be filed by *MERALCO* against the *SGCs* 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. ; 3) "*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; 4) Grant the "Motion for Extension" filed by *MERALCO* and directed *MERALCO* to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC*, *SCPC* and *SPPC*, otherwise, it shall be the one liable to refund the subject amount to its customers; and 5) 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 ₱74 million against some of its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their Comment *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On

November 4, 2013, *MERALCO* filed its Reply. *MERALCO* is awaiting the resolution of the *ERC* on its Manifestation and Motion.

PSALM vs. ERC, MERALCO and PEMC
CA GR. SP. No. 132446

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Certiorari with the Court of Appeals (With Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction Applications) to question the March 4, 2013 and July 1, 2013 Orders of the *ERC*. In a Resolution dated December 29, 2013, the *CA* gave *MERALCO* until December 26, 2013, within which to submit its *Comment* on the *Petition for Certiorari* and to show cause why the prayer for the Application for Temporary Restraining Order and/or Preliminary Injunction should not be granted ("Comment and Opposition"). On December 23, 2013, January 5, 2014 and January 15, 2014, *MERALCO* requested for an additional period of ten (10) days each, within which to submit its *Comment and Opposition*.

On February 3, 2014, *MERALCO* filed its Comment to said Petition. On July 24, 2014 and August 20, 2014, *PEMC* and *PSALM* filed their respective memoranda. On December 1, 2014, the *CA* issued its Decision dated December 1, 2014 dismissing the Petition for Certiorari filed by *PSALM*. On January 30, 2015, *PSALM* filed its Motion for Reconsideration of the December 1, 2014 Decision of the *CA*. The *CA* has yet to rule on *PSALM*'s Motion for Reconsideration.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and SCPC
ERC Case No. 2013-077 MC

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *SCPC* in compliance with the March 4, 2013 and July 1, 2013 Orders of the . Said Petition sought the following reliefs: 1) Refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss amount for the period September 2012 to June 25, 2013, from said *SGCs*; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGCs*, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund to the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGCs*' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancelation 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 *SGCs*' Reply to its Comment. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGCs* filed their Sur-Rejoinder dated November 4, 2013. *MERALCO* is awaiting the *ERC*'s resolution of the *SGCs*' Joint Motion to Dismiss.

**9. Bayan Muna Representatives Neri Javier Colmenares and Carlos Isagani v. ERC
NASECORE, et. al. v. MERALCO and ERC**
SC G.R. Nos. 210245 and 210255
Filed: December 19, 2013

On December 19, 2013, several party-list representatives in Congress filed a Petition docketed as G.R. 210245 before the SC questioning the *ERC*'s approval of *MERALCO*'s proposed staggered recovery of the increase in generation charge for the November 2013 supply month, allegedly for lack of due process. The increase in the generation charge was from ₱5.6673 per kWh in the November 2013 billing to ₱9.1070 per kWh for the December 2013 billing which *MERALCO* proposed to recover in 3 tranches. A similar Petition was filed on December 20, 2013 challenging *MERALCO*'s automatic rate adjustments and increases, also allegedly for lack of due process. This Petition was docketed as G.R. 210255. Both Petitions prayed for the issuance of Temporary Restraining Order or *TRO* and Writ of Preliminary Injunction pending resolution of the case.

In December 23, 2013, the SC issued an Order consolidating the two Petitions and granting the application for *TRO* effective immediately and, for a period of sixty (60) days, enjoining (1) *ERC*, its agents, representatives, or persons acting in its place and stead, from implementing its December 9, 2013 Order and acting further on the letter – request of *MERALCO* dated December 5, 2013; and (2) *MERALCO*, its agents, representatives, or persons acting in its place and stead, from increasing the rates it charges to its consumers based on the matters it raised in its 5 December 2013 letter. Said Order likewise set the cases for oral arguments on January 21, 2014 and required respondents *ERC* and *MERALCO* to file their respective Comments on the cases. On January 8, 2014, *MERALCO* filed its Consolidated Comment/Opposition with Counter-Petition.

On January 2, 2014, the OSG filed a Manifestation with Motion praying that it be excused from filing a comment on behalf of *ERC* and Department of Energy or *DOE*. In keeping with the spirit and intent of the SC, *MERALCO* maintained the pass-through charges at the November 2013 billing level for its January 2014 billing to customers.

On January 9, 2014, *MERALCO* received copies of the *ERC*'s Comment and the Philippine Electric Power Operators Association's or *PEPOA* Comment-in-Intervention. On even date, *MERALCO* received an Order from the SC which directed the Petitioners in said case to implead the *PEMC* and [some] Suppliers with whom *MERALCO* has existing Power Supply Agreements or *PSAs*, namely, *SCPC*, *MPPCL*, *TLI*, *SMEC*, *SPPC*, and *Therma Mobile, Inc.* or *TMO*, as necessary parties to the case. Consequently, these additional respondents were required (i) to file their respective Comments on the Petitions no later than January 20, 2014 and (ii) to attend the preliminary conference set on January 13, 2014, or to file, on or before January 10, 2014, the necessary manifestation should they desire to waive their right to participate in the scheduled oral arguments on January 21, 2014. Incidentally, the SC also denied in said Order the OSG's motion to be excused from filing Comment/s in behalf of the *ERC* and *DOE*. Accordingly, it was directed to file the necessary Comment/s and attend the preliminary conference.

On January 10, 2014, *MERALCO* received a related Petition for Certiorari, Prohibition and Mandamus filed before the SC by Rep. Hicap (Anak Pawis), et. al., docketed as G.R. No. 210334.

On January 15, 2014, the SC issued an Advisory, which identified the issues, and outlined the procedure, for the oral arguments in G.R. Nos. 210245 and 210255 on January 21, 2014. The SC likewise acknowledged therein that the issues may involve technical

matters, thus, it directed the *DOE* Secretary, the Chairman of *ERC* and the President of *PEMC* to serve as resource persons for technical questions.

On January 20, 2014, *MERALCO* received GN Power Mariveles Coal Plant Ltd. Co.'s or GMCP, *NGCP*, and *PEMC*'s Comments in the *SC* cases.

On January 21, 2014, *MERALCO* received Manifestations and Urgent Motions from Anak Pawis, et. al. On even date, *MERALCO* received another related Petition, dated January 16, 2014, which was filed before the *SC* by Mr. Augusto L. Syjuco, Jr. in his capacity as taxpayer and *MERALCO* customer. During the January 21, 2014 hearing, the *SC*, among other things, set the cases for additional hearings on February 4 and 11, 2014.

On January 24, 2014, a copy of *TMO* and *TLI* Consolidated Comment has been posted on the *SC*'s website. On January 29, 2014, *MERALCO* received a copy of the *PSALM*'s Consolidated Comment on the Petitions (docketed as G.R. Nos. 210245 and 210255) and *MERALCO*'s Counter-Petition. Thereafter, or on January 30, 2014, *MERALCO* received Panasia Energy, Inc.'s Comment that prays for the dismissal of the Petitions and Counter-Petition in the *SC* cases.

Oral arguments on the cases were continued on February 4 and 11, 2014. *MERALCO* presented its position and was interpellated thereon by the *SC*. Therein, the *SC* clarified that the *TRO* only covered the December 2013 billing of *MERALCO*. During the February 11, 2014 hearing, the other respondents, including *DOE*, *ERC*, *PEMC*, *TMO*, *NGCP*, and *PSALM*, presented their respective positions before the *SC*. Thereafter, the *SC* gave the parties until February 26, 2014 to file their respective memoranda.

In the meantime, on January 30, 2014, *MERALCO* filed an Urgent Motion with Manifestation with the *ERC*. *MERALCO* manifested that certain statements were made that there have been gross violations of *WESM* rules and regulations as well as protocols on generation offers and plant dispatch by certain *WESM* participants which affected the market clearing prices. *MERALCO* prayed for the for the issuance of an Order:

(a) directing *PEMC* to conduct market re-runs or re-calculations of *WESM* transactions and dispatches, or determine substituted prices or undertake any other appropriate measures to determine and recalculate the true cost of electricity in the *WESM*, during the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) under such rules or guidelines as the *ERC* may deem appropriate and

(b) directing *MERALCO* to subsequently recalculate its pass-through generation charges for the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) based on the proper applicable prices for transactions in the *WESM* during the aforementioned months as so determined by the Honorable Commission based on the results of the market re-runs and/or re-calculations. This re-run is without prejudice to such action or decision the *ERC* may take following compliance of its investigation on whether or not there were acts committed by electric industry participants during the subject period which constitute anti-competitive practices, market power abuse, violation of any law or rules and regulations, or any failure of market competition. *MERALCO* then filed an Urgent Ex-Parte Motion (to Set for Hearing and/or Resolve the Omnibus Motion) on February 5, 2014 praying that its Urgent Motion with Manifestation be immediately set for hearing and resolved. Both pleadings were noted by the *ERC* in its Order dated February 12, 2014.

On January 29, 2014, *MERALCO* also appeared before the Investigation Unit or *IU* of the *ERC*. The *IU* was created to determine if there has been anti-competitive behavior and/or abuse of market power by the *WESM* participants during the period affected by the Malampaya shutdown. *MERALCO* has filed its Memorandum with the *IU* and is awaiting further action of the *IU* on the matter.

On February 18, 2014, the SC extended the *TRO* for another 60 days, or until April 22, 2014, and expanded the coverage to include the generation companies, *PEMC* and *NGCP* to enjoin them from collecting from *MERALCO*. In its Resolution dated April 22, 2014, the SC extended the *TRO* indefinitely.

10. *Recovery of the Differential Generation Charge for the December 2013 supply month*

ERC Case No. 2014-013

Filed: February 17, 2014

In the light of the clarification of the SC that the *TRO* in G.R. Nos. 210245 and 210255 only covered the December 2013 billing, *MERALCO* filed an Application, with a prayer for provisional authority, on February 17, 2014 with the *ERC* to recover the recover the incremental generation charge for the December 2013 supply month (January 2014 billing), docketed as ERC Case No. 2014-013RC. This represented the difference between the actual and billed generation charge for the January 2014 billing. The Application prayed that *MERALCO* be allowed: (a) to impose an incremental generation charge of ₱0.8440 per kWh on its customers in their March 2014 billing, until the total incremental fuel costs amounting to ₱2,049 million is fully recovered, and (b) to recover the remaining balance of the deferred generation costs equivalent to ₱0.7433 per kWh every month, for an additional period of five (5) months starting April 2014 billing, until the balance of ₱9,026 million is fully recovered, without prejudice to the resolution of G.R. Nos. 210245 and 210255 by the SC or *MERALCO*'s pending Omnibus Motion with Manifestation in *ERC* Case No. 2013-092 MC, or the findings of the *ERC*'s *IU* in *ERC* Case No. 2014-001 MC.

Subsequently, on March 11, 2014, *MERALCO* received the *ERC*'s Order dated March 3, 2014 in *ERC* Case No. 2014-021 MC, declaring as void the Luzon WESM prices during the November and December 2013 supply months and imposing regulated prices in lieu thereof.

The regulated prices shall be calculated based on the load weighted average of the ex-post nodal energy prices and meter quantity of the same day same trading interval that have not been administered covering the period December 26, 2012 to September 25, 2013, subject to the payment to the oil-based plants of additional compensation to cover their full Fuel and Variable operating and maintenance costs, if warranted, following the manner and procedure for computing additional compensation under the Administered Price Determination Methodology.

PEMC was directed to calculate these regulated prices and implement the same in the revised WESM bills of the concerned distribution utilities in Luzon for the November and December 2013 supply months for their immediate settlement, except for *MERALCO* whose November 2013 WESM bill shall be maintained, unless otherwise ordered by the Commission, in compliance to the *TRO* issued by the SC in G.R. No. 21024 and G.R. No. 210255.

PEMC made recalculations based on the afore-quoted Order and on March 18, 2014, *MERALCO* received a copy of *PEMC*'s WESM billing adjustments to adjust the WESM bill for the regulated prices for the December 2013 supply month.

On March 19, 2014, Representatives Walden F. Bello and Ibarra M. Gutierrez III filed a *Motion to Dismiss* praying that *MERALCO*'s Application be dismissed, or at the very least, the proceedings be suspended pending submission by *PEMC* of the revised WESM bills for the December 2013 supply month.

On March 25, 2014, *MERALCO* filed an Amended Application pursuant to the *ERC* Order and the recalculation made by *PEMC* of the December 2013 supply month bills.

On April 1, 2014, the *ERC* released an Order directing *MERALCO* to file its Comment on the *Motion to Dismiss*. On April 7, 2014, *MERALCO* filed its Comment on said *Motion*. On April 10, 2014, Congressmen Neri Colmenares, Carlos Isagani Zarate, former Congressman Teodoro Casino, Renato Reyes, Dr. Giovanni Tapang, Elmer Labog and Francisco Mariazeta III filed a Supplemental Opposition to *MERALCO*'s Amended Application.

On April 23, 2014, the *ERC* released an Order setting the case for hearing on May 26, 2014 and directing *MERALCO* to comply with the jurisdictional requirements. On the same date, the *ERC* likewise released an Order directing *MERALCO* to file its Comment on the Petitions for Intervention and Supplemental Opposition to its amended application filed by the Intervenors. On May 14, 2014, *MERALCO* filed its Consolidated Comment. On May 20 and 21, 2014, Mr. Robert F. Malilin and *PEMC*, filed their Petitions for Intervention, respectively. On May 21, 2014, *MERALCO* filed its Pre-trial Brief. On May 26, 2014, *MERALCO* submitted its Compliance with the Jurisdictional Requirements to the Honorable Commission. On June 05, 2014, Mr. Uriel G. Borja filed his Petition for Intervention.

During the hearing on May 26, 2014, the *ERC* resolved to suspend further hearings on the case in view of the following: (i) filings of the parties in the case, i.e., *Motion to Dismiss*, *Supplemental Opposition to Amended Application* etc; (2) indefinite extension of the *TRO* by the Supreme Court; and (3) pendency of the *ERC* case on the regulated *WESM* prices for the November and December 2013 supply months. According to the *ERC*, it will just issue an Order after the pending issues in the case have been resolved.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholders Matters

(1) Market Information

The principal market where *MERALCO*'s common equity is traded is the Philippine Stock Exchange or *PSE*. The quarterly high and low sales prices for the years 2014 and 2013 follow:

FROM	TO	HIGH	LOW
01/01/2013	3/31/2013	330.00	260.60
04/01/2013	6/30/2013	395.00	307.00
07/01/2013	9/30/2013	330.80	260.00
10/01/2013	12/31/2013	313.90	250.60
01/01/2014	3/31/2014	290.00	247.00
04/01/2014	6/30/2014	292.40	252.00
07/01/2014	9/30/2014	272.00	251.00
10/01/2014	12/31/2014	264.80	252.00

As at December 29, 2014 (the last trading day in 2014), the price for *MERALCO* stock is ₱256.00.

(2) Holders

The total number of stockholders as of December 31, 2014 is 46,586.

Top 20 Stockholders as of December 31, 2014

Rank	Stockholder Name	Number of Shares	Percent
1	Beacon Electric Asset Holdings, Inc.	506,769,106	44.96%
2	JG Summit Holdings, Inc.	305,689,397	27.12%
3	PCD Nominee Corporation (Filipino)	123,354,254	10.94%
4	Metro Pacific Investment Corporation	56,354,936	5.00%
5	First Philippine Holdings Corporation	44,382,436	3.94%
6	PCD Nominee Corporation (Foreign)	42,032,099	3.73%
7	Manuel M. Lopez and/or Ma. Teresa L. Lopez	1,449,293	0.13%
8	Manuel M. Lopez	995,450	0.09%
9	Raul Joseph Concepcion and/or Raul Anthony Concepcion and/or Raul Patrick Concepcion and/or Raul Stephen Concepcion and/or Rica C. Araneta	774,257	0.07%
10	Lucio W. Yan	403,208	0.04%
11	Charlotte Cua Cheng	314,534	0.03%
12	Avesco Marketing Corporation	284,427	0.03%
13	B.P. Insurance Agency, Inc.	281,079	0.02%
14	Regina Capital Development Corporation	270,000	0.02%
15	Makati Supermarket Corporation	240,308	0.02%
16	Jesus P. Francisco	180,000	0.02%
17	Simeon Y. Tan	162,800	0.01%
18	Jose Ignacio A. Carlos	161,687	0.01%
19	Virgilio Cachero Flordeliza	141,420	0.01%
20	Antonino T. Antonio and/or Evelina S. Aquino	133,855	0.01%

(3) Dividends

Following are the cash dividends declared by *MERALCO*'s board of directors in favor of *MERALCO* common shares for the two (2) most recent years ended December 31, 2014 and 2013:

Year	Dividend Per Share	Declaration Date	Record Date	Payment Date
2013	₱6.10	February 25, 2013	March 26, 2013	April 24, 2013
	₱4.10	July 29, 2013	August 27, 2013	September 20, 2013
2014	₱6.45	March 17, 2014	April 15, 2014	May 8, 2014
	₱5.91	July 28, 2014	August 25, 2014	September 18, 2014

MERALCO's loan agreements contain restrictions on payments of cash dividends to common stockholders subject to meeting certain financial measures, which *MERALCO* complied with.

MERALCO strictly implements its dividend policy, approved by the Board of Directors or *BOD*, in 2010, which prescribes the regular payment of dividends equivalent to fifty percent (50%) of consolidated core net income, which may be supplemented by a special dividend determined on a "look-back" basis. In 2014, *MERALCO* paid cash dividend of ₱12.36 per share to all its shareholders.

(4) Recent Issuance of Securities Constituting an Exempt Transaction

None.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis of financial position and results of operations of Manila Electric Company or *MERALCO* and its subsidiaries, collectively referred to as the "*MERALCO Group*" should be read in conjunction with the consolidated financial statements as at December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards or *PFRS*. *PFRS* includes statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying consolidated financial statements is presented in Philippine pesos, *MERALCO Group's* functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except when otherwise indicated. The exchange rate used to translate U.S. dollars to Philippine peso in this report and in the accompanying consolidated financial statements is US\$1.00 to ₱44.72 the closing rate as at December 29, 2014 (the last trading day in December 2014) quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

(Amounts in millions, except financial ratios, earnings per share, and operational data)

Condensed Statements of Financial Position

	As at December 31		% Change
	2014	2013	2014 vs. 2013
Total assets	P269,053	P264,004	2
Current assets	112,612	107,486	5
Cash and cash equivalents	69,469	59,851	16
Equity attributable to equity holders of the parent	79,154	75,162	5
Total debt	30,042	33,591	(11)
Current liabilities	83,528	94,626	(12)
Financial Ratios			
Debt to equity	0.38	0.45	(16)
Current ratio	1.35	1.14	18
Operational Data			
Number of customers (in thousands):			
Residential	5,097	4,901	3
Commercial	464	453	2
Industrial	10	10	-

	Years Ended December 31			% Change	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Condensed Statements of Income					
Revenues	P266,336	P298,636	P285,270	(11)	5
Costs and expenses	240,242	274,486	266,162	(12)	3
Other income, net of expenses	(374)	(177)	(2,914)	111	(94)
Income before income tax from continuing operations	26,468	24,327	22,022	9	10
Income from discontinued operations, net of income tax	—	—	978	—	(100)
Net income	18,131	17,273	17,259	5	—
Net income attributable to equity holders of the parent	18,053	17,211	17,117	5	1
Earnings per share					
Basic and diluted - attributable to equity holders of the parent	16.02	15.27	15.19	5	1
Basic and diluted - attributable to equity holders of the parent of continuing operations	16.02	15.27	14.40	5	6
Condensed Statements of Cash Flows					
Net cash from operating activities	37,447	37,144	36,244	1	2
Net cash used in investing activities	(12,615)	(30,392)	(9,549)	(58)	218
Net cash used in financing activities	(15,214)	(7,401)	(10,336)	106	(28)
Financial Ratios					
Profit margin	7%	6%	6%	17	—
Return on equity	23%	23%	25%	—	(8)
Asset turnover	0.99	1.13	1.32	(12)	(14)
Operational Data					
Electricity sales volume (in GWh)	35,160	34,084	32,771	3	4
System loss (in percentage) ¹ :					
MERALCO	6.49%	6.92%	7.04%	(6)	(2)
CEDC	4.37%	4.33%	3.75%	1	15

¹ Based on 12-month moving average

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise service area covering 9,337 square kilometers. It provides power to 5.5 million customers in 35 cities and 76 municipalities, which include Metro Manila, the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon. Turnover of business establishments in the franchise area accounts for around 55% of the country's Gross Domestic Product or *GDP*.

Through *CEDC*, a 65% owned subsidiary, it holds the power distribution franchise for the *CSEZ* in Clark, Pampanga. *CEDC* franchise area covers 44 square kilometers and services 1,849 customers. *CEDC* is registered with Clark Development Corporation or *CDC* under *RA No. 9400, Bases Conversion Development Act of 1992*, as a *CSEZ*-enterprise primarily engaged in owning, operating, and maintaining a power distribution system within the zone.

MERALCO Group's business is divided into two segments, namely, power and other services. The power segment consists of (a) power distribution of *MERALCO* and its subsidiary, *CEDC* (b) power generation and (c) *RES*.

- Power

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* service area covers the *CSEZ*.

Power generation – The *MERALCO Group's* re-entry in the power generation business is through investment in operating companies or participation in the development of such power generation projects. *MGen*, the power generation arm of the *MERALCO Group* acquired a 22% equity interest in *GBPC*. *GBPC* operates a total of 627 *MW* (gross capacity) of coal and diesel-fired power plants. In addition, it has 232 *MW* (gross) of coal-fired power plants under construction in the Visayas.

In March 2013, *MGen* acquired an effective 28% equity in PacificLight Power Pte Ltd. or *PacificLight Power*, in Jurong Island, Singapore. The *PacificLight Power* began full commercial operation in February 2014.

MGen is currently developing a 455 *MW* net capacity of supercritical coal-fired power plant in Mauban, Quezon. On the other hand, land development for its 2 x 300 *MW* Circulating Fluidized Bed or *CFB*, coal-fired power generation plant in the Subic Freeport Zone under Redondo Peninsula Energy, Inc. or *RP Energy* is substantially completed.

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

RES – This covers the sourcing and supply of electricity to qualified contestable customers. The *MERALCO Group* serves as a local *RES* within its franchise area under a separate unit, *MPower*. Starting June 26, 2013, qualified contestable customers who opted to be served by the *MERALCO RES* sourced their electricity supply from *MPower*.

- Other Services

The other services segment is involved principally in electricity-related services such as electro-mechanical engineering, construction, consulting and related manpower as well as light rail-related maintenance services, e-transaction and bills collection, insurance and e-business development and energy systems management. These services are provided by Meralco Industrial and Engineering Services Corporation or *MIESCOR*, Miescor Builders, Inc. or *MBI*, and Miescor Logistics, Inc. or *MLI* (collectively known as "*MIESCOR Group*"), Corporate Information Solutions, Inc. or *CIS*, Bayad Center, Inc. or *Bayad Center* and Customer Frontline Solutions, Inc. or *CFSI* (collectively referred to as "*CIS Group*"), Miescorrail, Inc. or *Miescorrail*, Republic Surety and Insurance Corporation or *RSIC*, Lighthouse Overseas Insurance Limited or *LOIL*, Meralco Financial Services, Inc. or *Finserve*, e-Meralco Ventures, Inc. or *e-MVI* and Meralco Energy, Inc. or *MEI*.

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

BUSINESS SEGMENTS	
Power	Other Services
Electricity distribution <ul style="list-style-type: none"> • <i>MERALCO</i> • <i>CEDC</i> 	<ul style="list-style-type: none"> • <i>MIESCOR Group</i> • <i>Finserve</i> • <i>LOIL</i>
Power generation <ul style="list-style-type: none"> • <i>MGen</i> and subsidiaries 	<ul style="list-style-type: none"> • <i>RSIC</i> • <i>CIS Group</i>
Retail electricity supply <ul style="list-style-type: none"> • <i>MERALCO</i> through <i>MPower</i> business unit 	<ul style="list-style-type: none"> • <i>e-MVI and subsidiary</i> • <i>MEI</i> • <i>Miescorrail</i>

RESULTS OF OPERATIONS

The table below summarizes the consolidated results of operations and the contribution of each business segment of *MERALCO Group's* revenues, costs and expenses, and net income for the years ended December 31, 2014, 2013 and 2012.

For the Year Ended December 31, 2014				
	Power²	Other Services	Inter- segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱261,740	₱6,894	(₱2,298)	₱266,336
Costs and expenses	237,058	5,012	(1,828)	240,242
Other expenses (income)	(411)	37	–	(374)
Net income attributable to equity holders of the parent	17,647	484	(78)	18,053
For the Year Ended December 31, 2013				
	Power³	Other Services	Inter- segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱294,849	₱5,258	(₱1,471)	₱298,636
Costs and expenses	271,798	4,159	(1,471)	274,486
Other expenses (income)	(172)	(5)	–	(177)
Net income attributable to equity holders of the parent	16,512	761	(62)	17,211
For the Year Ended December 31, 2012				
	Power⁴	Other Services	Inter- segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱282,991	₱3,829	(₱1,550)	₱285,270
Costs and expenses	264,837	2,875	(1,550)	266,162
Other expenses (income)	(2,876)	(38)	–	(2,914)
Net income attributable to equity holders of the parent	15,577	1,682	(142)	17,117

² Principally electricity distribution

³ Ibid

⁴ Ibid

2014 compared with 2013

REVENUES

The following table shows the composition of *MERALCO Group's* consolidated revenues for the years ended December 31, 2014 and 2013 by business segment.

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ⁵	P261,740	98	P294,849	99	(P33,109)	(11)
Other services	6,894	3	5,258	1	1,636	31
Inter-segment transactions	(2,298)	(1)	(1,471)	–	(827)	56
Total	P266,336	100	P298,636	100	(P32,300)	(11)

Total revenues for the year ended December 31, 2014 were lower by 11% at P266,336 million compared with P298,636 million in 2013. Electric revenues represent 98% or P261,740 million of the total revenues. The lower electric revenues in 2014 is attributable to the (a) billing adjustment (amounting to P9.3 billion) by the Philippine Electricity Market Corporation or *PEMC* for power purchases from the Wholesale Electricity Spot Market or *WESM*, for the December 2013 supply month based on an order of the Energy Regulatory Commission or *ERC*; (b) loss of pass-through supply revenue component on the electricity of contestable customers who switched their sourcing of power to other retail electricity suppliers under the Retail Competition and Open Access or *RCOA*; (c) lower pass-through generation charges under competitively negotiated Power Supply Agreements or *PSAs*.

Power

Revenues from the power segment represent *MERALCO* and *CEDC's* sale of electricity, which include generation, transmission, distribution charges and subsidies, and *MPower's* generation revenue as a retail electricity supplier beginning June 26, 2013.

The composition of revenues of the power segment for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Generation charge	P159,281	61	P192,558	65	(P33,276)	(17)
Transmission charge	32,195	12	29,191	10	3,004	10
Distribution service charges	56,373	22	56,105	19	268	–
System loss charge	13,726	5	17,138	6	(3,412)	(200)
Interclass, lifeline, subsidies and others	165	–	(134)	–	299	223
Power Act Reduction adjustment	–	–	(9)	–	9	100
Total	P261,740	100	P294,849	100	P33,109	(11)

Electricity Revenues

Generation charge represents the largest component of electricity revenues, which is at 61% in 2014. Average generation charge to captive customers was at P5.34 per *kWh* for the year ended December 31, 2014 against P5.39 per *kWh* in 2013. Transmission charge represents

⁵*Ibid.*

12% of the total power revenues or an equivalent of ₱0.92 per *kWh* in 2014 compared with ₱0.86 per *kWh* in 2013. *MERALCO*'s 12-month moving average system loss rate as at December 31, 2014 was at 6.49%, 0.43 percentage point lower compared with the 6.92% system loss rate as at December 31, 2013, and outperforming the *ERC*-imposed 8.5% cap by 2.01 percentage points as a result of its institutionalized system loss management programs. *CEDC*'s 12-month moving average system loss rate as at December 31, 2014 was at 4.37%.

Distribution revenues comprise 22% of the total electric revenues. Total distribution service charges for the year ended December 31, 2014 amounted to ₱56,373 million, which is almost the same level compared with ₱56,105 million in 2013. The slight growth in distribution revenue is mainly attributable to 3% increase in sales volume from 34,084 *GWh* for the year ended December 31, 2013 to 35,160 *GWh* in 2014. Increase in sales volume is driven by 4% growth in customer count and higher electricity consumption of existing and newly energized customers from industrial and commercial sectors. Industrial energy sales was the major growth driver supported by a progressive manufacturing sector with food, beverages, basic metals, rubber, and plastics as principal movers. Also, the decline in fuel and power cost in the last quarter of 2014 stimulated higher production resulting in increased *kwh* sales. Commercial volume was a consistent contributor as a result of a strong real estate business, brisk business activity in the services sector including hotels, casinos and restaurants and growth in the retail trade covering malls, department stores, supermarkets, convenience outlets, and other retails shops.

The following table summarizes the customer count as at December 31, 2014 and 2013 and the corresponding electric consumption per customer class for the years ended December 31, 2014 and 2013:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in <i>GWh</i>)		% Change	
	2014	2013	2014	2013	No. of Customers	Electricity Sales
Residential	5,097	4,901	10,364	10,235	4	1
Commercial	464	453	13,814	13,302	2	4
Industrial	10	10	10,850	10,417	—	4
Streetlights	4	4	132	130	—	2
Total	5,575	5,368	35,160	34,084	4	3

The first phase of *RCOA* started commercial implementation on June 26, 2013. Certain customers in the Luzon and Visayas grids whose connected load is at least one (1) MW over the past 12 months, commenced to source their power supply from Retail Electricity Suppliers or *RES*. As of December 31, 2014, out of 837 qualified contestable customers in the *MERALCO* franchise area, 349 customers have opted for contestability and switched their supply to eight (8) *RESs*, including *MERALCO*'s local *RES*, *MPower*. Total energy sourced from *RESs* was 3,748 *GWh* for the year ended December 31, 2014. *MPower* accounted for 203 of the 349 customers as at December 31, 2014.

Other Services

Revenues from other services pertain mostly to non-electric revenues of *MERALCO* and revenues of subsidiaries excluding *CEDC*. Revenues generated from other services increased to ₱6,894 million for the year ended December 31, 2014 from ₱5,258 million in 2013. The 31% increase in revenues from other services is mainly attributable to *MEI*'s additional projects from new clients, *CIS*' increase in bills pay volume, increase in Bayad Center sites and higher franchising fees, *e-MVI*'s additional circuits installed for new clients, *Miescorrail*'s revenues from maintenance, technical and restoration services, and

MIESCOR's additional contracts which include construction of substations and rationalization of electrical feeders.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2014 amounted to P240,242 million, 12% lower compared with P274,486 million in 2013. The following table shows the breakdown of *MERALCO Group's* consolidated costs and expenses for the years ended December 31, 2014 and 2013 by business segment:

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ⁶	P237,058	99	P271,798	99	(P34,740)	(13)
Other services	5,012	2	4,159	2	853	21
Inter-segment transactions	(1,828)	(1)	(1,471)	(1)	(357)	(24)
Total	P240,242	100	P274,486	100	P34,244	(12)

Power

The details of costs and expenses are summarized in the following table:

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	P203,242	86	P238,198	88	(P34,956)	(15)
Salaries, wages and employee benefits	9,426	4	9,450	3	(24)	–
Depreciation and amortization	5,863	2	5,911	2	(48)	(1)
Contracted services	4,402	2	4,146	2	256	6
Others	14,125	6	14,093	5	32	–
Total	P237,058	100	P271,798	100	(P34,740)	(13)

Costs and expenses of the power segment for the year ended December 31, 2014 amounted to P237,058 million, 13% lower compared with P271,798 million in 2013.

Purchased power accounted for 86% of the total costs and expenses. *MERALCO's* power segment does not operate its own generation capacity and purchases all of the electricity that it distributes from recently contracted *PSAs* with generators, National Power Corporation or *NPC* (up to June 25, 2013), long-term Power Purchase Agreements contracted with Independent Power Producers or *IPPs* and the *WESM*. Lower purchased power cost was primarily due to the billing adjustment by *PEMC* in March 2014 for power purchased for the December 2013 supply month. Moreover, with the implementation of *RCOA* beginning June 26, 2013, certain contestable customers sourced their power supply from other retail electricity suppliers.

The volume of energy purchased under long-term power supply contracts with *IPPs*, First Gas Corporation or the *Sta. Rita Power Plant*, FGP Corp. or the *San Lorenzo Power Plant* and Quezon Power (Philippines) Limited Co. or *QPPL*, represent 34.2% of *MERALCO's* Net Systems Input. Purchases from *PSAs* and other special contracts account for 62.9%, while the balance of 2.9% was sourced from the *WESM*.

⁶*Ibid.*

Contracted services increased by 6% from ₱4,146 million for the year ended December 31, 2013 to ₱4,402 million in 2014. The increase was mainly due to IT system and software maintenance and IT post-production services.

Other expenses consist of business taxes and permits, provision for probable charges and expenses from claims, provisions for doubtful accounts, costs of materials, transportation, and other corporate expenses.

Other Services

The cost and expenses of other services business segment for the year ended December 31, 2014 amounted to ₱5,482 million, 32% higher compared with ₱4,159 million in 2013.

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱2,053	37	₱1,808	43	₱245	14
Contracted services	1,195	22	955	23	240	25
Depreciation and amortization	230	4	206	5	24	12
Others	2,004	37	1,190	29	814	68
Total	₱5,482	100	₱4,159	100	₱1,323	32

The increase in total costs and expenses of other services segment in 2014 was driven by higher contracted services, and salaries, wages, and employee benefits as a result of the subsidiaries' business expansion activities. Also, other expenses, which accounted for 37% of the total costs and expenses, increased by 68% from ₱1,190 million in 2013 to ₱2,004 million in 2014 because of higher insurance claims recognized by *RSIC* this year due to *Typhoon Glenda*.

OTHER EXPENSES (INCOME)

The following table shows the breakdown of *MERALCO Group's* consolidated other income, net of expenses, for the years ended December 31, 2014 and 2013 by business segment:

	2014	2013	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Power ⁷	(₱411)	(₱172)	(₱239)	139
Other services	37	(5)	42	(840)
Total	(₱374)	(₱177)	(₱197)	111

Consolidated other income, net of expenses, for the year ended December 31, 2014 increased to ₱374 million, 111% higher compared with ₱177 million in 2013.

⁷*Ibid.*

Power

Breakdown of other expenses (income) of power segment is summarized in the following table:

	2014	2013	<u>Increase/Decrease</u>	
			<u>Amount</u>	<u>%</u>
	<i>(Amounts in millions)</i>			
Interest and other financial income	(P742)	(P1,161)	P419	36
Interest and other financial charges	1,425	1,475	(50)	(3)
Foreign exchange gains	(6)	(354)	348	98
Equity in net losses (earnings) of associates and joint ventures	(296)	258	(554)	(214)
Others	(792)	(390)	(402)	(103)
Total	(P411)	(P172)	(P239)	139

Other income net of expenses for the year ended December 31, 2014 amounted to P411 million, higher than last year's P172 million. Other income in 2014 included technical services and management fees earned for the operation of Ibadan Electricity Distribution Company and Yola Electricity Distribution Company in Nigeria in accordance with the Technical Services Agreement. The contribution of associates and joint ventures resulted in a P296 million equity in net earnings in 2014 compared with P258 million equity in net losses last year. Lower interest and other financial income was due to the decline in average interest rates for peso and dollar placements in 2014. Interest and other financial charges in 2014 include accelerated amortization of debt issue costs and prepayment charges on certain pre-terminated debts.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of *MERALCO's* net income attributable to the equity holders of the parent for the years ended December 31, 2014 and 2013 by business segment:

	2014	%	2013	%	<u>Increase/Decrease</u>	
					<u>Amount</u>	<u>%</u>
	<i>(Amounts in millions)</i>					
Power ⁸	P17,647	97	P16,512	96	P1,135	7
Other services	484	3	761	4	(277)	(36)
Inter-segment transactions	(78)	—	(62)	—	(16)	26
Total	P18,053	100	P17,211	100	P842	5

Net income attributable to equity holders of the parent is higher by 5% for the year ended December 31, 2014 compared with the last year as a result of higher contribution from the power business segment due to increase in sales volume and customer base. This was partially offset by the lower contribution from other services business segment.

⁸*Ibid.*

2013 compared with 2012

REVENUES

The following table shows the composition of *MERALCO Group's* consolidated revenues for the years ended December 31, 2013 and 2012 by business segment:

	2013	%	2012	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Power ⁹	P294,849	99	P282,991	99	P11,858	4
Other services	5,258	1	3,829	1	1,429	37
Inter-segment transactions	(1,471)	—	(1,550)	—	79	5
Total	P298,636	100	P285,270	100	P13,366	5

Total revenues for the year ended December 31, 2013 amounted to P298,636, 5% higher compared with last year's P285,270. Revenues from power segment remained at 99% of the total revenues both in 2013 and 2012. The higher revenues are largely attributable to the 4% increase in volume and a higher share of residential and commercial customers in the overall sales mix. Average distribution charge was at P1.65 per *kWh* in 2013.

Power

Revenues from the power segment consist of generation, transmission, distribution charges and subsidies.

The composition of revenues of the power segment for the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	%	2012	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Generation charge	P192,558	65	P183,708	65	P8,850	5
Transmission charge	29,191	10	31,971	11	(2,780)	(9)
Distribution service charges	56,105	19	50,892	18	5,213	10
System loss charge	17,138	6	16,411	6	727	4
Interclass, lifeline subsidies and others	(134)	—	34	—	(168)	(494)
Power Act Reduction adjustment	(9)	—	(25)	—	(16)	(64)
Total	P294,849	100	P282,991	100	P11,858	4

Electricity Revenues

Generation charge represents the single largest component of electricity revenues, which is at 65% in 2013. Average generation charge to captive customers was at P5.39 per *kWh* in 2013 versus P5.61 per *kWh* in 2012. Transmission charge on the other hand, represents 10% of total power revenues or an equivalent P0.86 per *kWh* in 2013 compared with P0.98 per *kWh* in 2012. Overall, transmission charge was lower by 9%. Average system loss charge in 2013 was at P0.46 per *kWh*, P0.52 per *kWh* lower than 2012 mainly due to the continuous improvement in system loss management. *MERALCO's* 12-month moving average system loss rate as at December 31, 2013 was at 6.92%, 0.12 percentage point

⁹*Ibid.*

lower compared with the 7.04% system loss rate as at December 31, 2012, and outperforming the *ERC*-imposed 8.50% cap by 1.58 percentage points as a result of its institutionalized system loss management programs. *CEDC*'s 12-month moving average system loss rate as at December 31, 2013 was at 4.33%. Subsidies and other charges include interclass and lifeline subsidies and universal charges. In December 2013, total revenues include ₱8,963 million or an equivalent ₱3.44 per *kWh* representing the amount subject of a *TRO*, issued by the *SC* in respect of the implementation of the generation charge increase for the November 2013 supply month. The increase in generation charge was the result of (i) use of more expensive liquid condensate by the Sta. Rita and San Lorenzo gas-fired plants and bio-diesel by the Ilijan gas plant with the 30-day maintenance shutdown of the Malampaya natural gas production facility; (ii) scheduled and extended outages of several baseload plants; and (iii) unscheduled, forced and overlapping outages of several power plants. The ultimately recovery of the generation and related charges is pending the decision of the *SC*.

Distribution revenues comprise 19% of the total revenues of the power segment. Total distribution service charges for the year ended December 31, 2013 amounted to ₱56,105 million, reflecting a 10% increase compared with the same period in 2012. The higher distribution revenue is due to the 4% increase in sales volume and slightly higher average distribution rate in 2013. Total volume in 2013 was at 34,084 *GWh* compared with 32,771 *GWh* in 2012. Increase in sales volume is driven by the 3% growth in customer count and higher electricity consumption across all existing customers. The growth in the industrial sector was driven by higher demand of food and beverage, rubber and plastics as well as semiconductor industries. Commercial volume is driven by real estate and retail trade fuelled by the Business Process Outsourcing or *BPO*, industry expansion and higher consumer spending in entertainment, malls, hotels, and restaurants. Residential volume is driven by slightly warmer weather and continuous inflow of *OFW* remittances. Average distribution rate was at ₱1.65 per *kWh* in 2013. In July 2013, *MERALCO* implemented the Maximum Average Price or *MAP*, for Regulatory Year or *RY*, 2014 ₱1.6474 per *kWh*, which was provisionally approved by the Energy Regulatory Commission or *ERC* in June 2013.

The following table summarizes the customer count as at December 31, 2013 and 2012 and the corresponding electric consumption per customer class for the years ended December 31, 2013 and 2012:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in <i>GWh</i>)		% Change	
	2013	2012	2013	2012	No. of Customers	Electricity Sales
Residential	4,901	4,735	10,235	9,779	4	5
Commercial	453	440	13,302	12,749	3	4
Industrial	10	10	10,417	10,111	—	3
Streetlights	4	4	130	132	—	(2)
Total	5,368	5,189	34,084	32,771	3	4

The first phase of *RCOA*, started commercial implementation on June 26, 2013. Certain customers in the Luzon and Visayas grids whose connected load is at least one (1) *MW* over the past 12 months, commenced to source their power supply from various *ERC*-registered *RESs*. Out of 782 qualified contestable customers in the *MERALCO* franchise area, 287 customers have opted for contestability and switched their supply to eight (8) *RESs*, including *MERALCO*'s local *RES*, *MPower*. Total energy sourced from *RESs* was 2,711 *GWh* for the period June 26 to December 31, 2013. *MPower* accounted for 167 of the 287 customers.

Other Services

Revenues from other services pertain to non-electric revenues of *MERALCO* and subsidiaries. Revenues generated from other services increased to ₱5,258 million in 2013 from ₱3,829 million in 2012. The 37% increase in revenues from other services is mainly attributable to the increase in third party payment service volume, business expansion of outsourced services of *Bayad Center* and increase in franchising fees of *Bayad Center*. *MIESCOR*'s contract revenues also increased in 2013, which include projects regarding rehabilitation of electrical and installation of fire alarm, and maintenance, janitorial and renovation activities. The *e-MVI Group* obtained additional requirements from international carriers, retail and distribution industry, and banks.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2013 amounted to ₱274,486 million, 3% higher compared with ₱266,162 million for the same period in 2012. The following table shows the details by business segment:

	2013	%	2012	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ¹⁰	₱271,798	99	₱264,837	100	₱6,961	3
Other services	4,159	2	2,875	1	1,284	45
Inter-segment transactions	(1,471)	(1)	(1,550)	(1)	79	5
Total	₱274,486	100	₱266,162	100	₱8,324	3

Power

The details of costs and expenses are summarized in the following table:

	2013	%	2012	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱238,198	88	₱232,068	88	₱6,130	3
Salaries, wages and employee benefits	9,450	3	10,385	4	(935)	(9)
Depreciation and amortization	5,911	2	5,400	2	511	9
Contracted services	4,146	2	3,594	1	552	15
Others	14,093	5	13,390	5	703	5
Total	₱271,798	100	₱264,837	100	₱6,961	3

Costs and expenses of the power segment amounted to ₱271,798 million in 2013, 3% higher than the ₱264,837 million in 2012. Purchased power accounted for 88% of the total costs and expenses. In 2013, *MERALCO*'s power segment purchases all of the electricity distributed from (i) contracted capacities under the Power Sales Agreements or *PSAs*, with Successor Generating Companies or *SGCs* (up to December 25, 2012), National Power Corporation or *NPC* (up to June 25, 2013), (ii) long-term Power Purchase Agreements or *PPAs*, contracted with Independent Power Producers or *IPPs* and (iii) the Wholesale Electricity Spot Market or *WESM*. Higher purchased power costs was attributable to the 30-day shutdown of the Malampaya natural gas production facility, scheduled and extended as

¹⁰*Ibid.*

well as unscheduled or forced-outages of major baseload gas-fired and coal-fired power plants, which resulted in a higher average purchased power cost at ₱6.71 per *kWh* in 2013 compared with ₱6.60 per *kWh* in 2012. Total purchased power volume increased from 35,176 *GWh* in 2012 to 35,503 *GWh* in 2013, while the average cost of power purchased from *WESM* was higher at ₱19.93 per *kWh* in 2013 compared with ₱12.58 per *kWh* in 2012.

The volume of energy purchased under long-term *PPAs* with *IPPs*, First Gas Corporation or the *Sta. Rita Power Plant*, *FGP Corp.* or the *San Lorenzo Power Plant* and Quezon Power (Philippines) Limited Co. or *QPPL*, represents 36% of *MERALCO's* Net Systems Input. Purchases from *SGCs* and *NPC* and other special programs account for 59%, while the balance of 5% was sourced from the *WESM*. Electricity distributed by *CEDC* is sourced solely from the Sual Coal-fired Plant of San Miguel Energy Corporation. Salaries, wages and employee benefits decreased by 9% from ₱10,385 million for the year ended December 31, 2012 to ₱9,450 million for the same period in 2013. This is mainly due to the fringe benefit tax expense paid in 2012 related to the issued Employee Share Purchase Plan or *ESPP*, shares. The decrease was partially offset by the annual increase in salaries of employees.

Contracted services increased by 15% from ₱3,594 million in 2012 to ₱4,146 million in 2013. Customer-related services such as meter reading, electric bill/disconnection notice delivery increased with higher customer count, and meter and service reconnection/disconnection increased due to intensified delinquency management programs. Contracted services also increased for network maintenance services, legal fees and consultants' fees related to *MERALCO's* implementation of an enterprise resource planning software.

Depreciation and amortization increased by 9% to ₱5,911 million in 2013 from ₱5,400 million in 2012. This is mainly due to additional depreciation from completed construction projects and newly installed capital assets and amortization of software application related to *MERALCO's* software upgrade.

Other expenses consist of business taxes and permits, provision for probable charges and expenses from claims, provisions for doubtful accounts, costs of materials, transportation, and other corporate expenses.

Other Services

The cost and expenses of other services business segment in 2013 amounted to ₱4,159 million, 45% higher compared with ₱2,875 million in 2012.

	2013	%	2012	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Salaries, wages and employee benefits	₱1,808	43	₱1,241	43	₱567	46
Contracted services	955	23	627	22	328	52
Depreciation and amortization	206	5	176	6	30	17
Others	1,190	29	831	29	359	43
Total	₱4,159	100	₱2,875	100	₱1,284	45

Salaries, wages and other employee benefits increased by 46% from ₱1,241 million in 2012 to ₱1,808 million in 2013. The increase is mainly due to the increase in the number of employees in most subsidiaries and annual salary increase of employees.

Contracted services increased by 52% from ₱627 million in 2012 to ₱955 million in 2013. This is mainly due to the implementation of the government-mandated wage adjustments at the start of 2013.

Depreciation and amortization in 2013 amounted to ₱206 million, 30% higher compared with the same period in 2012 as a result of capital expenditures of the subsidiaries.

Other expenses increased by 43% from ₱831 million in 2012 to ₱1,190 million in 2013. This is mainly due to business expansion activities, additional rent and utilities, and higher developmental costs of subsidiaries.

OTHER EXPENSES (INCOME)

The following table shows the breakdown of *MERALCO Group's* consolidated other income, net of expenses, for the years ended December 31, 2013 and 2012 by business segment:

	2013	%	2012	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Power ¹¹	(₱172)	97	(₱2,876)	99	(₱2,704)	(94)
Other services	(5)	3	(38)	1	(33)	(87)
Total	(₱177)	100	(₱2,914)	100	(₱2,737)	(94)

Consolidated other income, net of expenses, for the year ended December 31, 2013 decreased to ₱177 million, 94% lower compared with ₱2,914 million in 2012.

Power

Breakdown of other expenses (income) of power segment is summarized in the following table:

	2013	2012	Increase/Decrease	
			Amount	%
<i>(Amounts in millions)</i>				
Interest and other financial charges	₱1,475	₱1,540	(₱65)	(4)
Interest and other financial income	(1,161)	(2,520)	(1,359)	(54)
Foreign exchange loss (gain)	(354)	2	356	17,800
Equity in net losses (earnings) of associates and joint ventures	258	15	243	162
Others	(390)	(1,913)	(1,459)	(78)
Total	(₱172)	(₱2,876)	(₱2,704)	(94)

Other income, net of expenses, is lower by 92% from ₱2,876 million in 2012 to ₱172 million in 2013 due to decrease in interest and other financial income and other income as a result of lower interest rate. Also, in 2012, Interest and other financial income included the ₱730 million carrying charges related to the local franchise tax or *LFT*, recovery, and other income included the *LFT* recovery of ₱1,571 million approved in April 2012.

¹¹*Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of *MERALCO's* net income attributable to the equity holders of *MERALCO* for the years ended December 31, 2013 and 2012 by business segment:

	2013	%	2012	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ¹²	P16,512	96	P15,577	91	P935	6
Other services	761	4	1,682	9	(921)	(55)
Inter-segment transactions	(62)	–	(142)	–	80	(56)
Total	P17,211	100	P17,117	100	P94	1

Power

Net income attributable to equity holders of the parent in 2013 is higher by 6% compared with 2012 mainly due to the increase in distribution revenue in 2013 driven by increased energy sales and slightly higher *RY2014 MAP* of P1.6474 per kWh.

Other Services

Net income from other services business segment attributable to the equity holders of the parent was 55% lower at P761 million in 2013 compared with P1,682 million in 2012, which included the gain on divestment from *Rockwell Land* amounting to P769 million. *MERALCO* divested its equity shares in *Rockwell Land* in May 2012.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows *MERALCO's* consolidated cash flows for the years ended December 31, 2014 and 2013 as well as the consolidated capitalization and other selected consolidated financial data as at December 31, 2014:

	For the Year Ended December 31		
	2014	2013	2012
	<i>(Amounts in millions)</i>		
Cash Flows			
Net cash from operating activities	P37,447	P37,144	P36,244
Net cash used in investing activities	(12,615)	(30,392)	(9,549)
Net cash used in financing activities	(15,214)	(7,401)	(10,336)
Net increase (decrease) in cash and cash equivalents	9,618	(649)	16,359
Capital Expenditures	12,350	10,187	10,321

¹²*Ibid.*

	2014	2013
	<i>(Amounts in millions)</i>	
<u>Capitalization</u>		
<u>Interest-bearing long-term financial liabilities</u>		
Current portion	P1,899	P11,021
Noncurrent portion	27,743	20,756
Notes payable	400	1,814
Equity attributable to equity holders of the parent	79,154	75,162
<u>Other Selected Financial Data</u>		
Total assets	269,053	264,004
Utility plant and others	120,830	112,586
Cash and cash equivalents	69,469	59,851

As at December 31, 2014, *MERALCO Group's* consolidated cash and cash equivalents totalled P64,469 million, P9,618 million higher compared with P59,851 million as at December 31, 2013. Following are the significant sources and uses of consolidated cash and cash equivalents for the year ended December 31, 2014: a) cash flows from operating activities of P37,447 million; b) proceeds from borrowings of P7,762 million; c) settlement of debt principal and interest of P13,335 million; d) capital expenditures of P12,350 million e) payment of dividends of P13,834 million and; f) additional investment in associates of P1,280 million.

Operating Activities

Consolidated net cash provided by operating activities for the year ended December 31, 2014 of P37,447 million is 1% higher compared with P37,144 million in 2013 as a result of higher operating income in 2014 and additional collection of customers' deposits of P1,092 million. However, such increase has been offset by lower net increase in working capital in 2014.

Investing Activities

Consolidated net cash flows used in investing activities for the year ended December 31, 2014 totalled P12,615 million, P17,777 million lower compared with P30,392 million in 2013. In 2013, *MERALCO* had investments and advances to associates amounting to P16,383 million and placement of short-term investment of P4,841 million. In 2014, such short-term investment was terminated.

Financing Activities

Consolidated net cash used in financing activities amounted to P15,214 million for the year ended December 31, 2014, P7,813 higher compared with P7,401 million net cash used in 2013. Significant financing activities in 2014 include payment of dividends amounting to P13,834 million, payments of debt principal and interest totaling P13,335 million and availment of new loans amounting to P7,762 million. In 2013, cash flows from financing activities included proceeds from the issuance of bonds amounting to P18,314 million.

Debt Financing

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, putable in 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 at 101.0%. The put and call options are clearly and closely related to the host instruments, thus, were not recognized separately.

On December 12, 2013, the ₱11.5 Billion Fixed Rate Putable Bonds due in 2020 and ₱7.0 Billion Fixed Rate Putable Bonds due in 2025, were listed with the Philippine Dealing and Exchange Corporation.

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

In March 2014, *MERALCO* entered into a 10-year fixed rate loan from a major domestic universal bank. The principal is payable in nominal annual amortizations with a balloon payment on final maturity in February 2024.

MERALCO's loan agreements require compliance with debt service coverage of 1.2 times calculated at 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, 2014, *MERALCO* is in compliance with all covenants of its loan agreements.

Equity Financing

Consistent with the provisions of *PAS 32*, "Financial Instruments: Disclosure and Presentation", *MERALCO's* preferred shares are presented as debt while the dividends declared are recorded as interest expense. Accumulated and unpaid dividends were accrued and classified as accrued interest payable. Coupon rate on such preferred share is fixed at 10%. The preferred shares were issued to service applications, which would require extension or new distribution facilities beyond a specific distance. Beginning April 8, 2005, such requirement was discontinued. Instead, as provided in the "Implementing Guidelines of the Magna Carta for Residential Electricity Consumers", customers were required to advance the costs of extension of lines and installation of additional facilities. 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 unclaimed dividends amounted to ₱250 million as at December 31, 2014 and 2013. Interest is no longer accrued on the preferred shares, which have been called for redemption

As at December 31, 2014 and 2013, *MERALCO*'s capital stock consists of:

<i>(Amounts in millions, except par value and number of shares)</i>	2014	2013
Common stock - P10 par value		
Authorized - 1,250,000,000 shares	P12,500	P12,500
Issued - 1,127,271,117 shares	11,273	11,273
Treasury - 172,412 shares	(11)	(11)

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.

The table below summarizes the cash dividends declared in 2014 and 2013:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
<i>(In millions)</i>				
July 28, 2014	August 25, 2014	September 18, 2014	P5.91	P6,661
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

On February 23, 2015, the *BOD* of *MERALCO* approved a final cash dividend of P8.49 per share to all shareholders of record as at March 23, 2015, payable on April 15, 2015.

RISK FACTORS

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

- Regulated rates and cost recoveries
- Sales volume and Philippine economic conditions
- Electricity supply
- Industry restructuring

Regulated Rates and Cost Recoveries

The most significant determinants of *MERALCO's* and *CEDC's* rate structure vis-à-vis operating results are “allowable returns” and “permitted cost recoveries”. Rates billed by *MERALCO* and *CEDC* are approved by the *ERC* and are set to allow a reasonable rate of return on investments. *MERALCO's* and *CEDC's* rate structure also allows pass-through of certain purchased power costs, system loss up to an annual cap enforced by the *ERC*, and taxes.

Performance-Based Regulation or PBR

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

Rate-setting under *PBR* is governed by the *Rules for Setting Distribution Wheeling Rates or RDWR*. The *PBR* scheme sets tariffs 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*. The *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 or *RYs*. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The third *RP* is from July 1, 2011 to June 30, 2015. The fourth *RP* for the First Entry Group shall commence on July 1, 2015 and end on June 30, 2019. However, *MERALCO* is still to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its fourth *RP* reset application.

Pass-through of Allowable Costs

The pass-through of allowable costs or costs that do not entail a revision of the rate base and/or rate of return of *MERALCO* is governed by various adjustment mechanisms promulgated by the *ERC*.

In approving *MERALCO's* unbundled rate in May 2003, the *ERC* prescribed a generation charge that will be adjusted under the Generation Rate Adjustment Mechanism, or *GRAM*. This has since been superseded by the Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities. The monthly automatic adjustment under the Automatic Generation Rate Adjustment or *AGRA* mechanism provides timely price signals to consumers. While the *GRAM* only provided for changes in the generation charge, the new mechanism also allows the monthly adjustment of the system loss charge. Implementation of the guidelines started with the November 2004 billing cycle.

The *ERC's* approval of *MERALCO's* second filing under the *GRAM* was questioned before the Supreme Court or *SC*, for failure by *MERALCO* and the *ERC* to comply with Section 4 (e) Rule 3 of *EPIRA's* Implementing Rules and Regulations or *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. The *AGRA* was then suspended beginning September 2006 and *MERALCO* could adjust generation and other pass-through charges only after the filing and approval by the *ERC* of an appropriate application.

On June 7, 2007, the Joint Congressional Power Commission approved amendments to Section 4 (e), Rule 3 of the *EPIRA*'s *IRR* that exempt the adjustments of pass-through electric rate components from the jurisdictional and hearing requirements of the *IRR*. The amendments were subsequently promulgated by the *Department of Energy or DOE* on June 21, 2007. Thereafter, the *ERC* lifted the suspension of the *AGRA*, which allowed *MERALCO* to resume the monthly updating of generation and system loss charges beginning July 2007.

On August 12, 2009, the *ERC* issued its 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 over- or under-recoveries in the following bill components: Generation Charge, Transmission Charge, System Loss Charge, Lifeline rate subsidies, Local franchise and business taxes.

The rules will also synchronize the various confirmation processes for the foregoing charges, in which the *ERC* will verify whether the *DU* incurred over- or under-recoveries in the implementation of the said charges. Luzon *DUs*, such as *MERALCO*, were required to file not later than October 30, 2009 their consolidated applications to resolve over- or under-recoveries accumulated from the start of their rate unbundling until December 2008. Subsequent filings will be every three years thereafter.

On October 8, 2009, *MERALCO* filed a petition at the *ERC* seeking an amendment to the *ERC*'s Resolution No. 16, Series of 2009. In particular, *MERALCO* proposed a modification to the formula used in confirming the system loss charges of *DUs*, shifting the reckoning of the system loss cap from a monthly to an annual reckoning to more fairly reflect the actual system loss performance of the *DUs*.

On October 18, 2010, the *ERC* ruled on *MERALCO*'s Petition and agreed that there is a need to address the mismatch between the billing periods of the *DUs* and of their suppliers in the confirmation of the system loss. However, the *ERC* did not adopt *MERALCO*'s proposed modification to the formula and instead prescribed a new formula. Resolution No. 21, Series of 2010 adopted the new formula and correspondingly amended the one prescribed in Resolution No. 16, Series of 2009. The Resolution also prescribed the period of filing for the *DUs*' consolidated applications, which for Luzon *DUs* will be by March 31, 2011 and setting March 31, 2011 (covering adjustments implemented from the rate unbundling until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *DUs* in Luzon to file their respective applications. Subsequent filings shall likewise be every three (3) years thereafter.

On April 23, 2014, the *ERC* released its Proposed Resolution Amending Articles 2 and 3 of Resolution 16, Series of 2009, the Resolution Governing the Automatic Cost adjustment and True-Up Mechanisms and Corresponding Confirmation Process for *DUs*. The proposal will allow automatic inclusion of the monthly over/under recoveries in the monthly generation, transmission and system loss rate calculations. Public consultations were held for its first and second drafts but the final amendments have not yet been released.

System Loss

On December 8, 2008, the *ERC* promulgated a resolution providing for a lower maximum rate of *SL* (technical and non-technical) that a *DU* can pass on to its customers. The revised *SL* cap is 8.5% for *DU*, effective January 2010 billing. This 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 *DU* is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the *Performance Incentive Scheme or PIS* under *PBR*.

On December 8, 2009, *MERALCO* filed a Petition to amend the 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 hearing on the Petition was conducted on November 18, 2010. Thereafter, *MERALCO* was directed to submit its Formal Offer of Evidence or *FOE*.

MERALCO's 12-month moving average *SL* of 6.49% as at December 31, 2014 improved by 43 basis points from the 6.92% registered as at December 31, 2013. *CEDC*'s system loss was 4.56% in 2014 was lower than 8.5% *SL* cap set by the *ERC* for the private *DUs*.

Sales Volume and Philippine Economic Conditions

The sale of electric energy is driven mainly by prevailing economic conditions and the number of customers being served by *MERALCO*. *MERALCO*'s franchise area accounts for an estimated 55% of the Philippines' Gross Domestic Product or *GDP*, with 37% from Metro Manila.

The favourable economic environment, supported by robust overseas Filipino workers, business process outsourcing and capital inflows, low interest rate and inflation rates, 'wealth creation' associated with significantly higher equity and property prices, and sustained confidence in the National Government, boosted strong domestic consumption and local and foreign investments. These affected per capital electricity consumption.

For the year ended December 31, 2014, *MERALCO* and *CEDC*'s combined energy sales volume was 35,160 *GWh*, 3% higher compared with 34,084 *GWh* in 2013 despite the lower average temperature in 2014. The growth in sales volume in 2014 was mainly due to increased demand of industrial and commercial sectors. *MERALCO* managed to grow customers by 4% largely from the commercial and residential sectors. *MERALCO* has 5.6 million customers as at December 31, 2014.

Average temperature for the year ended December 31, 2014 is cooler by 0.26°C from 27.95°C in 2013 to 27.69°C in 2014.

Electricity Supply

MERALCO does not operate its own generation capacity and purchases all of the power it distributes from the privatized plants of the *NPC-SGCs*, *IPPs* and *WESM*. *WESM* is a venue where suppliers and buyers trade electricity as a commodity. For the year ended December 31, 2014, *MERALCO* purchased 33.9% of its requirements from *IPPs*, 63.2% from the privatized plants of *NPC*, and 2.9% from the *WESM*.

Following are the Power Supply Agreements or *PSAs* entered into by *MERALCO*:

Date	Power Supplier	Plant/contracted capacity	Terms of <i>PSA</i>
December 12, 2011	South Premiere Power Corporation or <i>SPPC</i>	Ilijan Power Plant in Batangas, for the full 1,180 <i>MW</i> net capacities	Under the <i>PSA</i> , <i>MERALCO</i> shall procure power from <i>SPPC</i> until December 25, 2019, with an option to extend the term for another three (3) years.
December 21, 2011	Masinloc Power Partners Co., Ltd. or <i>MPPCL</i>	The initial contracted capacity is 330 <i>MW</i> , to increase to 430 <i>MW</i> by December 26, 2015	The <i>PSA</i> is for a period of seven (7) years and can be extended by the parties for another three (3) years. Under the agreement, the terms of the <i>NPC-MERALCO TSC</i> will govern the supply by <i>MPPCL</i> to <i>MERALCO</i> .
December 20, 2011	SEM-Calaca Power Corporation	The initial contracted capacity is 210 <i>MW</i> and will be increased to 420 <i>MW</i> upon the commercial operation of the plant's Unit 1.	Term of seven (7) years, which may be extended by the parties for another three (3) years.
February 29, 2012	Therma Luzon, Inc. or <i>TLI</i>	Pagbilao coal-fired power plant with contracted capacity of 350 <i>MW</i> located in Quezon Province	Term of seven (7) years, which may be extended for three (3) years upon agreement of parties.
June 26, 2012	San Miguel Energy Corporation, or <i>SMEC</i>	Sual coal-fired power plant with initial contracted capacity of 200 <i>MW</i> to increase to 500 <i>MW</i> by December 26, 2012	Term of seven (7) years, which may be extended up to five (5) years upon agreement of parties.
April 26, 2012	Pangea Green Energy Philippines, Inc., or <i>PGEP</i>	Biogas power plant methane gas with a total nominal generating capacity of 1 <i>MW</i> .	Term of two (2) years from the delivery period commencement date, unless amended by the parties.
April 16, 2014	Montalban Methane Power Corporation or <i>MPPC</i>	8 <i>MW</i> renewable energy generating facility which utilizes landfill gas	"Take and pay" arrangement for two (2) years from <i>ERC</i> approval.

Date	Power Supplier	Plant/contracted capacity	Terms of <i>PSA</i>
May 15, 2014	Philippine Power and Development Corporation or <i>PPDC</i>	1 <i>MW</i> hydro power plants	Term of five (5) years which may be extended upon mutual agreement of parties.
May 29, 2014	San Buenaventura power Ltd. Co. or <i>SBPL</i>	Coal-fired power plant for 455 <i>MW</i> (net) capacity and electrical output	Term of twenty (20) years which may be extended up to five (5) years at the option of <i>MERALCO</i> .
November 25, 2014	Bacman Geothermal, Inc. or <i>Bacman</i>	Geothermal power plants for contracted capacity of 50 <i>MW</i>	Term of five (5) years pending approval extendable for another two (2) years upon mutual agreement of the parties.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSAs* of *MERALCO* with *MPPCL*, *SPPC*, *Sem-Calaca*, *TLI* and *SMEC*.

Motions for Reconsideration were filed regarding the *ERC* decisions on the *PSAs* with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca* Motions for Reconsideration. 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.

On June 2, 2014, *MERALCO* filed with the *ERC* for approval of its new *PSA* with *MPPC*. Similar to the previous *CSE*, said *PSA* is a “take and pay” arrangement, however, under the new *PSA*, energy is no longer billed at the *ERC* approved *NPC TOU* rate but at a fixed contract price. On June 11, 2014, *MERALCO* received *MMPC*’s motion to join *MERALCO* as co-applicant in the case. Upon approval by the *ERC* of the new *PSA*, the same shall replace the previous *CSE* executed between *MMPC* and *MERALCO*. *MERALCO* filed its *FOE* on July 23, 2014. The *ERC* conducted its last hearing on the application on August 5, 2014. *MERALCO* is now awaiting the resolution of the application by the *ERC*. 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. Hearing on this case have been completed. The case is now submitted for decision.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On June 11, 2014, *MERALCO* received *SBPL*’s motion to intervene as a co-applicant. On July 25, 2014, *PMR Limited Co.* or *PMR* filed a petition to intervene in the case. The initial hearing for the application was held on July 31, 2014. On the same date, *MERALCO* and *SBPL* filed their respective oppositions to *PMR*’s intervention. In its Order dated August 26, 2014, the *ERC* deemed it appropriate to allow *PMR*’s participation as an intervenor in the case. The pre-trial conference including the presentation of *MERALCO*’s and *SBPL*’s witnesses, was held on September 1, 2014.

After *MERALCO* and *SBPL* filed their respective *FOE*, the *ERC* set the case for hearing for presentation of *PMR*'s witness. Thereafter, *PMR* filed its *FOE* on November 18, 2014. On December 5, 2014, *MERALCO* received an Order of the *ERC* dated December 2, 2014 ruling that the application is considered submitted for decision. Thus, *MERALCO* is now awaiting for the *ERC* decision on the application. The *PSA* with *Bacman* was submitted to the *ERC* for approval.

Under the *PSAs*, 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
	<i>(In Megawatt)</i>	<i>(In Million)</i>
2015	3,050	37,613
2016	3,080	39,635
2017	3,080	39,408
2018	3,335	47,625
2019 to 2021	3,825	58,207

Interim Power Supply Agreement (IPSA)

On April 1, 2014, *MERALCO* signed two separate *IPSAs* with the wholly-owned subsidiaries of *GBPC*, namely: (1) Panay Power Corporation or *PPC* for a 27 *MW* firm output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City; and (2) Toledo Power Co. or *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 *IPSAs*, with the term of until on June 30, 2014, were filed for approval of the *ERC* on April 2, 2014. In its Decision dated June 2, 2014, the *ERC* approved the application with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *IPSAs*. 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 *IPSAs* with *PPC* for 27 *MW* and with *TPC* for 28 *MW* on firm basis and 9 *MW* on non-firm basis. The *IPSAs* 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. *MERALCO* is awaiting the Decision of the *ERC* on the application.

On April 3, 2014, *MERALCO* signed an *IPSA* with 1590 Energy Corp. 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 Corp. until October 31, 2014. A *MOA* dated October 30, 2014 was executed with 1590 Energy Corp. 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 April 8, 2014, *MERALCO* signed an *IPSA* with PanAsia Energy, Inc. for the 270 MW output from the Limay Combined Cycle Power Plant – a 540-MW diesel power facility at Barangay Luz, Limay, Bataan for a term of up to June 30, 2014. On July 18, 2014, the *ERC* approved the *IPSA* with PanAsia Energy, Inc., subject to certain modifications. However, since the approval of the *IPSA* came after expiration of its term, the *IPSA* was never implemented. On December 4, 2014, *MERALCO* signed a new *IPSA* with PanAsia Energy, Inc. which shall be effective upon the issuance of the final approval of the *ERC* and will expire on July 25, 2015. The *IPSA* will involve the sale of up to 270 MW from January 26 to April 25, 2015 and up to 180 MW from April 26 to July 25, 2015. A Joint Application for approval of said *IPSA* was filed with the *ERC* on January 14, 2015. The *ERC* issued an Order and Notice of Public Hearing, both dated February 2, 2015, setting the case for initial hearing on March 25, 2015.

Industry Restructuring

Under the *EPIRA*, the Philippine power industry continues to undergo fundamental restructuring.

These restructuring measures include:

- The deregulation of, and introduction of competition in, power generation and supply activities and pricing;
- The privatization of the *NPC*'s power generating assets and *IPP* contracts;
- The unbundling of the relative costs of the various segments of the power supply chain and reflecting these in the bills to customers;
- Freedom of consumers to choose electricity suppliers;
- Open and non-discriminatory access in the networks of *DUs*, subject to the fulfillment of certain conditions precedent;
- The implementation of the *WESM*; and
- Removal of inter-grid, intra-grid, and inter-class cross-subsidies.

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

1. Implementation of Performance-Based Regulation

As *DUs*, *MERALCO* and *CEDC* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings to customers are itemized or “unbundled” into a number of bill components that reflect the various units 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 charge, (d) lifeline subsidy, (e) local business taxes such as local franchise tax; and [ii] the modified “Rules for the Setting of Distribution Wheeling Rates for Privately Owned Electricity Distribution Utilities Operating under Performance Based Regulation (First Entry Group: Third Regulatory Period) or *RDWR*”, which govern the determination of the *MERALCO*'s distribution, supply, and metering charges.

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

Rate Applications

Performance-Based Regulation or PBR

a. 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 based on the regulated asset base of the *DUs*, and the required operating and capital, 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 or *RYs*. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The third *RP* is from July 1, 2011 to June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end on June 30, 2019. *MERALCO* is to undergo the fourth *RP* reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its fourth *RP* reset application.

Maximum Average Price or MAP for RY 2008 and RY 2009

On January 11 and April 1, 2008, *MERALCO* filed separate applications for the approval of its proposed translation of the *MAP* for *RY* 2008 and *RY* 2009, respectively, into different rate schedules for its various customer segments. A portion of the distribution charge under-recoveries as a result of the delayed implementation of the *PBR* was incorporated in the proposed *MAP* for *RY* 2009.

In an Order dated April 13, 2009, the *ERC* approved the implementation of *MERALCO's* average distribution rate of ₱1.2227 per kilowatt-hour or *kWh*, effective the billing period of May 2009, inclusive of the under-recoveries for calendar year 2007.

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals, or *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 or *SC*. Comments, responses and respective manifestations have been filed by both parties. As at February 23, 2015, a decision on this case is pending at the *SC*.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed an 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 *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 23, 2015, 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 23, 2015, 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 23, 2015, 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 23, 2015, the application is pending final approval by the *ERC*.

Capital Expenditure or CAPEX for RY 2016

The last year of *MERALCO*'s third *RP* ends on June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end 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 fourth *RP* reset application. *MERALCO* anticipates that there is not adequate time for it to file its fourth *RP* reset application and secure approval of its *CAPEX* forecast before the end of the third *RP*. In view thereof, and pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, *MERALCO*, on February 9, 2015, filed an application for approval of authority to implement its *CAPEX* program for *RY* 2016 (July 1, 2015 to June 30, 2016). As at February 23, 2015, the application is pending approval by the *ERC*.

b. 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 shall ends on September 30, 2015.

MAP for RY 2013

On August 30, 2012, *CEDC* filed its application for the approval of its *MAP* for *RY* 2013. On December 17, 2012, the *ERC* approved the *MAP* of ₱0.8953 per *kWh*. The revised rates based on the approved *MAP* for *RY* 2013 were implemented by *CEDC* starting January 2013.

MAP for RY 2014

On September 30, 2013, *CEDC* filed its application for the approval of its *MAP* for *RY* 2014. On December 9, 2013, the *ERC* approved the *MAP* of ₱0.8444 per *kWh*. The approved *MAP* for *RY* 2014 were implemented by *CEDC* starting December 2013.

MAP for RY 2015

On September 2, 2014, *CEDC* filed its application for the approval of its *MAP* for *RY* 2014. On February 23, 2015, the *ERC* approved the *MAP* of ₱0.9101 per *kWh*. The rates based on the approved *MAP* for *RY* 2014 were implemented by *CEDC* starting February 2015.

2. Application for Recoveries

Applications for the Recovery of Generation Costs and System Loss Charges

MERALCO filed separate applications for the full recovery of generation costs, including value-added tax or *VAT*, incurred for the supply months of August 2006 to May 2007 or total under-recoveries of ₱12,679 million for generation charges and ₱1,295 million for *SL* charges.

The separate applications for the full recovery of generation charges have been approved by the *ERC* in its decisions released on January 18, 2008, September 3, 2008 and August 16, 2010.

As at December 31, 2014, generation costs were fully recovered.

With respect to the ₱1,295 million *SL* charge under-recoveries, the *ERC* ordered *MERALCO* to file a separate application for the recovery of *SL* adjustments after the *ERC* confirms the transmission rate to be used in the calculation of the *SL* rate in accordance with the *SL* rate formula of the Automatic Generation Rate Adjustments Guidelines or *AGRA*. *MERALCO* has filed the application for recovery of the ₱1,295 million *SL* charge under-recoveries with the *ERC*. This was included in the Consolidated Application to confirm over- or under- recoveries in generation, transmission, *SL* and lifeline subsidies filed on March 31, 2011 with the *ERC*. Hearings were completed on October 25, 2011. On December 8, 2011, *MERALCO* filed for the admission of its Supplemental Application. Hearings on this case have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

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 system loss 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 *DUs* 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 an 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. Hearings have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On July 6, 2012, *MERALCO* filed an 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. Hearings on the application have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On March 31, 2014, *MERALCO* filed a consolidated 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 month were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. On February 2, 2015, *ERC* released an Order setting the application for initial hearing on March 11, 2015.

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 or *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 involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period.

Deferred Purchased Price Adjustment or 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 customers ₱268 million of deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company or *QPPL* and deferred accounting adjustments or *DAA* 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 does not represent the transmission line fee. On November 4, 2009, *MERALCO* filed a Motion for Reconsideration with the *ERC*. As at February 23, 2015, the motion for reconsideration is still pending resolution by the *ERC*.

Application for Recovery of Local Franchise Taxes or LFT

On March 25, 2011, *MERALCO* filed with the *ERC* an application for recovery of *LFT* paid but not yet billed to customers for the period beginning 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* expense 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, 2014, a total of ₱1,369 million *LFT* and carrying charges have been billed to affected customers.

On June 13, 2014, *MERALCO* filed an application with the *ERC* for authority to collect *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 or *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 insofar 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* has paid the full amount of said *LFT* to the local treasurer of City of Martires. *MERALCO* shall file the application once it completes the documentation for the filing.

On July 26, 2013 *MERALCO* filed an application with the *ERC* for authority to collect *LFT* in the City of Bacoor, separate from the previous authority granted to the Province of Cavite, beginning the date of effectivity of its "*City Ordinance No. 39, Series of 2012*" on April 4, 2013. In its Decision dated April 28, 2014, the *ERC* approved said application and authorized *MERALCO* to recover the *LFT* at the rate of 50% of 1% and the proceeds thereof will be remitted to the City of Bacoor.

3. Benefit Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with Private Electric Power Operators Association, Inc. or *PEPOA* and Philippine Rural Electric Cooperative Association or *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 system loss 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 23, 2015, the Joint Petition is pending further action or decision by the *ERC*.

4. Retail Competition and Open Access or *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 *CRB* and Reportorial Requirements. The resolution mandates all *DUs* 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*.

5. Philippine Economic Zone Authority or *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 *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DUs* at the *RTC-Pasig*.

6. 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 phases. The refund is ongoing.

7. *MERALCO*’s Peak/Off-Peak or *POP* Program

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised Time of Use or *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 avalees 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.

8. Purchase of Sub-transmission Assets or 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 Motion for Reconsideration, 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 *TranCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a motion for reconsideration 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.

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., or *BATELEC II* and First Bay Power Corporation or *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*.

9. Feed-in-Tariff

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 or *FIT* Rules, on July 23, 2010. As defined under the *FIT* Rules, the *FIT* system is as a renewable energy policy that offers a guaranteed payments on a fixed per kilowatt-hour 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 or *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 that are significantly 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*-Allowance will be established by the *ERC* upon petition by the National Transmission Corporation or *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. As of February 23, 2015, *MERALCO* is awaiting the action of the *SC* on this matter.

On April 30, 2014, the *DOE* issued a Certification revising the installation target for solar from 50MW to 500MW, 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 450MW.

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*. The *ERC* has yet to promulgate its resolution on the *FIT* Rate for the additional solar capacity.

10. Net Metering Program

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

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 *DUs*’ implementation of the Net Metering Program. Included in the Rules are the Interconnection Standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. 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 *DUs*’ blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The rules took effect

on July 24, 2013. As at December 31, 2014, *MERALCO* has already energized 41 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

11. Interruptible Load Program or *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 of February 23, 2015, there are 223 companies with a total generating capacity of 886 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity supplier as *ILP* participants.

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not applicable

- **Any events that will trigger direct or indirect contingent financial obligation that is material to *MERALCO*, including any default or acceleration of an obligation.**

Mediation with *NPC*

The *NPC* embarked on a Power Development Program or *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 or *DOE* required that *MERALCO* enter into a long-term supply contract with *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity or *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 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 or *SA* between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* 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 Office of the Solicitor General or *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 or *TRO* from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a motion for reconsideration 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*, independent of the pass-through for the settlement amount which is reserved for the *ERC*, valid and binding. 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. As at February 23, 2015, the case is for further action or decision by the *SC*.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-part transmission line, which completed the 230kV-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. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought for by the plaintiffs. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed a 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 pay all damages, which the plaintiffs may incur as a result of the Writ of Preliminary Injunction.

Thereafter, the plaintiffs questioned the *RTC-Makati* order before the *CA*. Separately, in its Order dated February 5, 2013, the *RTC-Makati* granted plaintiffs' motion and directed the re-raffle of the case to another court after the judicial dispute resolution failed.

As at February 23, 2015, this case remains pending for resolution in the *CA*.

Real Property Tax or *RPT* Assessment

Several Local Government Units or *LGUs* assessed *MERALCO* for deficiency *RPT* on certain assets of *MERALCO*. The assets include any of electric poles, wires, insulators, and transformers, collectively referred to as *TWIP*. Of these *LGUs*, one has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* where it is now submitted for resolution. The cases of the other *LGUs* are pending with their respective administrative bodies or government offices.

MERALCO also filed a case against the City of Manila before *RTC-Pasig* to enjoin the collection of real property taxes on the company's transformers and poles and nullify the *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 is set for mediation after the City of Manila filed its comment on *MERALCO*'s petition.

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 *LGU* through a separate application with the *ERC*.

Local Franchise Tax Assessments of Municipalities

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

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 or *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 or *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's motion for reconsideration. 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. As at February 23, 2015, further action of the case is pending at the *CA*.

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

Not Applicable.

- **Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures should be described**

2015 Capital Expenditure Requirements (*In millions*)

Electric capital projects	₱10,539
Non-electric projects and other capitalized	3,244
<u>Total capital expenditures</u>	<u>₱13,783</u>

As at December 31, 2014, *MERALCO* has met, and expects that it will continue to meet its capital expenditure requirements primarily from cash flow from operations, and working capital.

MERALCO is required by the *ERC* to take necessary steps, including making necessary capital expenditures, to build and maintain its network so as to meet minimum performance and service requirements and in any event to make capital expenditures in each quarter at least equal to the amount of depreciation taken in the prior years. Most expenditure on transmission and substation projects, supervisory control and distribution automation, and distribution line projects are non-discretionary. The remaining capital expenditure is discretionary, which encompasses allocation projects, telecommunications projects and other non-electrical capital expenditure. If the actual peak demand is lower than the forecasted demand, a portion of the non-discretionary capital expenditure may become discretionary.

MERALCO has an approved capital expenditure budget of ₱14,565 million for the year ended December 31, 2014, of which about 73% represents planned expenditures for the electric projects of the power distribution business. It has to prioritize its projects to only those deemed urgent in the 2014 project line up. Funding of capital expenditures will be sourced substantially from internally generated cash flow and borrowings from local financial institutions.

The ₱14,565 million approved capital expenditure budget is geared to support projects on areas with large concentration of core customers, give priority to correction of normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies.

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

- Retail Competition

See related preceding discussions under ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES.

- 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 500kV Line 2 on June 22, 2008, and the 500kV 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 or *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 or *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/collect line rental adjustment to/from *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 *SGCs* is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. or *APRI*, *TLI*, *SMEC* and *Sem-Calaca* or *SCPC*, 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 *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGCs* 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 *SGCs* 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 *SGCs*: *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 23, 2015, *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 Motion for Reconsideration of the December 1, 2014 Decision of the *CA*. As at February 23, 2015, *PSALM*'s Motion for Reconsideration is pending action or decision by the *CA*.

- *Petition for Dispute Resolution Against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Galaca*

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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its Pre-trial Brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 23, 2015, the Joint Motion to Dismiss is pending resolution by the *ERC*.

- *PSALM versus PMC and MERALCO*

Due to the unusually large 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*.

As at February 23, 2015, *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 23, 2015, the petition is pending resolution by the *ERC*.

- Recovery of Local Franchise Tax

On March 25, 2011, *MERALCO* filed with the *ERC* an application for recovery of *LFT* paid but not yet billed to customers for the period beginning 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* expense 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, 2014, a total of ₱1,369 million *LFT* and carrying charges have been billed to affected customers.

On June 13, 2014, *MERALCO* filed an application with the *ERC* for authority to collect *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 or *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 insofar 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 has paid the full amount of said LFT to the local treasurer of City of Martires. *MERALCO* shall file the application once it completes the documentation for the filing.

On July 26, 2013 *MERALCO* filed an application with the *ERC* for authority to collect *LFT* in the City of Bacoor, separate from the previous authority granted to the Province of Cavite, beginning the date of effectivity of its “*City Ordinance No. 39, Series of 2012*” on April 4, 2013. In its Decision dated April 28, 2014, the *ERC* approved said application and authorized *MERALCO* to recover the *LFT* at the rate of 50% of 1% and the proceeds thereof will be remitted to the City of Bacoor.

- SC Temporary Restraining Order 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 or *Malampaya*, 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 sixty (60) days, which effectively enjoined the *ERC* and *MERALCO* from implementing the ₱4.15 per *kWh* 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 *DUs* 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.*, 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 view of the pendency of the various submissions before the Commission 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.

In its Order dated October 15, 2014, the *ERC* issued an Order denying the motions filed by the generating companies. The generating companies have filed separate petitions before the *CA* to question the March 3, 2014 and October 15, 2014 Orders of the *ERC*.

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 23, 2015, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

- 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 or *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 or *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 or *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*. As at February 23, 2015, *MERALCO* has filed a comment on the motion and the motion is deemed submitted for resolution.

● **Any significant elements of income or loss that did not arise from the registrant's continuing operations.**

None.

● **Any seasonal aspects that had a material effect on the financial condition or results of operations.**

Seasonality of Operations and Growth Drivers

Approximately 98% of *MERALCO Group's* operating revenues pertain to sale of electricity distributed by *MERALCO* and *CEDC*.

The electricity sales of *MERALCO* and *CEDC* exhibit a degree of quarterly seasonality. The *kWh* sales in the first quarter is lower than the average of the year as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher

than average *kWh* sales. This is due to a number of factors, including: increased consumption of households and commercial establishments due the summer season; increased production of industries to replenish stocks and in preparation for the opening of classes; and, heightened construction activity to take advantage of the sunny weather. In the third quarter of the year, manufacturing industries that cater to the export market have their peak production schedule at this time as they rush to meet shipping deadlines to foreign markets. Industries catering to the domestic market are also now starting production in preparation for the Christmas season. Lastly, the fourth quarter performance is about the average of the year. Industrial production winds down while households and commercial establishments also cut down on their cooling loads. Given this perspective on the seasonality of *kWh* sales, a higher proportion of the *MERALCO*'s and *CEDC*'s revenues are earned on the second half of the year.

Aside from the quarterly seasonal pattern, *kWh* sales on a year-on-year basis adjust as a result of a number of factors. Sales of electricity normally increase in periods of economic growth, low inflation and electricity rates, and in periods of high temperatures over extended period of time, e.g. the El Niño episodes.

The following table sets forth *MERALCO Group's* quarterly sales in GWh.

Period	2014	2013
First Quarter	7,908	7,777
Second Quarter	9,391	9,086
Third Quarter	8,954	8,753
Fourth Quarter	8,907	8,468
Total	35,160	34,084

The businesses of all other subsidiaries are not highly seasonal.

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

The Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO Group's* liquidity as at December 31, 2014.

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

Listed hereunder are *MERALCO's* major subsidiaries namely *CEDC*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the years ended December 31, 2014 and 2013.

Financial Highlights and Ratios¹² of Major Subsidiaries
As at and for the Years Ended December 31, 2014 and 2013
(Amounts in million pesos except for financial ratios and % change)

	CEDC			MGen			MIESCOR			e-MVI			C/S		
	2014 65%	2013 65%	% change	2014 100%	2013 100%	% change	2014 99%	2013 99%	% change	2014 100%	2013 100%	% change	2014 100%	2013 100%	% change
Percentage of ownership															
Condensed Statements of Financial Position															
Total assets	1,631	1,414	15	19,270	17,921	8	3,665	2,259	62	1,206	993	21	1,642	1,274	29
Current assets	1,046	876	19	6,007	5,639	7	3,138	1,886	66	435	362	20	1,577	1,202	31
Cash and cash equivalents	724	594	22	461	270	71	608	338	80	178	131	36	573	544	5
Equity	896	469	89	19,204	17,870	7	943	914	3	983	820	20	495	443	12
Total debt ¹³	-	-	-	-	-	-	380	114	233	-	-	-	-	-	-
Current liabilities	454	666	(32)	42	38	11	2,478	1,305	90	187	156	20	1,134	825	37
Financial Ratios															
Debt-to-equity ratio	-	-	-	-	-	-	0.40	0.12	223	-	-	-	-	-	-
Current ratio	2.30	1.32	76	143.02	148.39	(4)	1.27	1.45	(12)	2.33	2.32	-	1.39	1.46	(5)
Condensed Statements of Income															
Revenues	2,861	2,598	10	-	-	-	3,323	2,863	16	597	450	33	1,012	883	15
Costs and expenses	2,636	2,420	9	465	475	(2)	3,181	2,825	13	370	270	37	733	647	13
Net income (loss)	222	177	25	(329)	(401)	(18)	74	14	429	164	127	29	202	173	17
Financial Ratios															
Profit margin	7.8%	6.8%	14	-	-	-	2.2%	0.5%	355	27.5	28.2%	(3)	20.0%	19.6%	2
Return on equity	25.1%	37.7%	(34)	(1.7%)	(2.2%)	(24)	7.8%	1.5%	412	16.7	15.5%	8	40.8%	39.1%	4
Asset turnover	1.75	1.84	(5)	-	-	-	0.91	1.27	(28)	0.50	0.45	9	0.62	0.69	(11)

¹²

The manner of computing the financial ratios for subsidiaries is the same with that of MERALCO's as presented in Financial Highlights and Key Performance Indicators.

¹³

Total Debt is composed of notes payable and interest-bearing long-term financial liabilities, current and non-current portions.

ANNEX – Aging of Trade and Other Receivables

As at December 31, 2014

(Amounts in millions)

	<u>T o t a l</u>	<u>1 - 30 days</u>	<u>31 - 60 days</u>	<u>61 - 90 days</u>	<u>Over 90 days</u>
Trade receivables					
A) Billed trade receivables					
Residential	P10,039	P6,075	P681	P263	P3,020
Commercial	9,144	6,837	433	157	1,717
Industrial	3,413	3,040	26	8	339
Flat Streetlights	499	194	31	25	249
Total billed trade receivables	23,095	16,146	1,171	453	5,325
B) Unbilled trade receivables	4,082	4,082	—	—	—
Total trade receivables	27,177	20,228	1,171	453	5,325
Other trade receivables	3,482	2,656	26	15	785
Gross trade receivables	30,659	22,884	1,197	468	6,110
Non-trade receivables	3,397	3,114	32	33	218
Total receivables	34,056	25,998	1,229	501	6,328
Allowance for doubtful accounts	(3,427)	—	—	—	(3,427)
Net receivables	P30,629	P25,998	P1,229	P501	P2,901

Item 7. Financial Statements

Refer to Index to Financial Statements

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The shareholders of *MERALCO* reappointed SGV and Co. as its independent auditors for the year ended December 31, 2014 during the annual stockholders' meeting of May 27, 2014. The signing partner of SGV and Co. for *MERALCO* is Mr. Martin C. Guantes.

(a) Audit and Audit-Related Fees

SGV and Co. was engaged to audit the annual financial statements of *MERALCO* and subsidiaries and perform related reviews. The following consolidated fees, exclusive of Value Added Tax were incurred.

(Amounts in millions)	2014	2013
Financial statements audit	₱7.0	₱6.5
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the <i>ERC</i>	0.3	–
Review of interim consolidated financial statements in relation to <i>MERALCO</i> bond offering	–	1.8

(b) Tax Fees

Not applicable.

(c) The Audit Committee's approval of policies and procedures for the above services

The Audit and Risk Management Committee approves the terms of engagement and scope of services of the independent auditors as endorsed by Management. For non-audit services, Management is required to disclose to the Audit and Risk Management Committee any engagement contracting the appointed independent auditors to ensure that their independence will not be compromised.

For 2014, SGV secured clearance from the Audit and Risk Management Committee to submit a proposal requested by *MERALCO* for a particular project under bidding. SGV did not render any non-audit services to *MERALCO* for the year.

(d) Describe disagreements, if there were any, with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement(s) in connection with this report.

There had been no disagreements with its previous and current independent auditors on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(e) If there were any disagreements as described in subparagraph (2), the registrant shall request the former accountant to furnish the registrant with a letter addressed to the Commission stating whether it agrees with the statements made by the registrant and, if not, stating the respects in which it does not agree. The registrant shall file the former accountant's letter as an exhibit to the report or registration statement containing this disclosure.

Not applicable.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

As of March 18, 2015, the names of the incumbent Directors and Executive Officers of *MERALCO* and their respective ages, citizenship, current positions, periods of service and business experiences during the past five years are as follows:

Directors

MANUEL V. PANGILINAN, 68, FILIPINO

Chairman of the Board of Directors

Chairman of the Executive Committee

Chairman, Remuneration and Leadership Development Committee

Director since May 26, 2009

Education and Training:

- BA Economics Degree, Ateneo De Manila University
- MBA Degree, Wharton School of Finance and Commerce University of Pennsylvania
- Honorary Doctorate in Humanities, San Beda College/Xavier University/Holy Angel University/Far Eastern University

Membership in Board of Listed Companies:

- Philippine Long Distance Telephone Company
- Metro Pacific Investments Corporation
- Philex Mining Corporation

Membership in Board of Non-Listed Companies:

- Beacon Electric Asset Holdings, Inc.
- Smart Communications, Inc.,
- PLDT Communications and Energy Ventures Inc.
- 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
- Meralco Powergen Corporation

Positions and Memberships in Other Organizations and Corporations:

- Chairman of Beacon Electric Asset Holdings, Inc., Philippine Long Distance Telephone Company, Smart Communications, Inc., Metro Pacific Investments Corporation, PLDT Communications and Energy Ventures Inc., 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), Philex Mining Corporation², Manila North Tollways Corporation and Meralco Powergen Corporation³.
- Chief Executive Officer and Managing Director of First Pacific Company Limited
- Co-Chairman of the newly-organized US-Philippines Business Society.
- Chairman of the Board of Trustees of San Beda College, Hongkong Bayanihan Trust, Disaster Recovery Foundation, Inc., Philippine Business for Social Progress;
- Vice-Chairman of the Foundation for Crime Prevention.
- Member of the Board of Overseers of The Wharton School, University of Pennsylvania
- Former Governor of the Philippine Stock Exchange.

LANCE Y. GOKONGWEI, 48, FILIPINO

Vice-Chairman of the Board of Directors

Member, Audit and Risk Management Committee

Member, Remuneration and Leadership Development Committee

Director since December 16, 2013

Education and Training:

- BS Finance Wharton School of Finance and Commerce University of Pennsylvania
- BS Applied Science Penn Engineering School University of Pennsylvania

Membership in Board of Listed Companies:

- JG Summit Holdings, Inc.
- Universal Robina Corp.
- Cebu Air, Inc.
- Robinsons Land Corp.
- Robinsons Retail Holdings, Inc.
- Oriental Petroleum and Minerals Corporation

Membership in Board of Non-listed Companies:

- United Industrial Corporation Limited
- JG Summit Petrochemicals
- Robinsons Bank Corp
- Gokongwei Brothers Foundation, Inc.
- Singapore Land Limited

Positions and Memberships in Other Organizations and Corporations:

- President and Chief Operating Officer of JG Summit Holdings, Inc.
- President and Chief Executive Officer of Universal Robina Corp., Cebu Air, Inc. and JG Summit Petrochemicals;
- Vice-Chairman and Chief Executive Officer of Robinsons Land Corp.
- Vice-Chairman of Robinsons Retail Holdings, Inc.;
- Chairman of Robinsons Bank Corp.;
- Member of the Board of Directors of Oriental Petroleum and Minerals Corporation, United Industrial Corporation Limited, Singapore Land Limited, and Gokongwei Brothers Foundation, Inc.
- Trustee, Ateneo de Manila University

JOHN L. GOKONGWEI JR., 87, FILIPINO

Director since March 31, 2014

Education and Training:

- MBA De La Salle University
- Advanced Management Program Degree Harvard University

Membership in Board of Listed Companies:

- JG Summit Holdings, Inc.
- Universal Robina Corporation
- Robinsons Land Corporation
- Cebu Air, Inc.
- Robinsons Retail Holdings, Inc.
- Oriental Petroleum and Minerals Corporation
- A. Soriano Corporation

Membership in Board of Nonlisted Companies:

- Gokongwei Brothers Foundation, Inc.
- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Robinsons Bank
- United Industrial Corporation Limited
- Singapore Land Limited

Positions and Membership in Other Organizations and Corporations:

- Chairman Emeritus of JG Summit Holdings Inc., Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemical Corporation, Robinsons Bank
- Director for Cebu Air Inc., JG Summit Olefins Corporation, Oriental Petroleum and Minerals Corporation, A.Soriano Corporation
- Deputy Chairman and Director for United Industrial Corporation Limited and Singapore Land Limited
- Chairman and Chief Executive Officer for Robinsons Retail Holdings, Inc.

OSCAR S. REYES, 68, FILIPINO

President and Chief Executive Officer

Director since July 1, 2010

Education and Training:

- BA Economics Ateneo De Manila University
- MBA Ateneo Graduate School of Business Administration
- International Management Development Program Waterloo Lutheran University
- Program for Management Development Harvard Business School

Membership in Board of Listed Companies:

- Bank of the Philippine Islands
- Manila Water Company
- Philippine Long Distance Telephone Co.
- Pepsi Cola Products Philippines Inc.
- Basic Energy Corporation
- Cosco Capital Inc.

Membership in Board of Non-listed Companies:

- Meralco PowerGen Corporation
- Redondo Peninsula Energy Inc.
- Meralco Industrial Engineering Services, Inc.
- Meralco Energy, Inc.
- CIS Bayad Center, Inc.
- PacificLight Power Pte Ltd.
- Eramen Minerals Inc.
- Republic Surety and Insurance Company, Inc.
- PLDT Communications and Energy Ventures Inc.

- Sun Life Financial Plans, Inc.
- Sun Life Prosperity Funds
- Grepalife Asset Management Corporation
- Petrolift Corporation
- Asian Eye Institute

Positions and Memberships in Other Organizations and Corporations:

- Chairman of the Board for Redondo Peninsula Energy Inc., Meralco Industrial Engineering Services Corporation, Meralco Energy Inc., CIS Bayad Center Inc., PacificLight Power Pte Ltd.
- President of Meralco PowerGen Corporation

RAY C. ESPINOSA, 58, FILIPINO

Chairman, Finance Committee

Member, Nomination and Governance Committee

Director since May 26, 2009

Education and Training:

- BS General Studies University of Santo Tomas
- Bachelor of Laws Ateneo De Manila University
- Master of Laws University of Michigan Law School

Membership in Board of Publicly Listed Companies:

- Philippine Long Distance Telephone Company
- Metro Pacific Investments Corporation
- Lepanto Consolidated Mining Corporation
- Roxas Holdings Inc.

Membership in Board of Non-listed Companies:

- Beacon Electric Asset Holdings, Inc.
- First Pacific Company Limited
- Studio5 Inc.
- Excel Pacific Holdings Corp.
- Kalilayan Power, Inc.
- Med Vision Resources, Inc.
- Telemedia Business Ventures, Inc
- Pilipinas Pacific Enterprise Holdings, Inc.
- Meralco PowerGen Corporation
- Mediaquest Holdings, Inc.
- ABC Development Corporation (TV5)
- Business World Publishing Corp.
- Digitel Telecommunication Philippines, Inc.
- Signal TV, Inc.
- Media5 Marketing Corp.
- Metro Pacific Assets Holdings, Inc.
- Metro Pacific Resources, Inc.

- Pacific Global One Aviation Company, Inc.
- Philstar Daily, Inc.
- Philippine Telecommunications Investment Corp.
- Pilipino Star Ngayon Inc.
- The Philippines Home Cable Holdings Inc.
- Wolfpac Mobile Inc.

Positions and Involvement in Organizations and Corporations:

- Chairman and Director of Studio5 Inc., Excel Pacific Holdings Corp., Kalilayan Power, Inc., Med Vision Resources, Inc., Telemedia Business Ventures, Inc., Business World Publishing, Philstar Daily, Inc.
- President and Director of Pilipinas Pacific Enterprise Holdings, Inc.
- Member, Integrated Bar of the Philippines
- Member, Philippine Bar Association
- Member, Inter-Pacific Bar Association
- Member, Executive Committee, LAWASIA Energy Section

JAMES L. GO, 75, FILIPINO

Member, Audit and Risk Management Committee

Member, Finance Committee

Member, Nomination and Governance Committee

Director since December 16, 2013

Education and Training:

- BS Chemical Engineering Massachusetts Institute of Technology
- Master's Degree in Chemical Engineering Massachusetts Institute of Technology

Membership in Board of Listed Companies:

- JG Summit Holdings, Inc. (JGSHI)
- Oriental Petroleum and Minerals Corp
- Robinsons Land Corp.
- Universal Robina Corp.
- Robinsons Retail Holdings, Inc
- Cebu Air, Inc.
- Philippine Long Distance Telephone Company

Membership in Board of Non-listed Companies:

- JG Summit Petrochemical Corp.
- JG Summit Olefins Corp.
- Marina Center Holdings, Inc.
- Hotel Marian City Private Limited
- Gokongwei Brothers Foundation, Inc.
- Singapore Land, Ltd.
- United Industrial Corporation Limited

Positions and Memberships in Other Organizations and Corporations:

- Chairman and Chief Executive Officer of JG Summit Holdings, Inc. (JGSHI) and Oriental Petroleum and Minerals Corp.; Chairman of Robinsons Land Corp. , Universal Robina Corp. , JG Summit Petrochemical Corp. and JG Summit Olefins Corp.
- Vice-Chairman and Deputy Chief Executive Officer of Robinsons Retail Holdings, Inc.;
- President and Trustee of Gokongwei Brothers Foundation, Inc.

JOSE MA. K. LIM, 62, FILIPINO

Member, Audit and Risk Management Committee

Member, Remuneration and Leadership Development Committee

Member, Nomination and Governance Committee

Director since May 29, 2012

Education and Training:

- BA Philosophy Ateneo de Manila University
- MBA Asian Institute of Management

Membership in Board of Listed Companies:

- Metro Pacific Investments Corporation

Membership in Board of Non-listed Companies:

- Beacon Electric Asset Holdings
- Indra Philippines
- Davao Doctors Hospital
- Asian Hospital Inc.
- Riverside Medical Center
- Metro Pacific Investments Foundation Inc.
- Metro Strategic Infrastructure Holdings
- Meralco PowerGen Corporation
- Metro Pacific Tollways Corporation
- Manila North Tollways Corporation
- Tollways Management Corporation
- DMCI-MPIC Water Company, Inc.
- Maynilad Water Services, Inc.
- Medical Doctors, Inc.
- Cardinal Santos Medical Center
- Our Lady of Lourdes Hospital
- Central Luzon Doctors Hospital
- Pacific Global Aviation Inc.
- Neptune Stroika Holdings Inc.

Positions and Memberships in Other Organizations and Corporations:

- President and Chief Executive Officer of Metro Pacific Investments Corporation
- Chairman of Davao Doctors Hospital, Asian Hospital Inc. and Riverside Medical Center

- President and Trustee of Metro Pacific Investments Foundation Inc.;
- President and Director of Beacon Electric Asset Holdings and Metro Strategic Infrastructure Holdings
- Trustee of Davao Doctors Collage, Riverside Collage and Ideaspace Foundation, Inc.
- Founding Member and Treasurer of the Shareholders Association of the Philippines

MANUEL M. LOPEZ, 72, FILIPINO

Member, Finance Committee

Director since April 14, 1986

Education and Training:

- BS Business Administration University of the East
- Advanced Studies in Financial & Management Development Harvard Business School

Membership in Board of Listed Companies:

- Lopez Holdings Corporation
- Rockwell Land Corporation
- First Philippine Holdings Corporation
- ABS-CBN Corporation
- ABS-CBN Holdings Corporation

Membership in Board of Non-listed Companies:

- Bayan Telecommunications, Inc.
- Indra Philippines, Inc.
- Bayan Telecommunications Holdings Corporation
- Rockwell Leisure Club.
- Lopez Inc
- Sky Cable Corporation
- Lopez Group Foundation Inc.

Positions and Memberships in Other Organizations and Corporations:

- Philippine Ambassador to Japan
- Chairman and CEO of Lopez Holdings Corporation
- Chairman of Indra Philippines, Inc., Bayan Telecommunications, Inc., Bayan Telecommunications Holdings Corporation, Rockwell Land Corporation and Rockwell Leisure Club
- Vice Chairman of First Philippine Holdings Corporation and Lopez Inc.
- President of Eugenio Lopez Foundation, Inc.

NAPOLEON L. NAZARENO, 65, FILIPINO

Member, Nomination and Governance Committee

Director since March 31, 2014

Education and Training:

- BS Mechanical Engineering University of San Carlos, Cebu City
- Master in Business Management Asian Institute of Management
- INSEAD Executive Program The European Institute of Business Administration
Fountainbleau, France
- Doctor of Technology (Honoris Causa) University of San Carlos, Cebu City

Membership in Board of Listed Companies:

- Philippine Long Distance Telephone Company

Membership in Board of Non-listed Companies:

- Smart Communications Inc.
- First Pacific Company Limited
- PLDT Communications and Energy Ventures
- SMART e-Money Inc.
- Digital Telecommunication Phils Inc.
- Digitel Mobile Philippines Inc.
- ePLDT Inc.
- Connectivity Unlimited Resources Enterprise Inc.
- First Pacific Leadership Academy
- Smart Broadband Inc.
- i-Contacts Corporation
- PLDT Global Corporation
- Aces Philippines Cellular Satellite Corporation
- Rufino Pacific Tower Condominium Corporation
- Rocket Internet AG
- Meralco Powergen Corporation
- SIGNAL

Positions and Memberships in Other Organizations and Corporations:

- President and CEO of Philippine Long Distance Telephone Company, Smart Communications Inc., and Connectivity Unlimited Resources Enterprise Inc.
- Chairman of PLDT Communications and Energy Ventures, SMART e-Money Inc., Digital Telecommunications Phils Inc., Digitel Mobile Philippines Inc., ePLDT Inc., Smart Broadband Inc, and i-Contacts Corporation.
- President and Trustee of First Pacific Leadership Academy
- Non-executive Director of First Pacific Company Limited
- President of Aces Philippines Cellular Satellite Corporation
- Supervisory Board Member of Rocket Internet AG
- Trustee of Ideospace and Philippine Disaster Recovery Foundation
- Member, Analitika
- Member, DLSU-Graduate School of Business Council of Advisors
- Member, Management Association of the Philippines
- Member, BBC-Livelihood Foundation Inc.
- Member, Pacific Basin Economic Council
- Partner Member, Philippine Business for Social Progress

ARTEMIO V. PANGANIBAN, 78, FILIPINO

Independent Director

Chairman, Audit and Risk Management Committee

Member, Nomination and Governance Committee

Independent Director since May 27, 2009

Education and Training:

- Associate Arts Degree Far Eastern University
- Bachelor of Laws Far Eastern University
- Doctor of Laws (Honoris Causa) University of Iloilo Far/ Eastern University/ University of Cebu/ Angeles University/Bulacan State University

Membership in Board of Listed Companies:

- Petron Corporation
- Bank of the Philippine Islands
- First Philippine Holdings Corporation
- Philippine Long Distance Telephone Company
- Metro Pacific Investments Corporation
- Robinsons Land Corporation
- GMA Network, Inc.
- GMA Holdings, Inc.
- Asian Terminals, Inc.
- Jollibee Foods Corporation

Membership in Board of Non-listed Companies:

- Metro Pacific Tollways Corporation

Positions and Memberships in Other Organizations and Corporations:

- Former Chief Justice of the Supreme Court of the Philippines.
- Former Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy.
- Independent Director of Petron Corporation, Bank of the Philippine Islands, First Philippine Holdings Corporation, Philippine Long Distance Telephone Company, Metro Pacific Investments Corporation; Metro Pacific Tollways Corporation, Robinsons Land Corporation, GMA Network, Inc. ,GMA Holdings, Inc. and Asian Terminals, Inc.
- Senior Adviser of Metropolitan Bank and Trust Company.
- Columnist for the Philippine Daily Inquirer.

PEDRO E. ROXAS, 58, FILIPINO

Independent Director

Chairman, Nomination and Governance Committee

Member, Finance Committee

Member, Audit and Risk Management Committee

Member, Remuneration and Leadership Development Committee

Independent Director since May 25, 2010

Education and Training:

- BS Business Administration University of Notre Dame Indiana, USA

Membership in Board of Listed Companies:

- Roxas and Company, Inc.
- Roxas Holdings, Inc.
- Philippine Long Distance Telephone Company

Membership in Board of Non-listed Companies:

- Roxaco Land Corporation
- Club Punta Fuego, Inc
- BDO Private Bank
- Brightnote Assets Corporation

Positions and Memberships in Other Organizations and Corporations:

- Chairman, President and Chief Executive Officer of Roxas and Company, Inc.
- Chairman and President of Roxaco Land Corporation;
- Chairman of Roxas Holdings, Inc. and Club Punta Fuego, Inc.
- Independent Director of Philippine Long Distance Telephone Company and BDO Private Bank
- Director of Brightnote Assets Corporation.

Executive Officers**SIMEON KEN R. FERRER, 56, Filipino
Corporate Secretary (since May 26, 2009)**

Atty. Ferrer is a Senior Partner at the SyCip Salazar Hernandez and Gatmaitan and is Chairman of the law firm's Hiring Committee. He is a Director and Corporate Secretary of Habibi Cove Realty Corporation, Marbelene Realty Corporation, Maxim Philippine Assembly Corporation, among others. Atty. Ferrer is a member of the Integrated Bar of the Philippines and the Philippine Bar Association and a Fellow of the Institute of Corporate Directors. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. He holds a Bachelor of Science degree in Business Economics and Bachelor of Laws degree from the University of the Philippines and a Master of Laws degree from the University of Michigan as a DeWitt Fellow.

**ROBERTO R. ALMAZORA, 54, Filipino
Senior Vice President (since March 2009)
Energy Market Advisor and Head, MPower**

Mr. Almazora heads MPower, the Local Retail Electricity Supplier business segment of *MERALCO*. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, Diliman, and completed his Masters in Business Management at the Asian Institute of Management. Prior to his current assignment, he held various executive positions during his 27 years with *MERALCO* and served as Director in various subsidiary/affiliate boards, among which include Indra Philippines, Inc., Meralco Energy Inc., Meralco Industrial Engineering Services Corporation, MIESCOR Builders Inc., Landbees Corporation, General Electric Philippines Meter and Instrument Co., Inc., Clark Electric Distribution Corporation and First Private Power

Corporation. He served as President of Miescor Builders Inc. in 2011. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of UP Diliman. And in 2011, was granted the Professional Degree Awardee from Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as a resource speaker in various energy conferences and served as an energy adviser to business groups and associations.

ALFREDO S. PANLILIO, 52, Filipino
Senior Vice President (since September 2010)
Head, Customer Retail Services and Corporate Communication

Mr. Panlilio is a Director of CIS Bayad Center, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., Miescorrail, Inc., General Electric Philippines Meter and Instrument Co., Inc. and Indra Philippines, Inc. and Mabuhay Satellite Corporation. He also serves as Chairman and Director of Paragon Vertical Corporation; Radius Telecoms, Inc., e-Meralco Ventures, Inc. and Manila Electric Futbol Club, Inc.; Trustee of One Meralco Foundation, Inc., SEIPI, and Philpop Musicfest Foundation, Inc.; President of MVP Sports Foundation, Inc.; First Vice President of Samahang Basketbol ng Pilipinas; Treasurer of National Golf Association of the Philippines; Governor for Management Association of the Philippines and PBA Governor for the *MERALCO* Bolts. He was formerly a Director of PLDT Global Corporation.

ANGELITO D. BERMUDO, 55, Filipino
Senior Vice President (since January 2013)

Mr. Bermudo is the President and Chief Executive of MIESCOR Group (MIESCOR, Miescor Builders, Inc., and Miescor Logistics, Inc.). Mr. Bermudo is a Director of Miescor, Miescor Builders Inc. and Miescor Logistics. He was formerly a Director of Miescorrail, Inc. He was the former President and Chief Executive Officer of AG&P Company of Manila.

RAMON B. SEGISMUNDO, 57, Filipino
Senior Vice President (since February 2010)
Head, Human Resources and Corporate Services

Mr. Segismundo is the Chief Human Resources Officer of *MERALCO*. He is also the Chairman of Customer Frontline Solutions, Inc., and President and Trustee of Meralco Power Academy. He is a Board Trustee of One Meralco Foundation, Inc., Meralco Pension Fund and the Loyola Meralco Sparks FC. He is a member of the Board of Directors of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Inc., Miescorrail, Inc. and General Electric Philippines Meter and Instrument Co., 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.

BETTY C. SIY-YAP, 53, Filipino
Senior Vice President and Chief Finance Officer (since July 2009)

Ms. Siy-Yap is a Director of Clark Electric Distribution Corporation, CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, General Electric Philippines

Meter and Instrument Co., Inc., Radius Telecoms, Inc., Republic Surety and Insurance Company, Inc., Indra Philippines, Inc., Philippine Commercial Capital, Inc., MERALCO PowerGen Corporation, Miescorrail, Inc., Meralco Financial Services Corporation, Calamba Aero Power Corporation, and Redondo Peninsula Energy, Inc., Atimonan Land Ventures Corporation, Luzon Natural Gas Energy Corporation, MPG Holdings Phils., Inc. and MPG Asia Limited. She is the President of Lighthouse Overseas Insurance Limited. She is also a Member of the Auditing and Assurance Council of the Philippines and Market Governance Board, Philippine Dealing System and Exchange Corporation. Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., and the Loyola Agila Futbol Club, Inc. Treasurer of First Pacific Learning Academy, Inc. and MVP Sports Foundation, Inc. Vice Chairman of the Board of Accountancy. Professional Regulations Commission. She serves as Alternate Governor of the Philippine Basketball Association for the Meralco Bolts. She was formerly a Director of Rockwell Land Corporation and was a Partner of SyCip Gorres Velayo and Co. (a Member of Firm of Ernst & Young Global) from 1995 to 2009.

RAFAEL L. ANDRADA, 55, Filipino
First Vice President (since January 2005)
Treasurer since May 1998

Mr. Andrada is a Director of CIS Bayad Center, Inc., General Electric Philippines Meter and Instrument Co., Inc., Republic Surety and Insurance Co., Inc., Meralco Industrial Engineering Services Corporation, Radius Telecoms Inc., Clark Electric Distribution Corporation and Lighthouse Overseas Insurance Company Limited. He is the Chairman of the Board of Directors of 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 Development Corporation, Atimonan One Energy, Inc., MPG Holdings Philippines, Inc., MPG Asia Limited and MPG Mauban Limited Partner Corporation. He was formerly a Director of Rockwell Land Corporation and Rockwell Leisure Club, Inc.

RUBEN B. BENOSA, 58, Filipino
First Vice President (since January 2010)
Head, Corporate Logistics Office

Mr. Benosa is the Chairman of Meralco Financial Services Corporation. He serves as Director of Radius Telecoms, Inc. He was a former Chairman of Customer Frontline Solutions, Inc.; and was a Director of e-Meralco Ventures, Inc. and MIESCOR Builders, Inc., Meralco Energy, Inc. and Miescorrail, Inc.

HELEN T. DE GUZMAN, 57, Filipino
First Vice President (since January 2010)
Head, Internal Audit

Ms. De Guzman was a former Director of Customer Frontline Solutions, Inc. and MIESCOR Builders, Inc. She is a Member and Past Director and Chapter President of the Institute of Internal Auditors Philippines and the Philippine Institute of Certified Public Accountants. She is the incumbent Deputy President of the ASIAN Confederation of Institutes of Internal Auditors (ACIIA) and was also the Honorary Treasurer and Honorary Secretary of the same in 2008 and 2012-2014, respectively.

IVANNA G. DELA PEÑA, 60, Filipino
First Vice President (since January 2010)
Head, Regulatory Management Office

Ms. Dela Peña is a Director of Radius Telecoms, Inc., Clark Electric Distribution Corporation, Share An Opportunity and Medical Ambassadors, Philippines.

WILLIAM S. PAMINTUAN, 53, Filipino
First Vice President (since January 2012)
Deputy General Counsel, Assistant Corporate Secretary, Compliance Officer and 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. (formerly Luzon Natural Gas Energy Corporation), Kalilayan Power, Inc., MPG Holdings Phils., Inc., MPG Mauban LP Corporation, Redondo Peninsula Energy, Inc., Miescorrail, Inc., Meralco Industrial Engineering Services Corporation and First Pacific Leadership Academy, Inc. He was a former Director of Miescorrail, 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.

RONNIE L. APEROCHO, 46, Filipino
First Vice President (since January 2015)
Head, Networks

Mr. Aperocho is a Director of Meralco Employees Mutual Aid and Benefits Association, Inc., Miescorrail, Inc., Meralco Energy, Inc. and General Electric Philippines Meter and Instrument Co., Inc.

ANTONIO M. ABUEL, JR., 46, Filipino
Vice President (since January 2014)
Head, Sub-Transmission Services

Mr. Abuel is a Trustee of the Meralco Savings and Loan Association. He previously served as Chairman, President and Trustee of Meralco Employees Mutual Aid and Benefits Association, Inc.

IRENEO D. ACUNA, 48, Filipino
Vice President (since January 2013)
Head, Electric Distribution and Development Office

Mr. Acuna is President of Meridian Atlantic Light Company, Limited (Nigeria) and a Director of MIESCOR Builders, Inc. He was a former Director of Radius Telecoms, Inc., and Landbees Corporation and e-Meralco Ventures, Inc.

FERDINAND C. ALEJANDRO, 49, Filipino
Vice President (since January 2015)
and Head, HMB – Central Business Area

Mr. Alejandro was assigned as assigned as Manager in Dasmariñas, Commonwealth and Sta. Maria Business Centers. He was also assigned as Head of Service Quality Assurance.

ANGELITA S. ATANACIO, 55, Filipino
Vice President (since June 2008)
Head, Management Services and Sr. HR Business Partner for CRS and SIO

Ms. Atanacio is a Director of Meralco Financial Services Corporation. She previously served as Director of Miescorrail, Inc.

BENNETTE D. BACHOCO, 46, Filipino
Vice President (since September 2011)
Financial Planning and Reporting

Ms. Bachoco is a Director of Meralco Financial Services Corporation, MIESCOR Builders, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc. and Meralco Financial Services Corporation. She was Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation.

ROLANDO M. CAGAMPAN, 59, Filipino
Vice President (since January 2015)
Head, Energy Management

Mr. Cagampan was a former Director of Miescorrail, Inc. He previously served as Director and Chairman of the Grid Management Committee (GMC) under the supervision of the ERC. He also previously served as Director and Vice-President of Mapua Institute of Technology Electrical Engineering Alumni Association Inc. (MITEEA).

EDGARDO V. CARASIG, 49, Filipino
Vice President (since January 2013)
Head, HR Operations

Mr. Carasig is a Director of MIESCOR Builders, Inc., Miescor Logistics and Customer Frontline Solutions, Inc.

MARTHYN S. CUAN, 35, Filipino
Vice President (since January 2011)
Chief Information Officer

Mr. Cuan is a Director of Radius Telecoms, Inc. and Indra Philippines, Inc. He is a member of Intel's Enterprise Board of Advisors; Advisory Committee for the Automated Fare Collection System, which is a Public-Private Partnership joint venture between Metro Pacific Investments and Ayala Corporation; and in the Information Technology Management Service (ITMS) Advisory Council for the Philippine National Police. He is the Vice President and Co-Founder of Ideaspaces Foundation. He served as the

Operations Head, Information Enterprise Services of Deutsche Bank Group-Manila Shared Service Center.

BENJAMIN U. CUSI, 52, Filipino
Vice President (since January 2015)
Head, South Distribution

Mr. Cusi is a Trustee of Meralco Employees Fund for Charity (MEFCI). He was a former President and Director of Meralco Employees Mutual Aid and Benefits Association (MEMABA).

LAWRENCE S. FERNANDEZ, 46, Filipino
Vice President (since January 2015)
Head, Utility Economics

Mr. Fernandez is a licensed Mechanical Engineer. He is member of the Philippine Economics Society and had served as a director of the Energy Management Association of the Philippines(now called the Energy Efficiency Practitioners of the Philippine, or ENPAP).

MANOLO C. FERNANDO, 59, Filipino
Vice President (since January 2010)
Assistant Treasurer (since July 2001) and Head, Treasury Services

Mr. Fernando is a Director of Republic Surety and Insurance Co., Inc., Customer Frontline Solutions, Inc., Miescor Logistics, Inc. and ATRKE Philippine Balanced Fund, Inc. He is also the President and Director of Meralco Financial Services Corporation; Treasurer of Meralco Energy, Inc., Meralco Industrial Engineering Services Corporation, e-Meralco Ventures, Inc. and Radius Telecoms, Inc. and Miescorrail, Inc. since 2005. As an Agent of the Board of Trustee, he manages the Meralco Pension Fund.

FERDINAND O. GELUZ, 50 Filipino
Vice President (since January 2013)
Head, HMB – Central Business Area

Mr. Geluz previously served as a Director of Meralco Energy, Inc.

VICTOR S. GENUINO, 43, Filipino
Vice President (since January 2011)
Head, Corporate Business Group

Mr. Genuino is a Director of Customer Frontline Solutions, Inc., Miescor Logistics, Inc., MIESCOR Builders, Inc. and Loyola Meralco Sparks FC. He was former District Head, Hong Kong and Singapore of PLDT (HK) Ltd.

NIXON G. HAO, 56, Filipino
Vice President (since June 2008)
Head, Network Asset Management

Mr. Hao is a Director of Clark Electric Distribution Corporation, Philippine Electricity Market Corporation and Society of Risk Management Professionals, Inc. He was a former Director of Meralco Employees Savings and Loan Association.

ERNIE G. IMPERIAL, 46, Filipino
Vice President (since January 2014)
Head, Business Transformation Office

Mr. Imperial formerly served as Senior Vice President – ANZ Global Services and Operations (Manila Hub) of Australia and New Zealand Bank (ANZ); and Vice President of Deutsche Knowledge Services, Ltd.

DEXTER C. LEE, 41, Filipino
Vice President (since January 2014)

Mr. Lee is the President and Chief Executive Officer of Meralco Energy, Inc. (MServ) and is concurrently a member of its Board of Directors since 2012. He was formerly the Strategy Development Head of *MERALCO*. He also served as Vice President for Innovation at The Nielsen Company (USA) from 2011 to May 2012. He was a Project Manager at The Cambridge Group (USA) prior to Nielsen.

FORTUNATO C. LEYNES, 57, Filipino
Vice President (since January 2006)

Mr. Leynes was appointed as Chief Executive Officer of Ibadan Electricity Distribution Company, privatized and acquired by the Nigerian investor, Integrated Energy Distribution and Marketing Limited. He was formerly a Director of Clark Electric Distribution Corporation and Meralco Financial Services Corporation and a Trustee of Meralco Management Development Center; and was the Chairman of the Board of Electrical Engineering, Professional Regulation Commission.

REDECTOR L. MARQUEZ, 57, Filipino
Vice President (since January 2008)
Head, HMB – North Business Area

Mr. Marquez has been with *MERALCO* for 34.5 years. He headed the Small and Medium Enterprise Industries Customers' segment of *MERALCO*. Currently head the Home and Micro Business – North Business Area Customers' segment of the *MERALCO*.

RAYMOND B. RAVELO, 37, Filipino
Vice President (since May 2011)
Head, Corporate Business Strategy

Mr. Ravelo is the President and Chief Executive Officer and a member of the Board of Directors of Radius Telecoms, Inc. He was formerly a Trustee of Wharton Penn Alumni Association, Inc.

JOSE RAINIER A. REYES, 46, Filipino
Vice President (since January 2013)
Head, Small & Medium Enterprise Business Group

Mr. Reyes was formerly the Head of Sales of Globe Telecom, Inc.

NESTOR P. SARMIENTO, 56, Filipino
Vice President (since January 2012)
Chief Management Advisor, Pampanga II Electric Cooperative, Inc. (PELCO II)

Mr. Sarmiento is appointed as Chief Operating Officer of Comstech Integration Alliance, Inc. or Comestech, for Pampanga II Electric Cooperative, Inc. (PELCO II). *MERALCO* is a Technical Partner of Comstech in an Investment Management Contract with PELCO II. Mr. Sarmiento is a Director of MIESCOR Builders, Inc. and Radius Telecoms, Inc. He was formerly the Head of Meralco's Engineering Design, a former Director of Meralco Logistics, Inc., and was Director and Corporate Secretary of Distribution Management Committee (DMC) representing Luzon Private and Local Government Distributors.

LIZA ROSE G. SERRANO-DIANGSON, 55, Filipino
Vice President (since January 2010)
Head, Customer Process

Ms. Serrano-Diangson was a former Trustee of One Meralco Foundation; and of Customer Frontline Solutions, Inc.

MANUEL LORENZO L. TUASON, 52, Filipino
Vice President (since January 2014)

Mr. Tuason is the President and Chief Executive Officer and a member of the Board of Directors of CIS Bayad Center, Inc. He is concurrently the President and Chief Executive Officer of Customer Frontline Solutions, Inc. and President of Corporate Information Solutions, Inc.

JOSE ANTONIO T. VALDEZ, 50, Filipino
Vice President (since January 2011)
Head, Marketing, Customer Solutions and Product Development

Mr. Valdez served as the Head of Business Development and Marketing of PLDT Global Corporation and Vice President for Retail Marketing of PLDT. He is a Director of Bahay Maria, a shelter for street children in Makati.

JOSE RONALD V. VALLES, 44, Filipino
Vice President (since January 2015)
Head, Regulatory Affairs Office

Atty. Valles is *MERALCO's* Regulatory Compliance Officer for *ERC* and the *WESM* Compliance Officer for Philippine Electricity Market Corporation. He was also a former Professor of Law for more than 10 years.

Item 10. Executive Compensation

The aggregate annual compensation for the last two fiscal years and projected compensation for the ensuing year of *MERALCO's* Chief Executive Officer and four most highly compensated executive officers, as a group, and all other key officers, other officers and directors, as a group, are as follows:

NAME	YEAR	SALARIES ¹	PERFORMANCE-BASED PAY ²
		<i>(In million pesos)</i>	
Chief Executive Officer and 4 most highly compensated executive officers	Projected 2015	140	52
	2014 ³	133	52
	2013	122	233
All other key officers, other officers and directors as a group (excluding the CEO and four most highly compensated executive officers)	Projected 2015	220	83
	2014	208	78
	2013	189	332

¹ *Guaranteed compensation including government mandated pay-out.*

² *Includes performance-based pay and results driven incentives.*

³ *Comprised of the following: Oscar S. Reyes, President and Chief Executive Officer; Alfredo S. Panlilio, Senior Vice President and Head of Customer Retail Services and Corporate Communication; Betty C. Siy-Yap, Senior Vice President and Chief Finance Officer; Ramon B. Segismundo, Senior Vice President and Head of Human Resources and Corporate Services; Atty. William S. Pamintuan, First Vice President and Head of Legal.*

As provided in *MERALCO's* existing By-Laws, directors, as such, may receive *per diems* for their attendance at each regular or special meeting and additional compensation, whether in the form of a fixed retainer, bonus or stock grant, or a combination thereof, as may be approved by the Board of Directors and majority vote of the outstanding capital stock. Each director is entitled to a per diem allowance of ₱120,000 for every board meeting attended and ₱20,000 for every committee meeting. However, the total value of such additional compensation, in whatever form so given, shall not exceed one percent (1%) of the net income before tax of *MERALCO* during

the preceding year. Nothing herein contained shall be construed to preclude any director from serving the Company in any other capacity and receiving compensation therefor. (Section 7, Article II of the By-laws)

MERALCO has no standard arrangement on the remuneration of its existing directors and officers aside from the compensation herein stated.

Below are the details of the remuneration paid to the directors in 2014:

2014 Board Remuneration			
	Remuneration for AGM and Board Meetings Attended	Remuneration for Committee Meetings Attended	Total
Executive Director			
Oscar S. Reyes	₱1,560,000	₱–	₱1,560,000
Total	1,560,000	–	1,560,000
Executive Directors			
Manuel V. Pangilinan	1,440,000	110,000	1,550,000
Lance Y. Gokongwei	1,560,000	290,000	1,850,000
Manuel M. Lopez	720,000	90,000	810,000
Ray C. Espinosa	1,440,000	240,000	1,680,000
John L. Gokongwei, Jr.	1,200,000	–	1,200,000
Jose Ma. K. Lim	1,320,000	150,000	1,470,000
James L. Go	1,380,000	430,000	1,810,000
Napoleon L. Nazareno	960,000	110,000	1,070,000
Estelito P. Mendoza	120,000	–	120,000
Total	10,140,000	1,420,000	11,560,000
Independent Directors			
Pedro E. Roxas	1,380,000	460,000	1,840,000
Artemio V. Panganiban	1,560,000	210,000	1,770,000
Total	2,940,000	670,000	3,610,000
Grand Total	₱14,640,000	₱2,090,000	₱16,730,000

The equity securities beneficially owned by the executive officers under *MERALCO's* Employee Stock Purchase Plan or *ESPP* as of March 18, 2015, are as follows:

Title of Class	Name of Executive Officer	Number of Shares	Citizenship	Percent of Class
Common	Roberto R. Almazora	36,408	Filipino	0.00%
Common	Ruben B. Benosa	22,261	Filipino	0.00%
Common	Helen T. De Guzman	25,513	Filipino	0.00%
Common	Antonio M. Abuel, Jr.	7,927	Filipino	0.00%
Common	Ireneo D. Acuna	18,355	Filipino	0.00%
Common	Manolo C. Fernando	21,274	Filipino	0.00%
Common	Ferdinand O. Geluz	12,877	Filipino	0.00%
Common	Redentor L. Marquez	22,116	Filipino	0.00%
Common	Liza Rose G. Serrano-Diangson	22,689	Filipino	0.00%

Subscriptions under the Plan are payable over a period of 5 years through payroll deduction.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Based on *MERALCO's* stock and transfer book, the security ownership as of March 18, 2015 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Beacon Electric Asset Holdings, Inc. 10/F MGO Bldg., Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City No relationship with Issuer	Same as the record owner	Filipino	506,769,106	44.96%
Common	JG Summit Holdings, Inc. 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas	Same as the record owner	Filipino	305,689,397	27.12%

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
	Center, Pasig City No relationship with Issuer				
Common	PCD Nominee Corp. 37/F Tower One Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City No relationship with Issuer	PCD Participants	Filipino and Foreign	127,504,210	11.31%
Common	Metro Pacific Investment Corporation 10/F MGO Building Legaspi corner Dela Rosa Streets, Makati City No relationship with Issuer	Same as the record owner	Filipino	56,354,936	5.00%

Beacon Electric Asset Holdings, Inc. or *Beacon Electric* is a special purpose company jointly owned by PLDT Communications and Energy Ventures, Inc. or *PCEV* and Metro Pacific Investments Corporation or *MPIC* whose sole purpose is to hold *PCEV*'s and *MPIC*'s shares in *MERALCO*. The Chairman, or in his absence, the President of *Beacon Electric*, or any other representative designated by the President of *Beacon Electric*, is duly authorized as proxy to vote its *MERALCO* shares as he may deem proper or beneficial to *Beacon Electric*.

JG Summit Holdings, Inc. or *JG Summit* was incorporated in November 1990 as the holding company for a group of companies with substantial business interests in branded consumer foods, agro-industrial and commodity food products, property development and hotel management, air transportation, petrochemicals, and international capital and financial services. In addition, *JG Summit* has business interests in other sectors, including power generation and insurance. *JG Summit* conducts its businesses primarily in and around Metro Manila and in the regions of Visayas and Mindanao. *JG Summit*, through its subsidiaries, also has branded foods businesses in the People's Republic of China and the ASEAN region, including an interest in a property development company in Singapore. The Chairman, or in his absence, the President of *JG Summit*, or any other representative designated by the President of *JG Summit*, is duly authorized as proxy to vote its *MERALCO* shares as he may deem proper or beneficial to *JG Summit*.

PCD Nominee Corporation is a wholly-owned subsidiary of the Philippine Depository and Trust Corporation or *PDTC*. Originally, stock certificates were issued to investors every time they acquired shares of the Company. However, with the Philippine Central Depository's or *PCD* computerized Book Entry System that took effect in November 1997, investors of *MERALCO* shares now have an option whether they will be issued certificates or not. Their shares may be lodged at the *PCD* and further trading will be scripless (computerized with no certificates) until they request for the issuance of certificates. The *PCD* Nominee Corporation holds the shares as the registered owner thereof in *MERALCO*'s books on behalf of *PCD* Participants and their clients. The participants of *PCD* are the beneficial owners of such shares and may be nominated as proxy to vote the same. Stockholders with *PCD*-lodged shares have no record of their shareholdings with *MERALCO* or its transfer agent, Securities Transfer Services, Inc. or *STSI*. Only certificated shares are recorded in *MERALCO*'s books, which may be voted by the registered owners or their proxies.

Metro Pacific Investments Corporation or *MPIC* was founded in 1986, an investment holding company, is engaged in water utilities, toll roads, electricity distribution, and healthcare service businesses in the Philippines. *MPIC* operates in five segments: Water Utilities, Toll Operations, Power Distribution, Healthcare, and Others. The Water Utilities segment provides water and sewerage services through a network of pipelines, pumping stations, and mini-boosters. The Toll Operations segment is involved in the operation and maintenance of toll road facilities. The Power Distribution segment distributes and supplies electricity. The Healthcare segment operates and manages hospitals, nursing and medical schools, and other related enterprises. The other segment is involved in the operation of real estate properties; and provision of property development, investment holding, and management services.

(2) Security Ownership of Management

As of March 18, 2015, the securities owned beneficially, directly or indirectly, by directors, nominees and executive officers of *MERALCO* are as follows:

Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Manuel V. Pangilinan	25,000 (Direct)	Filipino	0.00%
Common	Oscar S. Reyes	268 (Direct)	Filipino	0.00%
Common	Ray C. Espinosa	21,000 (Direct)	Filipino	0.00%
Common	James L. Go	10 (Direct)	Filipino	0.00%
Common	John L. Gokongwei, Jr.	10 (Direct)	Filipino	0.00%
Common	Lance Y. Gokongwei	10 (Direct)	Filipino	0.00%
Common	Jose Ma. K. Lim	10 (Direct)	Filipino	0.00%
Common	Manuel M. Lopez	2,445,411 (Direct)	Filipino	0.22%
Common	Napoleon L. Nazareno	1,210 (Direct)	Filipino	0.00%
Common	Artemio V. Panganiban	1 (Direct)	Filipino	0.00%
Common	Pedro E. Roxas	1,000 (Direct)	Filipino	0.00%
Common	Simeon Ken R. Ferrer	767 (Direct)	Filipino	0.00%
Common	Roberto R. Almazora	93,082 (Direct)	Filipino	0.01%
Common	Alfredo S. Panlilio	668 (Direct)	Filipino	0.00%

Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Ramon B. Segismundo	6,500 (Direct)	Filipino	0.00%
Common	Rafael L. Andrada	20,000 (Direct)	Filipino	0.00%
Common	Ruben B. Benosa	30,492 (Direct)	Filipino	0.00%
Common	Helen T. De Guzman	26,093 (Direct)	Filipino	0.00%
Common	Ivanna G. Dela Peña	26,731 (Direct)	Filipino	0.00%
Common	Ronnie L. Aperoch	14 (Direct)	Filipino	0.00%
Common	Antonio M. Abuel, Jr.	10,427 (Direct)	Filipino	0.00%
Common	Ireneo B. Acuna	18,355 (Direct)	Filipino	0.00%
Common	Angelita S. Atanacio	1,000 (Direct)	Filipino	0.00%
Common	Ferdinand C. Alejandro	8,952 (Direct)	Filipino	0.00%
Common	Rolando M. Cagampang	20,976 (Direct)	Filipino	0.00%
Common	Marthyn S. Cuan	2,150 (Direct)	Filipino	0.00%
Common	Benjamin U. Cusi	24,050 (Direct)	Filipino	0.00%
Common	Lawrence S. Fernandez	4,500 (Direct)	Filipino	0.00%
Common	Manolo C. Fernando	35,730 (Direct)	Filipino	0.00%
Common	Ferdinand O. Geluz	13,877 (Direct)	Filipino	0.00%
Common	Nixon G. Hao	2,791 (Direct)	Filipino	0.00%
Common	Ernie G. Imperial	460 (Direct)	Filipino	0.00%
Common	Fortunato C. Leynes	6,000 (Direct)	Filipino	0.00%
Common	Redentor L. Marquez	22,116 (Direct)	Filipino	0.00%
Common	Nestor P. Sarmiento	323 (Direct)	Filipino	0.00%
Common	Liza Rose G. Serrano-Diangson	38,983 (Direct)	Filipino	0.00%
Common	Manuel Lorenzo L. Tuason	22,180 (Direct)	Filipino	0.00%

The aggregate number of shares owned on record by the Chief Executive Officer, Executive Officers, Directors and Nominees as of March 18, 2015 is 2,931,147 shares or 0.26% of *MERALCO's* total outstanding shares.

(3) Voting Trust Holders

MERALCO is not aware of any person holding more than 5% of common shares under a voting trust or similar agreement.

(4) Changes in Control

Based on *MERALCO's* stock and transfer book, there is no change in the control of *MERALCO* since the beginning of the last fiscal year.

Item 12. Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, there was no

transaction during the last two (2) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO*'s total outstanding shares and members of their immediate family had a material interest.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to the attached Annual Corporate Governance Report or *ACGR*.

PART V- EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports

(a) Reports on SEC Form 17-C and other Disclosures

JANUARY 2014	
JANUARY 2	<ul style="list-style-type: none"> • Clarification of News Article: “<i>MERALCO</i> income to top ₱17 billion in 2013” posted in Manila Bulletin on December 31, 2013. • SEC 17-C – Appointment of Officers (Vice Presidents) of the Company.
JANUARY 6	<ul style="list-style-type: none"> • Report on number of stockholders-board lot as at December 31, 2013. • Foreign Ownership Report as of December 31, 2013. • SEC 23-A – Initial Statement of Beneficial Ownership of Securities (DCLee). • SEC 23-A – Initial Statement of Beneficial Ownership of Securities (EGImperial). • SEC 23-A – Initial Statement of Beneficial Ownership of Securities (RLAperocho). • SEC 23-A – Initial Statement of Beneficial Ownership of Securities (AMAbuel,Jr.).
JANUARY 9	<ul style="list-style-type: none"> • List of Top 100 Stockholders as of December 31, 2013.
JANUARY 10	<ul style="list-style-type: none"> • Amended General Information 2013.
JANUARY 14	<ul style="list-style-type: none"> • SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (HTDeGuzman).
JANUARY 15	<ul style="list-style-type: none"> • Public Ownership Report as of December 31, 2013 • SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (FCLeynes-4,000-A).
JANUARY 16	<ul style="list-style-type: none"> • SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (FCLeynes-2,000-A).
JANUARY 23	<ul style="list-style-type: none"> • SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (ASAtanacio).
JANUARY 24	<ul style="list-style-type: none"> • Advisement Letter – List of attendance of the Meralco Directors in Board Meetings and Board Committee Meetings for the period January to December 2013. • SEC 17-C – Changes and Updates in the Company’s Annual Corporate Governance Report in compliance with SEC Memorandum Circular No. 1 Series of 2014.
JANUARY 27	<ul style="list-style-type: none"> • SEC 17-C – Matters approved by the Board of Directors (Notice of Annual Stockholders Meeting).

FEBRUARY 2014	
FEBRUARY 3	<ul style="list-style-type: none"> • SEC 17-C – Press Release “AF Consortium Receives Notice of Award to Design and Construct ₱1.72 billion AFCS Project”.
FEBRUARY 6	<ul style="list-style-type: none"> • Report on number of stockholders-board lot as of January 31, 2014. • Foreign Ownership Report as of January 31, 2014.
FEBRUARY 7	<ul style="list-style-type: none"> • SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (HTDeGuzman).
FEBRUARY 11	<ul style="list-style-type: none"> • Advisement Letter – Certificate of Attendance of Officers to Corporate Governance Trainings with SEC Accredited Training Provider – (GFDela Paz and MLLTuazon)
FEBRUARY 12	<ul style="list-style-type: none"> • Clarification of News Article: “<i>MERALCO</i> bids for Pampanga power co-op” posted in philSTAR.com on February 12, 2014.
FEBRUARY 18	<ul style="list-style-type: none"> • Advisement Letter – Updates to ACGR: Internal Audit Staff Resignation, Re-assignment and reasons.

MARCH 2014	
MARCH 5	<ul style="list-style-type: none"> • Report on number of stockholders-board lot as of February 28, 2014. • Foreign Ownership Report as of February 28, 2014.
MARCH 7	<ul style="list-style-type: none"> • SEC 17 –C – Invitation to the Presentation of the Company’s Financial and Operating Results for the year ended December 31, 2013.
MARCH 17	<ul style="list-style-type: none"> • SEC 17 –C – Press Release – Financial and Operating Results for the year ended December 31, 2013 • SEC 17 –C – Declaration of Cash Dividends
MARCH 19	<ul style="list-style-type: none"> • Advisement Letter – Certificate of Attendance of Officers to Corporate Governance Training (Messrs. Abuel Jr., Acuña, Bermudo, Dela Paz, Geluz, Genuino, Hao, Reyes, Sarmiento, and Tuazon).
MARCH 20	<ul style="list-style-type: none"> • Clarification of News Article: “<i>MERALCO</i> raises ₱7 billion to partly fund capex” posted in the March 19, 2014 issue of the Business World Online.
MARCH 21	<ul style="list-style-type: none"> • List of <i>MERALCO</i>’s Stockholders as of March 14, 2014 (record date).
MARCH 24	<ul style="list-style-type: none"> • SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (HTDeGuzman).
MARCH 28	<ul style="list-style-type: none"> • Compliance Report on Corporate Governance (<i>MERALCO</i> 2013 PSE Corporate Governance Guidebook).
MARCH 31	<ul style="list-style-type: none"> • SEC 23-A - Initial Statement of Beneficial Ownership of Securities (JLGokongwei, Jr.). • SEC 23-A - Initial Statement of Beneficial Ownership of Securities (NLNazareno). • SEC 17 –A – Matters approved by the Board of Directors (resignation of Messrs. Ang and Mendoza; nomination and election of Messrs. Gokongwei, Jr. and Nazareno; final list

	<p>of candidates to the eleven-seat Board of Directors; and changes in the composition of members of the various committees of the Company)</p> <ul style="list-style-type: none"> SEC 17-C- Press Release – “AFCS Concession Agreement Signing with DOTC”

APRIL 2014	
APRIL 1	<ul style="list-style-type: none"> Advisement Letter – Undertaking to attend Corporate Governance Seminar (JLGokongwei, Jr.)
APRIL 2	<ul style="list-style-type: none"> SEC 17 –C – Material Information /Transaction – <i>MERALCO</i> signs interim PSAs. SEC 17 –C – Material Information /Transaction – <i>MERALCO</i> files interim PSAs with ERC. Report on number of stockholders-boardlot as of March 31, 2014. Foreign Ownership Report as of March 31, 2014.
APRIL 4	<ul style="list-style-type: none"> Advisement Letter – Certificate of Attendance of Directors and Officers to Corporate Governance Training on the ASEAN Corporate Governance Scorecard Seminar (Messrs. Espinosa, LGokongwei, Lim, Panganiban, Roxas, Almazora, Andrada, Benosa, Bermudo, Carasig, De Borja Jr., Cuan, Domingo, Ferrer, Geluz, Genuino, Hao, Lee, Marquez, Pamintuan, Panlilio, Dela Paz, Ravelo, Sarmineto, Segismundo, Tuazon, and Valdez; Mesdames Atanacio, De Guzman, Dela Peña, Serano-Diangson and Siy-Yap).
APRIL 8	<ul style="list-style-type: none"> SEC 20-IS – Preliminary Information Statement. SEC 17 –C – Material Information /Transaction – <i>MERALCO</i> signs interim PSA.
APRIL 10	<ul style="list-style-type: none"> List of Top 100 Stockholders as of March 31, 2014.
APRIL 15	<ul style="list-style-type: none"> Public Ownership Report as of March 31, 2014. SEC 17 – A – Annual Report.
APRIL 16	<ul style="list-style-type: none"> SEC 17 –C – Invitation to the presentation of the Company's 1Q 2014 Financial and Operating Results.
APRIL 21	<ul style="list-style-type: none"> Amended SEC 20- IS (Definitive Info Statement)
APRIL 28	<ul style="list-style-type: none"> SEC 17-C – Press Release – Financial and Operating Results for the 1st Quarter (1Q) ended March 31, 2014. SEC 17-C – Amendment of the Third Section of the Company's AOI in compliance with SEC Memorandum Circular No. 6, Series of 2014.
APRIL 29	<ul style="list-style-type: none"> SEC 17 –C – Material Information /Transaction/Legal Proceedings – Receipt of the Notice of Decision of the Court of Appeals dated April 21, 2014 in CA-G.R. CV No. 99110 entitled “MANILA ELECTRIC COMPANY, Petitioner-Appellee, versus NATIONAL POWER CORPORATION, ET.AL, Respondents. REPUBLIC OF THE PHILIPPINES, Respondent-Appellant”

MAY 2014	
MAY 7	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of April 30,

	2014. <ul style="list-style-type: none"> Foreign Ownership Report as of April 30, 2014.
MAY 15	<ul style="list-style-type: none"> General Form of Financial Statements. SEC 23-B - Statement of Changes in Beneficial Ownership of Securities (NPSarmiento). SEC 17-Q - 1st Quarter 2014 Financial Report.
MAY 27	<ul style="list-style-type: none"> SEC 17 –C – Results of Annual Stockholders Meeting and Organizational Meeting 2014.
MAY 28	<ul style="list-style-type: none"> Clarification of News Article: “<i>MERALCO</i> to hike stake in Global Business Power” posted in the May 28, 2014 issue of the Philippine Daily Inquirer. SEC 17 –C – Material Information/Transaction – <i>MERALCO</i> and PEZA entered into a 25-year Concession Agreement.
MAY 29	<ul style="list-style-type: none"> Clarification of News Article: “<i>MERALCO</i> keen to buy electric co-ops, distribution utilities” published in the May 29, 2014 issue of the Business Mirror.
MAY 30	<ul style="list-style-type: none"> SEC 17 –C – Material Information/Transaction – <i>MERALCO</i> signed long term PSA with San Buenaventura Power Ltd. Co. Advisement Letter – Updates to ACGR related to the 2014 Annual Stockholders Meeting.

JUNE 2014	
JUNE 2	<ul style="list-style-type: none"> Clarification of news article: “<i>MERALCO</i> takes over Pampanga co-op” published in the May 31, 2014 issue of the Manila Standard Today.
JUNE 5	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of May 31, 2014. Foreign Ownership Report as of May 31, 2014. Clarification of news article: “<i>MERALCO</i>, Thai partner forge supply contract for Quezon plant expansion” posted in Manila Bulletin (Internet Edition) on June 4, 2014.
JUNE 6	<ul style="list-style-type: none"> Clarification of news articles: (i) “<i>MERALCO</i> distribution charge reduced” posted in Malaya Business Insight (Internet Edition) on June 5, 2014; (ii) “<i>MERALCO</i> pushed forward reparation at Subic plant site” published in the June 6, 2014 issue of the Manila Bulletin.
JUNE 11	<ul style="list-style-type: none"> Clarification of news article: “<i>MERALCO</i> presses ahead with plans to build power plants” posted in Manila Bulletin (Internet Edition) on June 10, 2014.
JUNE 24	<ul style="list-style-type: none"> Advisement Letter – Certificate of Attendance of Officer to Corporate Governance Training (JLGokongwei, Jr.)
JUNE 25	<ul style="list-style-type: none"> General Information Sheet 2014.
JUNE 26	<ul style="list-style-type: none"> Clarification of news article: “<i>MERALCO</i> to start cutting distribution cost” posted in Manila Standard Today mobile on June 26, 2014.

JULY 2014	
JULY 1	<ul style="list-style-type: none"> SEC 17-C – Changes in Officers (Resignation of Messrs.

	Buencamino and Dela Paz; appointments of Mr. Aperochio as Head of Networks and Atty. Altamira as Head of Corporate Governance and Compliance).
JULY 7	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of June 30, 2014. Foreign Ownership Report as of June 30, 2014.
JULY 8	<ul style="list-style-type: none"> SEC 23 –B - Statement of Changes in Beneficial Ownership of Securities – (Beacon Electric Asset Holdings, Inc.).
JULY 10	<ul style="list-style-type: none"> SEC Form 18 – A – Report by Owner of More than five percent (5%) (Acquisition by MPIC of approximately 5% of the outstanding capital stock of <i>MERALCO</i>).
JULY 11	<ul style="list-style-type: none"> List of Top 100 Stockholders as of June 30, 2014.
JULY 14	<ul style="list-style-type: none"> Clarification of news article: “<i>MERALCO</i> said likely to post ‘flat’ profit in first semester” posted in Business Mirror (Internet Edition) on July 13, 2014.
JULY 15	<ul style="list-style-type: none"> Public Ownership Report as of June 30, 2014.
JULY 17	<ul style="list-style-type: none"> SEC 17 –C – Invitation to the presentation of the Company’s 1st half (2Q) 2014 Financial and Operating Results.
JULY 28	<ul style="list-style-type: none"> SEC 17 –C – Press Release – Financial and Operating Results for the 1st half (2Q) 2014. SEC 17 –C – Declaration of Cash Dividends. Advisement Letter – Amendment to <i>MERALCO</i>’s Revised Manual of Corporate Governance.
JULY 31	<ul style="list-style-type: none"> Clarification of News Article: “<i>MERALCO</i> confident of 3% sales growth” posted in Manila Bulletin (Internet Edition) on July 30, 2014.

AUGUST 2014	
AUGUST 7	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of July 31, 2014. Foreign Ownership Report as of July 31, 2014.
AUGUST 15	<ul style="list-style-type: none"> SEC 17-Q - 1st Half 2014 (2Q) Financial Report.

SEPTEMBER 2014	
SEPTEMBER 3	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of August 31, 2014. Foreign Ownership Report as of August 31, 2014.
SEPTEMBER 24	<ul style="list-style-type: none"> SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (HTDeGuzman).
SEPTEMBER 25	<ul style="list-style-type: none"> SEC 17-C – Certificate of Attendance of Manuel M. Lopez to Corporate Governance Seminar conducted by SGV & Co. on September 15, 2014.
SEPTEMBER 29	<ul style="list-style-type: none"> Clarification of News Article: “<i>MERALCO</i> in talks with power producers” posted in philSTAR.com on September 27, 2014.

OCTOBER 2014	
OCTOBER 8	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of September 30, 2014.

	<ul style="list-style-type: none"> • Foreign Ownership Report as of September 30, 2014.
OCTOBER 9	<ul style="list-style-type: none"> • SEC 17 –C – Invitation to the presentation of the Company's 9Months (3Q) 2014 Financial and Operating Results.
OCTOBER 13	<ul style="list-style-type: none"> • Clarification of News Article: “<i>MERALCO</i> sees higher income in Jan-Sept” posted in philSTAR.com on October 13, 2014.
OCTOBER 14	<ul style="list-style-type: none"> • List of Top 100 Stockholders as of September 30, 2014.
OCTOBER 15	<ul style="list-style-type: none"> • Public Ownership Report as of September 30, 2014 • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (RRAlmazora). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (BSYap). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (AMAbuel, Jr.). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (HTDeGuzman). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (RBBenosa). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (NLNazareno). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (LRSDiangson). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (MMLopez). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (IBAcuña). • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (RLMarquez).
OCTOBER 16	<ul style="list-style-type: none"> • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (FOGeluz).
OCTOBER 17	<ul style="list-style-type: none"> • SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (MCFernando).
OCTOBER 27	<ul style="list-style-type: none"> • SEC 17 –C – Press Release – Financial and Operating Results for the 9Months (3Q) 2014.
OCTOBER 28	<ul style="list-style-type: none"> • Clarification of News Article: “<i>MERALCO</i> core profit guidance for 2014 set at ₱17.8 billion” posted in Business World Online on October 27, 2014.
OCTOBER 29	<ul style="list-style-type: none"> • Clarification of News Article: “12 firms keen on LRT 2 Contract” posted in Manila Standard Today (Internet Edition) on October 28, 2014.
OCTOBER 30	<ul style="list-style-type: none"> • Clarification of News Article: “<i>MERALCO</i> unit raising ₱40 billion to expand 455-MW coal plant” posted in Manila Standard Today (Internet Edition) on October 29, 2014.

NOVEMBER 2014	
NOVEMBER 6	<ul style="list-style-type: none"> • Report on number of stockholders-boardlot as of October 31, 2014. • Foreign Ownership Report as of October 31, 2014.

NOVEMBER 10	<ul style="list-style-type: none"> Clarification of News Article: “First Pacific to allot ₱96 billion for PHL operations in 2015” posted in Business Mirror (Internet Edition) on November 9, 2014.
NOVEMBER 11	<ul style="list-style-type: none"> Clarification of News Article: “<i>MERALCO</i> sets ₱86 billion 5-yr capex” posted in The Manila Times (Internet Edition) on November 10, 2014.
NOVEMBER 14	<ul style="list-style-type: none"> SEC 17 –C – Material Information/Transaction – <i>MERALCO</i> signs interim PSAs. SEC 17-Q - 9Months (3Q) Financial Report.
NOVEMBER 25	<ul style="list-style-type: none"> SEC 17 –C – Material Information/Transaction – <i>MERALCO</i> signs PSA with Bacman Geothermal, Inc.

DECEMBER 2014	
DECEMBER 2	<ul style="list-style-type: none"> Advisement Letter – Certificate of Attendance of Directors to Corporate Governance Training spearheaded by the First-Pacific-Affiliated Companies in the Philippines (Messrs. Reyes, Almazora, Bermudo, Segismundo, Benosa, Andrada, Pamintuan, Abuel Jr., Acuña, Aperochio, Carasig, Cuan, Fernando, Geluz, Hao, Imperial, Leynes, Marquez, Reyes, Sarmiento, Mesdames Siy-Yap, De Guzman, Atanacio, Bachoco and Serrano-Diangson).
DECEMBER 4	<ul style="list-style-type: none"> SEC 17 –C – Material Information/Transaction – <i>MERALCO</i> signs PSA with Panasia Energy, Inc.
DECEMBER 5	<ul style="list-style-type: none"> Report on number of stockholders-boardlot as of November 30, 2014. Foreign Ownership Report as of November 30, 2014. Advisement Letter – Certificate of Attendance of Directors to Corporate Governance Training spearheaded by the First-Pacific-Affiliated Companies in the Philippines (Messrs. Pangilinan, Espinosa, Go, Lim, Nazareno, Panganiban, Reyes and Roxas).
DECEMBER 16	<ul style="list-style-type: none"> SEC 17 –C – Sworn Certification and attendance of the Company’s Board of Directors in the Board and Committee Meetings held in 2014.
DECEMBER 23	<ul style="list-style-type: none"> Advisement Letter – Certification of Attendance of <i>MERALCO</i> Directors in Board and Committee Meetings and Certification of Compliance with the Manual of Corporate Governance for the year 2014. SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (RBBenosa).
DECEMBER 29	<ul style="list-style-type: none"> SEC 23-B – Statement of Changes in Beneficial Ownership of Securities (BSYap).

SIGNATURES

REFER TO THE FOLLOWING PAGE

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Pasig this APR 08 2015 day of April 2015.

By:


OSCAR S. REYES
President


BENNETTE D. BACHOCO
Vice President


RAFAEL L. ANDRADA
First Vice President &
Treasurer


WILLIAM S. PAMINTUAN
First Vice President
Assistant Corporate Secretary &
Compliance Officer

SUBSCRIBED AND SWORN to before me this APR 08 2015 April 2015 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Oscar S. Reyes	136-623-569
Rafael L. Andrada	127-415-866
Bennette D. Bachoco	129-433-970
William S. Pamintuan	146-473-562

Doc. No. 55 ;
Page No. 12 ;
Book No. VII ;
Series of 2015


ATTY. FREEDOM JANFE M. NAVIDAD
Notary Public
Pasig, San Juan, Taguig and Pateros
Issued on April 14, 2014 at Pasig City
Appointment No. 198 (2014-2015)
Roll No. 53655/ABP No. 0980969/01-07-15 RSM Chapter
PTR No. 0489189/02-05-15 Pasig City
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

MANILA ELECTRIC COMPANY
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

- Statement of Management's Responsibility for Consolidated Financial Statements
- Report of Independent Auditors
- Consolidated Statement of Financial Position as at December 31, 2014 (With Comparative Figures as at December 31, 2013)
- Consolidated Statement of Income for the Year Ended December 31, 2014 (With Comparative Figures for the Years Ended December 31, 2013 and 2012)
- Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2014 (With Comparative Figures for the Years Ended December 31, 2013 and 2012)
- Consolidated Statement of Changes in Equity for the Year Ended December 31, 2014 (With Comparative Figures for the Years Ended December 31, 2013 and 2012)
- Consolidated Statement of Cash Flows for the Year Ended December 31, 2014 (With Comparative Figures for the Years Ended December 31, 2013 and 2012)
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- Supplementary Schedules
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 - Schedule K. Map Showing the Relationships among the Companies within the Group
 - Financial Soundness Indicators
- Parent Company Financial Statements

**These schedules have been omitted because they are either not applicable or schedule is in the Consolidated Financial Statements.*



ORTIGAS AVENUE, PASIG CITY
0300 PHILIPPINES

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, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, 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

SUBSCRIBED AND SWORN to before me this MAR 26 2015 day of March 2015 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Manuel V. Pangilinan	914-481-801
Oscar S. Reyes	136-623-569
Betty C. Siy-Yap	102-100-627

Doc. No. 119;
Page No. 25;
Book No. XIII;
Series of 2015.

ATTY. CORNELIO MANUEL III C. DICCION
NOTARY PUBLIC
PASIG, PATEROS, TAGUIG, AND SAN JUAN
ISSUED ON JANUARY 20, 2014 AT PASIG CITY
APPOINTMENT NO. 56 (2014-2015)
ROLL NO. 45053/ IBP NO. 0980973/ 01-07-15 RSM CHAPTER
PTR NO. 0489184 / 02-05-15 PASIG CITY
8TH FLOOR LOPEZ BLDG. ORTIGAS AVENUE, PASIG CITY

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	1	0	2										
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Company Name

M	A	N	I	L	A		E	L	E	C	T	R	I	C		C	O	M	P	A	N	Y						

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

L	O	P	E	Z		B	U	I	L	D	I	N	G	,		O	R	T	I	G	A	S		A	V	E	N	U	E
P	A	S	I	G		C	I	T	Y																				

Form Type

1	7	-	A
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number/s

6312222/ 16220

Mobile Number

N/A

No. of Stockholders

46,586

Annual Meeting
Month/Day

Last Tuesday of May

Fiscal Year
Month/Day

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Atty. William Pamintuan

Email Address

wspamintuan@meralco.com.ph

Telephone Number/s

632-8014

Mobile Number

N/A

Contact Person's Address

Lopez Building, Ortigas Avenue, Pasig City
--

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Electric Company
Lopez Building
Ortigas Avenue, Pasig City

Report on the Financial Statements

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, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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, 2014 and 2013, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-2 (Group A),

March 15, 2012, valid until March 31, 2015

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4751287, January 5, 2015, Makati City

February 23, 2015



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
		2014	2013
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	7 and 15	₱120,830	₱112,586
Investments in associates and interests in joint ventures	8	14,382	13,422
Investment properties	9 and 15	1,526	1,526
Deferred tax assets - net	28	7,089	5,381
Other noncurrent assets	7, 10, 12, 27, 29 and 30	12,614	23,603
Total Noncurrent Assets		156,441	156,518
Current Assets			
Cash and cash equivalents	11 and 27	69,469	59,851
Trade and other receivables	10, 12, 18 and 27	30,629	32,718
Inventories	13 and 25	2,212	2,750
Other current assets	14, 23 and 27	10,302	12,167
Total Current Assets		112,612	107,486
Total Assets		₱269,053	₱264,004

EQUITY AND LIABILITIES

Equity Attributable to Equity Holders of the Parent

Common stock	15	₱11,273	₱11,273
Subscriptions receivable		(8)	(69)
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, or AFS, financial assets	10	112	105
Cumulative translation adjustments of subsidiaries and associates	8	355	389
Share in remeasurement adjustments on associates' retirement liabilities		(20)	-
Remeasurement adjustments on retirement and other post-employment liabilities		1,302	1,446
Treasury shares	15	(11)	(11)
Retained earnings:	15		
Appropriated		11,000	11,000
Unappropriated		50,319	46,197
Equity Attributable to Equity Holders of the Parent		79,154	75,162
Non-controlling Interests		320	173
Total Equity		79,474	75,335

(Forward)



		December 31	
	Note	2014	2013
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	17, 25 and 27	₱27,743	₱20,756
Customers' deposits - net of current portion	18, 22 and 27	24,344	21,600
Long-term employee benefits	26	4,887	4,183
Provisions	19, 22 and 29	16,073	24,729
Refundable service extension costs - net of current portion	22 and 27	7,006	5,782
Deferred tax liabilities - net	28	5	1
Other noncurrent liabilities	7, 24 and 29	25,993	16,992
Total Noncurrent Liabilities		106,051	94,043
Current Liabilities			
Notes payable	21, 25 and 27	400	1,814
Trade payables and other current liabilities	15, 17, 18, 19, 22, 23 and 27	73,624	73,892
Customers' refund	2, 20 and 27	5,937	6,013
Income tax payable		1,668	1,886
Current portion of interest-bearing long-term financial liabilities	17, 25 and 27	1,899	11,021
Total Current Liabilities		83,528	94,626
Total Liabilities		189,579	188,669
Total Liabilities and Equity		₱269,053	₱264,004

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31		
	<i>Note</i>	2014	2013	2012
<i>(Amounts in millions, except per share data)</i>				
REVENUES				
Sale of electricity	23, 24 and 32	₱261,740	₱294,849	₱282,991
Sale of other services	23	4,596	3,787	2,279
		266,336	298,636	285,270
COSTS AND EXPENSES				
Purchased power	24 and 30	203,242	238,198	232,068
Salaries, wages and employee benefits	16, 25 and 26	11,008	11,261	11,605
Provision for probable charges and expenses from claims	19, 24 and 29	10,720	10,749	9,226
Depreciation and amortization	7, 9 and 10	6,093	6,118	5,576
Contracted services		4,292	3,719	2,702
Taxes, fees and permits		662	539	403
Provision for doubtful accounts	12	460	504	832
Other expenses	23 and 25	3,765	3,398	3,750
		240,242	274,486	266,162
OTHER INCOME (EXPENSES)				
Interest and other financial charges	7, 17, 18, 21 and 25	(1,439)	(1,479)	(1,528)
Interest and other financial income	25	770	1,172	2,569
Equity in net earnings (losses) of associates and joint ventures	8	295	(259)	(15)
Foreign exchange gain (loss)		8	353	(4)
Derivative mark-to-market gains (losses)		—	(24)	40
Others	2	740	414	1,852
		374	177	2,914
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		26,468	24,327	22,022
PROVISION FOR (BENEFIT FROM) INCOME TAX				
	28			
Current		9,961	9,889	9,490
Deferred		(1,624)	(2,835)	(3,749)
		8,337	7,054	5,741
NET INCOME FROM CONTINUING OPERATIONS		18,131	17,273	16,281
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX		—	—	978
NET INCOME		₱18,131	₱17,273	₱17,259
Attributable To				
Equity holders of the Parent	31	₱18,053	₱17,211	₱17,117
Non-controlling interests		78	62	142
		₱18,131	₱17,273	₱17,259

(Forward)



Years Ended December 31				
	Note	2014	2013	2012
(Amounts in millions, except per share data)				
Earnings Per Share Attributable to Equity				
Holders of the Parent	31			
Basic		₱16.02	₱15.27	₱15.19
Diluted		16.02	15.27	15.19
Earnings Per Share Attributable to Equity				
Holders of the Parent of Continuing				
Operations	31			
Basic		₱16.02	₱15.27	₱14.40
Diluted		16.02	15.27	14.40

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	<i>Note</i>	2014	2013	2012
		<i>(Amounts in millions)</i>		
NET INCOME		₱18,131	₱17,273	₱17,259
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified to profit or loss in subsequent periods:				
Unrealized fair value gain (loss) on AFS financial assets	10	10	(21)	39
Income tax effect		(3)	6	(4)
		7	(15)	35
Cumulative translation adjustments of subsidiaries and associates	8	(34)	386	(9)
Items that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement adjustments on retirement and other post-employment liabilities	26	(215)	1,653	2,791
Income tax effect		71	(496)	(837)
		(144)	1,157	1,954
Share in remeasurement adjustments on associates' retirement liabilities		(20)	—	—
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		(191)	1,528	1,980
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱17,940	₱18,801	₱19,239
Total Comprehensive Income Attributable To				
Equity holders of the Parent		₱17,862	₱18,739	₱19,097
Non-controlling interests		78	62	142
		₱17,940	₱18,801	₱19,239

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 (Losses) on AFS Assets (Note 10)	Unrealized Fair Value Gains (Losses) on AFS Assets Discontinued Operations	Share in Remeasure- ment Adjustments on Associates’ Retirement Liabilities (Note 26)	Cumulative Translation Adjustments of Subsidiaries and Associates (Note 8)	Remeasure- ment Adjustments on Retirement and Other Post Employment Liabilities (Note 26)	Treasury Shares (Note 15)	Appropriated Retained Earnings (Note 15)	Unappro- priated 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, 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 income (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

(Forward)



	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 (Losses) on AFS Financial Assets (Note 10)	Unrealized Fair Value Gains (Losses) on AFS Financial Assets Discontinued Operations	Share in Remeasure- ment Adjustments on Retirement Liabilities (Note 26)	Cumulative Translation Adjustments of Subsidiaries and Associates (Note 8)	Remeasure- ment Adjustments on Retirement and Other Post Employment Liabilities (Note 26)	Treasury Shares (Note 15)	Appropriated Retained Earnings (Note 15)	Unappro- priated 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, 2012	₱11,273	(₱521)	₱4,111	(₱328)	₱915	₱85	₱14	₱–	₱12	(₱1,665)	(₱9)	₱6,000	₱42,269	₱62,156	₱4,713	₱66,869
Net income	–	–	–	–	–	–	–	–	–	–	–	–	17,117	17,117	142	17,259
Other comprehensive income (loss)	–	–	–	–	–	35	–	–	(9)	1,954	–	–	–	1,980	–	1,980
Total comprehensive income (loss)	–	–	–	–	–	35	–	–	(9)	1,954	–	–	17,117	19,097	142	19,239
Collection of subscriptions receivable	–	310	–	–	–	–	–	–	–	–	–	–	–	310	–	310
Share-based payments	–	–	–	–	134	–	–	–	–	–	–	–	–	134	–	134
Purchase of treasury shares	–	–	–	–	–	–	–	–	–	–	(2)	–	–	(2)	–	(2)
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	(9,129)	(9,129)	(15)	(9,144)
Deconsolidation of subsidiary through property dividend	–	–	–	–	–	–	(14)	–	–	–	–	–	(4,650)	(4,664)	(4,592)	(9,256)
	–	310	–	–	134	–	(14)	–	–	–	(2)	–	(13,779)	(13,351)	(4,607)	(17,958)
At December 31, 2012	₱11,273	(₱211)	₱4,111	(₱328)	₱1,049	₱120	₱–	₱–	₱3	₱289	(₱11)	₱6,000	₱45,607	₱67,902	₱248	₱68,150

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	2014	2013	2012
(Amounts in millions)				
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax of continuing operations		₱26,468	₱24,327	₱22,022
Income before income tax of discontinued operations		—	—	1,061
Income before income tax		26,468	24,327	23,083
Adjustments for:				
Provision for probable charges and expenses from claims - net	19, 24 and 29	10,720	10,736	8,948
Depreciation and amortization	7, 9 and 10	6,093	6,118	5,731
Interest and other financial charges	25	1,439	1,479	1,528
Interest and other financial income	25	(770)	(1,172)	(2,569)
Provision for doubtful accounts	12	460	504	832
Equity in net losses (earnings) of associates and joint ventures	8	(295)	259	15
Others		(194)	(323)	(614)
Operating income before working capital changes		43,921	41,928	36,954
Decrease (increase) in:				
Trade and other receivables		10,075	(20,985)	(2,248)
Inventories		(750)	(1,379)	357
Other current assets		2,290	(147)	285
Increase (decrease) in:				
Trade payables and other current liabilities		(10,199)	25,060	4,693
Customers' refund		(76)	(114)	(123)
Customers' deposits		(1,079)	2,983	2,487
Long-term employee benefits		480	(2,997)	1,067
Cash generated from operations		44,662	44,349	43,472
Income tax paid		(7,167)	(7,205)	(7,228)
Net cash flows from operating activities		37,495	37,144	36,244
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Utility plant and others	7	(12,062)	(9,311)	(9,353)
Investments in associates and interests in joint ventures	8 and 14	(1,272)	(16,383)	(198)
Intangible assets	10	(514)	(876)	(315)
Investment properties		(6)	—	—
Short-term investments	14	—	(4,841)	—
Interest and other financial income received		659	1,106	2,174
Dividends received	8	554	411	33
Proceeds from disposal of utility plant and others		166	127	155
Proceeds from disposal of investment properties		—	91	30
Increase in other noncurrent assets		(141)	(716)	(2,075)
Net cash used in investing activities		(12,616)	(30,392)	(9,549)

(Forward)



Years Ended December 31				
	Note	2014	2013	2012
<i>(Amounts in millions)</i>				
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of interest-bearing long-term financial liabilities	17	₱7,330	₱–	₱3,000
Availment of notes payable		432	4,705	1,720
Collection of subscriptions receivable		61	142	310
Issuances of bonds, net of issue costs	17	–	18,314	–
Payments of:				
Dividends	15	(13,834)	(12,553)	(8,890)
Interest-bearing long-term financial liabilities		(9,508)	(9,424)	(4,565)
Interest and other financial charges		(1,996)	(4,036)	(2,882)
Notes payable		(1,846)	(4,678)	–
Increase (decrease) in non-controlling interest		69	(27)	–
Acquisition of treasury shares		–	–	(2)
Increase in other noncurrent liabilities		4,031	156	973
Net cash used in financing activities		(15,261)	(7,401)	(10,336)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		9,618	(649)	16,359
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		59,851	60,500	44,141
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	11	₱69,469	₱59,851	₱60,500

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company or *MERALCO*, holds a congressional franchise under Republic Act or *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 or *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 or *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 or *CEDC*. *CEDC* is registered with Clark Development Corporation or *CDC*, under *RA* No. 9400, the *Bases Conversion Development Act of 1992*, as a Clark Special Economic Zone or *CSEZ* enterprise, primarily engaged in the operation and maintenance of a power distribution system within *CSEZ*.

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

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

The common shares of *MERALCO* are listed on and traded in the Philippine Stock Exchange or *PSE*, with security symbol, *MER*.

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

2. Rate Regulations

As distribution utilities or *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 or *SL*, charge, (d) lifeline and inter-class rate subsidies, and (e) local business taxes, such as, franchise tax or *LFT*; and [ii] the “Rules for the Setting of Distribution Wheeling Rates” or *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 or 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 or *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 or *RYs*. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The third *RP* is from July 1, 2011 to June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end on June 30, 2019. *MERALCO* is to undergo the fourth *RP* reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its fourth *RP* reset application.

Maximum Average Price or MAP for RY 2008 and RY 2009

On January 11 and April 1, 2008, *MERALCO* filed separate applications for the approval of the proposed translation of its *MAP* for *RY 2008* and *RY 2009*, respectively, into different rate schedules for its various customer segments. A portion of the distribution charge under-recoveries as a result of the delayed implementation of the *PBR* was incorporated in the proposed *MAP* for *RY 2009*.

In an Order dated April 13, 2009, the *ERC* approved the implementation of *MERALCO*’s average distribution rate of ₱1.2227 per kilowatt-hour or *kWh*, effective the billing period of May 2009, inclusive of the under-recoveries for calendar year 2007.

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals, or *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 or *SC*. Comments, responses and respective manifestations have been filed by both parties. As at February 23, 2015, a decision on this case is pending at the *SC*.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed an 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 *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 23, 2015, 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 23, 2015, 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 23, 2015, 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 23, 2015, the application is pending final approval by the *ERC*.

Capital Expenditure or CAPEX for RY 2016

The last year of *MERALCO*'s third *RP* ends on June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end 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 fourth *RP* reset application. *MERALCO* anticipates that there is not adequate time for it to file its fourth *RP* reset application and secure approval of its *CAPEX* forecast before the end of the third *RP*. In view thereof, and pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, *MERALCO*, on February 9, 2015, filed an application for approval of authority to implement its *CAPEX* program for *RY* 2016 (July 1, 2015 to June 30, 2016). As at February 23, 2015, the application is pending approval by the *ERC*.

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 shall end on September 30, 2015.

MAP for RY 2013

On August 30, 2012, *CEDC* filed its application for the approval of its *MAP* for *RY* 2013. On December 17, 2012, the *ERC* approved the *MAP* of ₱0.8953 per *kWh*. The revised rates based on the approved *MAP* for *RY* 2013 were implemented by *CEDC* starting January 2013.



MAP for RY 2014

On September 30, 2013, *CEDC* filed its application for the approval of its *MAP* for *RY 2014*. On December 9, 2013, the *ERC* approved the *MAP* of ₱0.8444 per *kWh*. The rates based on the approved *MAP* for *RY 2014* were implemented by *CEDC* starting December 2013.

MAP for RY 2015

On September 2, 2014, *CEDC* filed its application for the approval of its *MAP* for *RY 2014*. On February 23, 2015, the *ERC* approved the *MAP* of ₱0.9101 per *kWh*. The rates based on the approved *MAP* for *RY 2014* were implemented by *CEDC* starting February 2015.

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 or *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 or *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's motion for reconsideration. 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. As at February 23, 2015, further action of the case is pending at the *CA*.

Applications for the Recovery of Generation Costs and SL Charges

MERALCO filed separate applications for the full recovery of generation costs, including value-added tax or *VAT*, incurred for the supply months of August 2006 to May 2007 or total under-recoveries of ₱12,679 million for generation charges and ₱1,295 million for *SL* charges.



The separate applications for the full recovery of generation charges have been approved by the *ERC* in its decisions released on January 18, 2008, September 3, 2008 and August 16, 2010.

As at December 31, 2014, the generation costs were fully recovered.

With respect to the ₱1,295 million *SL* charge under-recoveries, the *ERC* ordered *MERALCO* to file a separate application for the recovery of *SL* adjustments after the *ERC* confirms the transmission rate to be used in the calculation of the *SL* rate in accordance with the *SL* rate formula of the Automatic Generation Rate Adjustments Guidelines or *AGRA*. *MERALCO* has filed the application for recovery of the ₱1,295 million *SL* charge under-recoveries with the *ERC*. This was included in the Consolidated Application to confirm over- or under- recoveries in generation, transmission, *SL* and lifeline subsidies filed on March 31, 2011 with the *ERC*. Hearings were completed on October 25, 2011. On December 8, 2011, *MERALCO* filed for the admission of its Supplemental Application. Hearings on this case have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

*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 system loss 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 *DUs* 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 an 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. Hearings on this case have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On July 6, 2012, *MERALCO* filed an 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. Hearings on the application have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.



On March 31, 2014, *MERALCO* filed an 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 month were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. On February 2, 2015, *ERC* released an Order setting the application for initial hearing on March 11, 2015.

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 or *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 involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period.

Deferred Purchased Price Adjustment or 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 customers ₱268 million of deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company or *QPPL* and deferred accounting adjustments or *DAA* 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 does not represent the transmission line fee. On November 4, 2009, *MERALCO* filed a Motion for Reconsideration with the *ERC*. As at February 23, 2015, the motion for reconsideration is still pending resolution by the *ERC*.

Application for Recovery of LFT

On March 25, 2011, *MERALCO* filed with the *ERC* an application for recovery of *LFT* paid but not yet billed to customers for the period beginning 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* expense 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, 2014, a total of ₱1,369 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, 2014, *MERALCO* filed an application with the *ERC* for authority to collect *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 or *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 insofar 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* has paid the full amount of said *LFT* to the local treasurer of City of Martires. *MERALCO* shall file the application once it completes the documentation for the filing.

On July 26, 2013 *MERALCO* filed an application with the *ERC* for authority to collect *LFT* in the City of Bacoor, separate from the previous authority granted to the Province of Cavite, beginning the date of effectivity of its “*City Ordinance No. 39, Series of 2012*” on April 4, 2013. In its Decision dated April 28, 2014, the *ERC* approved said application and authorized *MERALCO* to recover the *LFT* at the rate of 50% of 1% and the proceeds thereof will be remitted to the City of Bacoor.

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. The refund is ongoing.

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 or *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 or *PFRS*.



Basis of Consolidation

The consolidated financial statements comprise the financial statements of *MERALCO* and the following directly and indirectly-owned subsidiaries, collectively referred to as the *MERALCO Group*, as at December 31 of each year.

Subsidiaries	Place of Incorporation	Principal Business Activity	2014		2013	
			Percentage of Ownership		Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc., or <i>CIS</i>	Philippines	e-Transactions	100	—	100	—
CIS Bayad Center, Inc., or <i>Bayad Center</i>	Philippines	Bills payment collection	—	100	—	100
Customer Frontline Solutions, Inc. or <i>CFSI</i>	Philippines	Teller services	—	100	—	100
Meralco Energy, Inc., or <i>MEI</i>	Philippines	Energy systems management	100	—	100	—
eMERALCO Ventures, Inc., or <i>e-MVI</i>	Philippines	e-Business development	100	—	100	—
Paragon Vertical Corporation	Philippines	Information technology or <i>IT</i> and multi-media services	—	100	—	100
<i>MGen</i>	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. (formerly Luzon Natural Gas Energy Corporation) ²	Philippines	Power generation	—	100	—	100
MPG Holdings Phils., Inc.	Philippines	Holding company	—	100	—	100
MPG Asia Limited or <i>MPG Asia</i>	British Virgin Island	Holding company	—	100	—	100
Meralco Financial Services Corporation or <i>Finserve</i>	Philippines	Financial services provider	100	—	100	—
Republic Surety and Insurance Company, Inc. or <i>RSIC</i>	Philippines	Insurance	100	—	100	—
Lighthouse Overseas Insurance Limited or <i>LOIL</i>	Bermuda	Insurance	100	—	100	—
Miescorrail, Inc. or <i>Miescorrail</i>	Philippines	Engineering, construction and maintenance of mass transit system	100	—	100	—
Meridian Atlantic Light Company Limited	Nigeria	Management of power distribution	100	—	100	—
Meralco Industrial Engineering Services Corporation or <i>MIESCOR</i>	Philippines	Engineering, construction and consulting services	99	—	99	—
MIESCOR Builders Inc. or <i>MBI</i>	Philippines	Electric transmission and distribution operation and maintenance services	—	100	—	100
MIESCOR Logistics Inc. or <i>MLI</i>	Philippines	General services, manpower/maintenance	—	100	—	100
<i>CEDC</i>	Philippines	Power distribution	65	—	65	—

¹ Incorporated February 15, 2011 and has not started commercial operations as at December 31, 2014.

² Incorporated January 11, 2013 and has not started commercial operations as at December 31, 2014.

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 a 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 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 *CEDC* and *MIESCOR* and its subsidiaries 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.

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 for the adoption of the following amendments and improvements to existing standards, which were effective beginning January 1, 2014.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of *PFRS 13, Fair Value Measurements*, on the disclosures required under *PAS 36*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the year. The amendments affect disclosures only and have no impact on the *MERALCO Group's* financial position or performance.



Investment Entities (Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 27, Separate Financial Statements)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *PFRS 10*. The exception for consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not relevant to the *MERALCO Group* since none of the entities in the *MERALCO Group* qualify to be an investment entity under *PFRS 10*.

Philippine Interpretation International Financial Reporting Interpretations Committee or IFRIC 21, Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *IFRIC 21* has no impact on the *MERALCO Group*'s consolidated financial statements.

PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments do not apply to the *MERALCO Group* as it has no derivatives during the current year. However, these amendments would be considered for any future novation.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the *PAS 32* offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the *MERALCO Group*'s financial position or performance.

PFRS 13, Fair Value Measurement - Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment has no significant impact on *MERALCO Group*'s financial position or performance.



Future Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standard and interpretation that are already issued but will become effective subsequent to December 31, 2014:

PFRS 9, Financial Instruments – Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of *PAS 39* and applies to the classification and measurement of financial assets and liabilities as defined in *PAS 39, Financial Instruments: Recognition and Measurement*. *PFRS 9* requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option or *FVO* is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or *OCI* or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For *FVO* liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in *OCI*. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in *OCI* would create or enlarge an accounting mismatch in profit or loss. All other *PAS 39* classification and measurement requirements for financial liabilities have been carried forward into *PFRS 9*, including the embedded derivative separation rules and the criteria for using the *FVO*. The *MERALCO Group* conducted an evaluation of the early adoption of *PFRS 9* and has assessed that the first phase of *PFRS 9* will have an effect on the classification and measurement of financial assets. The *MERALCO Group* will quantify the effect on the consolidated financial statements in conjunction with the other phases, when issued, to present a comprehensive picture.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of *PFRS 9* was adopted by the Philippine Financial Reporting Standards Council or *FRSC*. Such adoption, however, is still for approval by the Board of Accountancy or *BOA*.

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under *PAS 11, Construction contracts* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Philippine Securities and Exchange Commission or *SEC* and the Philippine *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. Adoption of the interpretation when it becomes effective will not have any impact on the *MERALCO Group's* consolidated financial statements.



The following new standards and amendments issued by the *IASB* were already adopted by the Philippine *FRSC* but are still for approval by the *BOA*:

Effective 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 *MERALCO Group* shall consider these amendments for future contributions from employees.

Annual Improvements to PFRSs (2010-2012 cycle)

The *Annual Improvements to PFRS (2010-2012 cycle)* contain non-urgent but necessary amendments to the following standards:

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 *MERALCO Group* shall consider this amendment for future share-based payments.

*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 *MERALCO Group* shall consider this amendment for future business combinations, where applicable.

*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 *MERALCO Group* shall consider these amendments in future disclosures.

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 *MERALCO Group* shall consider this amendment in future transactions.

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 *MERALCO Group* shall consider this amendment in future disclosures.

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 *MERALCO Group* shall consider this amendment in future disclosures.

Annual Improvements to PFRSs (2011-2013 cycle)

The *Annual Improvements to PFRSs (2011-2013 cycle)* contain non-urgent but necessary amendments to the following standards:

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 *MERALCO Group* shall consider this amendment in future transactions.

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* financial position or performance.

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* financial position or performance.

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* given that 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* will consider the amendments in its future transactions.

PAS 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* will consider these amendments in future transactions.

PFRS 14, Regulatory Deferral Accounts

PFRS 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. 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 would 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*. 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, 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 – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

PFRS 9 (2013 version) already includes the third phase of the project to replace *PAS 39* which pertains to hedge accounting. This version of *PFRS 9* replaces the rules-based hedge accounting model of *PAS 39* with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. *PFRS 9* also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of *PFRS 9* was adopted by the Philippine *FRSC*. The adoption of the final version of *PFRS 9*, however, is still for approval by the *BOA*.

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 an effect on the *MERALCO Group*'s application of hedge accounting. The *MERALCO Group* is currently assessing the impact of adopting this standard.

PFRS 9, Financial Instruments (2014 or final version)

In July 2014, the final version of *PFRS 9, Financial Instruments*, was issued. *PFRS 9* reflects all phases of the financial instruments project and replaces *PAS 39, Financial Instruments: Recognition and Measurement*, 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 an effect on the *MERALCO Group's* application of hedge accounting. The *MERALCO Group* is currently assessing the impact of adopting this standard.

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 new five-step model that will apply to 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 principles in *IFRS 15* provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The *MERALCO Group* is currently assessing the impact of *IFRS 15* 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	10-50 years, depending on the life of the significant parts
Buildings and improvements	15-40 years
Communication equipment	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, or *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* 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 of 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 other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period 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 are 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 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) 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 or *BIR* and intangible assets), 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 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 there is incomplete allocation of goodwill acquired in a business combination to cash generating units or group of cash generating units, 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 or *FVPL*, loans and receivables, held-to-maturity or *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 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 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” account, respectively. 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” account, respectively, in the consolidated statement of income. Assets in this category are included under current assets except for assets with maturities beyond 12 months from the 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 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 until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in the consolidated statement of income. Interest earned on holding *AFS* debt securities are included under “Interest and other financial income” account in the consolidated statement of income. Dividends earned on holding *AFS* equity are 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 *VAT*, accrued taxes, reinsurance liabilities and deferred lease income), customers’ deposits, refundable service extension costs, customers’ refund and other noncurrent liabilities.

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” account, respectively. 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 are 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 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, 2014 and 2013.

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 other comprehensive income. 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 year, 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 other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income 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 other comprehensive income.

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 year, 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 are no longer accrued 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.

Value Added Tax or VAT

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on local purchase 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 "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 asset" 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 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 which 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 the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- 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 profit or loss. 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 profit or loss.

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 other comprehensive income 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 termination 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 period.

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 year.

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 *ESPP*, which was awarded in 2009 fully vested in October 2012. Since 2009, there have been no *ESPPs* implemented.

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.

Other comprehensive income 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 *CEDC* and *MIESCOR* and its subsidiaries, which are not held by *MERALCO*.

Employee Stock Purchase Plan or ESPP

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 year.

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

Revenues are stated at amounts invoiced to customers, inclusive of pass-through components, net of discounts, rebates, *VAT* and other taxes, where applicable. Revenue is recognized to the extent that it is probable that the economic benefits 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. The Uniform Filing Requirements or *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 or *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 and universal charges are also separately presented in the customer's billing statement. *VAT*, business taxes and universal charges are billed and collected on behalf of the national and local governments and do not form part of *MERALCO* and *CEDC*'s revenues.

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 the 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 poles 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 period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

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 or 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 period. 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 other comprehensive income 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 period. 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

As a lessor, the *MERALCO Group* has several lease arrangements. 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 or *PPAs* and Purchase Supply Agreements or *PSAs* with certain power generating companies qualify as leases on the basis that *MERALCO* and these power generating companies have 'take or pay' or *TOP* arrangements where payments for purchased power 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 *PPAs* and *PSAs* 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 ₱44,204 million, ₱46,170 million and ₱18,946 million in 2014, 2013 and 2012, respectively. These are recognized as "Purchased Power" in the consolidated statements of income.

See Note 24 – Revenues and Purchased Power.

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

MERALCO has 51% interest in San Buenaventura Power Ltd. Co. or *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 year-end 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 ₱5,778 million, ₱5,941 million and ₱5,474 million for the years ended December 31, 2014, 2013 and 2012, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱120,830 million and ₱112,586 million as at December 31, 2014 and 2013, respectively.

Total depreciation of investment properties amounted to ₱6 million, ₱8 million and ₱8 million for the years ended December 31, 2014, 2013 and 2012, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,526 million as at December 31, 2014 and 2013.

Total amortization of intangible assets with finite lives amounted to ₱309 million, ₱169 million and ₱94 million for the years ended December 31, 2014, 2013 and 2012, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,336 million and ₱1,728 million as at December 31, 2014 and 2013, 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*.

The carrying values of nonfinancial assets as at December 31, 2014 and 2013 subject to impairment review are as follows:

Account	2014	2013
	<i>(Amounts in millions)</i>	
Utility plant and others	₱120,830	₱112,586
Investments in associates and joint ventures	14,382	13,422
Investment properties	1,526	1,526
Intangible assets	2,336	1,728
Receivable from the <i>BIR</i>	181	577
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 period and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

Assessment on the recognition of deferred tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting periods. 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 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:

	2014	2013
	<i>(Amounts in millions)</i>	
Recognized deferred tax assets	₱16,855	₱15,391
Unrecognized deferred tax assets	332	215

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 ₱460 million, ₱504 million and ₱832 million for the years ended December 31, 2014, 2013 and 2012,



respectively. Trade and other receivables, net of asset impairment, amounted to ₱30,629 million and ₱32,718 million as at December 31, 2014 and 2013, 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. The excess of cost over net realizable value relating to inventories consists of collective and specific provisions. 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, 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 ₱2,212 million and ₱2,750 million as at December 31, 2014 and 2013, respectively.

See *Note 13 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension 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 pension 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 pension and other post-employment benefits expense amounted to ₱1,304 million, ₱1,434 million and ₱1,628 million for the years ended December 31, 2014, 2013 and 2012, respectively. The pension and other post-employment benefit liabilities as at December 31, 2014 and 2013 amounted to ₱2,584 million and ₱2,978 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 pension 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 at 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, 2014 and 2013, gross carrying values of insurance liabilities arising from insurance contracts, included in "Other noncurrent liabilities" account, amounted to ₱673 million and ₱725 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* is involved in 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 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 ₱10,720 million, ₱10,749 million and ₱9,226 million for the years ended December 31, 2014, 2013 and 2012, 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 *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates.



The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by the generators is taken up in the subsequent year. 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 service area covers the *CSEZ*.

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

In March 2013, *MGen* acquired an effective 28% equity in PacificLight Power Pte Ltd. or *PacificLight Power*, in Jurong Island, Singapore. The *PacificLight Power* began full commercial operation in February 2014.

MGen is currently co-developing a 455 *MW* net capacity supercritical coal-fired power plant in Mauban, Quezon under *SBPL*, and a 2 x 300 *MW* Circulating Fluidized Bed or *CFB*, coal-fired power generation plant in the Subic Freeport Zone under Redondo Peninsula Energy, Inc. or *RP Energy* whose site development is substantially completed.

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. The *MERALCO Group* serves as a local *RES* within its franchise area under a separate business unit, *MPower*. Starting June 26, 2013, qualified contestable customers who opted to be served by the *MERALCO RES* sourced their electricity supply from *MPower*.

▪ Other Services

The other services segment is involved principally in electricity-related services such as electro-mechanical engineering, construction, consulting and related manpower as well as light rail-related maintenance services, e-transaction and bills collection, insurance and e-business development, and distribution, and energy systems management. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as “*MIESCOR Group*”), *CIS*, *Bayad Center* and *CFSI* (collectively referred to as “*CIS Group*”), *Miescorrail*, *RSIC*, *LOIL*, *Finserve*, *e-MVI* 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 or *CCNI*. Net income for the year is measured consistent with reported consolidated 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 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.

		Power			Other Services			Inter-segment Transactions			Total		
	Note	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
		(Amounts in Millions)											
Revenues		₱261,740	₱294,849	₱282,991	₱6,894	₱5,258	₱3,829	(₱2,298)	(₱1,471)	(₱1,550)	₱266,336	₱298,636	₱285,270
Segment results		₱31,984	₱29,730	₱25,405	₱951	₱1,305	₱1,127	₱—	₱—	₱—	₱32,935	₱31,035	₱26,532
Depreciation and amortization		(5,863)	(5,911)	(5,400)	(230)	(207)	(176)	—	—	—	(6,093)	(6,118)	(5,576)
Interest and other financial income	25	742	1,161	2,519	28	11	50	—	—	—	770	1,172	2,569
Equity in net earnings (losses) of associates and joint ventures	8	295	(259)	(15)	—	—	—	—	—	—	295	(259)	(15)
Interest and other financial charges	25	(1,426)	(1,475)	(1,518)	(13)	(4)	(10)	—	—	—	(1,439)	(1,479)	(1,528)
Derivative mark-to-market gains (losses)		—	(24)	40	—	—	—	—	—	—	—	(24)	40
Provision for income tax – net		(8,085)	(6,710)	(5,454)	(252)	(344)	(287)	—	—	—	(8,337)	(7,054)	(5,741)
Net income attributable to non-controlling interests		—	—	—	—	—	—	(78)	(62)	(142)	(78)	(62)	(142)
Income from discontinued operations, net of income tax		—	—	—	—	—	978	—	—	—	—	—	978
Net income attributable to equity holders of the Parent		₱17,647	₱16,512	₱15,577	₱484	₱761	₱1,682	(₱78)	(₱62)	(₱142)	₱18,053	₱17,211	₱17,117

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:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
<i>EBITDA</i>	₱32,927	₱30,682	₱27,690
<i>EBITDA</i> of discontinued operations	—	—	(1,154)
<i>EBITDA</i> of continuing operations	32,927	30,682	26,536
Add (Deduct):			
Depreciation and amortization	(6,093)	(6,118)	(5,576)
Interest and other financial income	770	1,172	2,569
Interest and other financial charges	(1,439)	(1,479)	(1,528)
Equity in net earnings (losses) of associates and joint ventures	295	(259)	(15)
Derivative mark-to-market gain (loss)	—	(24)	40
Foreign exchange gain (loss)	8	353	(4)
Consolidated income before income tax	26,468	24,327	22,022
Provision for income tax	(8,337)	(7,054)	(5,741)
Net income from continuing operations	18,131	17,273	16,281
Income from discontinued operations, net of income tax	—	—	978
Net income	₱18,131	₱17,273	₱17,259

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

	2014	2013	2012
	<i>(Amounts in millions)</i>		
<i>CCNI</i>	₱18,128	₱17,023	₱16,265
Add (Deduct) non-core items, net of tax:			
Foreign exchange gain (loss)	17	366	(1)
Non-core expenses	(470)	—	(56)
Investment acquisition related income (expenses)	378	(156)	—
Derivative mark-to-market gain (loss)	—	(17)	28
Loss on sale of investment properties	—	(5)	—
Gain on divestment from Rockwell Land Corporation or <i>Rockwell Land</i>	—	—	780
Effect of revised <i>PAS 19</i>	—	—	101
Net income for the year attributable to equity holders of the Parent	18,053	17,211	17,117
Net income for the year attributable to non-controlling interests	78	62	142
Net income	₱18,131	₱17,273	₱17,259



7. Utility Plant and Others

The movements in utility plant and others are as follows:

2014									
Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
<i>(Amounts in millions)</i>									
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
2013									
Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
<i>(Amounts in millions)</i>									
Cost:									
Balance at beginning of year	₱132,426	₱15,259	₱5,132	₱6,590	₱3,492	₱2,689	₱3,002	₱2,845	₱171,435
Additions	1,815	5	21	123	542	222	263	6,320	9,311
Disposals/retirements	(1,161)	—	—	(593)	(902)	(89)	(63)	—	(2,808)
Transfers from construction in progress	5,484	—	54	314	1	—	15	(5,868)	—
Reclassification and others	10 (243)	—	1	77	(31)	(5)	(27)	—	(228)
Balance at end of year	138,321	15,264	5,208	6,511	3,102	2,817	3,190	3,297	177,710
Less accumulated depreciation and amortization:									
Balance at beginning of year	49,192	—	2,030	4,808	2,751	1,694	1,648	—	62,123
Depreciation and amortization	4,728	—	128	415	234	223	213	—	5,941
Disposals/retirements	(1,161)	—	—	(593)	(902)	(89)	(63)	—	(2,808)
Reclassification and others	10 (163)	—	18	14	—	—	(1)	—	(132)
Balance at end of year	52,596	—	2,176	4,644	2,083	1,828	1,797	—	65,124
Net book values	₱85,725	₱15,264	₱3,032	₱1,867	₱1,019	₱989	₱1,393	₱3,297	₱112,586



As at December 31, 2014 and 2013, the net book values of customer-funded assets included in “Utility plant and others” account amounted to ₱1,811 million and ₱1,568 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2014 and 2013 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 or *ECPs* and non-electric capital projects or *NEPs*. *ECPs* 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 ₱182 million, ₱122 million and ₱127 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The average annual interest rates used for capitalization in 2014, 2013 and 2012 ranged from 4.4% to 5.0%, 4.6% to 5.9% and 5.5% to 6.2%, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2014 and 2013:

	Place of Incorporation	Principal Activity	2014 Percentage of Ownership	2013
Associates				
<i>RP Energy</i>	Philippines	Power generation	47	47
FPM Power Holdings Limited or <i>FPM Power</i>	British Virgin Islands	Power generation	40	40
Bauang Private Power Corporation or <i>BPPC</i>	Philippines	Power generation	38	38
General Electric Philippines Meter and Instrument Company, Inc. or <i>GEPMICI</i>	Philippines	Sale of metering products and services	35	35
<i>GBPC</i>	Philippines	Power generation	22	20
Joint Ventures				
<i>SBPL</i>	Philippines	Power generation	51	51
Indra Philippines, Inc. or <i>Indra Philippines</i>	Philippines	Management and <i>IT</i> consultancy	50	50
Rockwell Business Center	Philippines	Real estate	30	30

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

	2014	2013
	<i>(Amounts in millions)</i>	
Acquisition costs:		
Balance at beginning of year	₱13,461	₱1,563
Additions	1,272	11,898
Balance at end of year	14,733	13,461
Accumulated equity in net earnings (losses):		
Balance at beginning of year	(421)	249
Equity in net earnings (losses)	295	(259)
Dividends	(554)	(411)
Balance at end of year	(680)	(421)
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of year	—	—
Actuarial loss	(20)	—
Balance at end of year	(20)	—

(Forward)



	2014	2013
	(Amounts in millions)	
Share in cumulative translation adjustments:		
Balance at beginning of year	₱382	₱3
Translation adjustments	(33)	379
Balance at end of year	349	382
	₱14,382	₱13,422

FPM Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia*, a subsidiary of *MGen*, and 60% owned by First Pacific Company Limited or *First Pacific*. On March 28, 2013, *FPM Power* acquired a 70% interest in *PacificLight Power*, which owns and operates a 2 x 400 MW liquefied natural gas or *LNG*-fired power plant in Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, *PacificLight Energy Pte. Ltd.*, is engaged in energy trading.

RP Energy

On July 22, 2011, *MGen* signed a Shareholders' Agreement with Therma Power, Inc. or *TPI*, and Taiwan Cogeneration International Corporation – Philippine Branch or *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.

The Department of Environment and Natural Resources or *DENR* issued *RP Energy* an Environmental Compliance Certificate or *ECC* for the 2 x 300 MW power plant. On January 22, 2013, the Board of Investments or *BOI* approved *RP Energy*'s registration, which entitles *RP Energy* to various incentives, subject to compliance with the pre-registration requirements. On April 2, 2013, the *BOI* held in abeyance *RP Energy*'s registration pending the finality of the *SC* decision on the validity of the *ECC*.

A Writ of Kalikasan was filed with the *SC* by certain parties opposing the *RP Energy* project. The case was remanded by the *SC* to the *CA* for hearing on the merits thereof. A decision was issued by the *CA* denying the Writ of Kalikasan, but noting certain deficiencies in the process of the *DENR* in its issuance of the original *ECC* for the 300 MW coal-fired power plant and in the process of the Subic Bay Metropolitan Authority or *SBMA* in the conclusion of the original Lease and Development Agreement or *LDA* with *RP Energy*, and declaring these invalid. *DENR*, *SBMA* and *RP Energy* filed their respective Motions with the *SC* to review the *CA* decision. On May 8, 2014, *RP Energy* received a notice from the *SC* acknowledging *RP Energy*'s position on the case. The *DENR* and *SBMA* submitted their comments to the *SC* on June 13, 2014 and May 23, 2014, respectively.

On February 3, 2015, the *SC* unanimously denied the Petition for Writ of Kalikasan for insufficiency of evidence. Further, the *SC* upheld the validity of the *ECC* issued by the *DENR* in 2008 together with all the amendments thereafter, as well as the *LDA*. This development now enables *RP Energy* to proceed with the project, including the Engineering, Procurement and Construction, or *EPC*, contract, and financing agreement and closing thereof.

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 or *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 (net) coal-fired power plant. In October 2014, *SBPL* entered into *EPC* contracts covering the offshore and onshore components of the project. *SBPL* is also in advanced discussions with several banks for the financing of the project. On May 30, 2014, *MERALCO* signed a long-term Power Supply Agreement or *PSA* with *SBPL*, which is pending approval by the *ERC* as at February 23, 2015.

GBPC

On October 7, 2013, *MGen* executed a Share Sale and Purchase Agreement with First Metro Investment Corporation or *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. *GBPC* owns an aggregate of 709 *MW* (gross) of coal and diesel power plants in operation in the Visayas region. This includes an 82 *MW* (gross) coal-fired power plant in Toledo, Cebu, which began commercial operations in December 2014. A 150 *MW* (gross) coal power plant in Panay is under construction and is expected to be in commercial operation by 2016.

In May 2014, *MGen* acquired an additional 2% equity interest in *GBPC* bringing its equity interest to 22%. In addition, *MGen* participated in an equity call to fund the 150 *MW* coal power plant expansion project of Panay Energy Development Corporation or *PEDC*, a subsidiary of *GBPC*.

BPPC

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

In accordance with the Build-Operate-Transfer, or *BOT*, Agreement signed in 1993, First Private Power Corporation or *FPPC*, then parent company, constructed the 215 *MW* Bauang Power Plant or *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 or *NPC*, without any compensation and free of any liens. In 2010, *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.

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* supports *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems or *IS* and *IT* operations and management consulting.



Rockwell Business Center

The Rockwell Business Center is a joint venture between *Rockwell Land* and *MERALCO*, where *Rockwell Land* has constructed three (3) Business Process Outsourcing or *BPO*-enabled buildings on a non-regulatory asset base property of *MERALCO* over a pre-agreed cooperation period. 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 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:

	2014	2013
	<i>(Amounts in millions)</i>	
<i>GBPC</i>	₱8,195	₱6,820
<i>FPM Power</i>	3,955	4,522
Rockwell Business Center	872	917
<i>RP Energy</i>	646	660
<i>Indra Philippines</i>	349	291
<i>SBPL</i>	280	140
<i>GEPMICI</i>	74	62
<i>BPPC</i>	11	10
	₱14,382	₱13,422

The condensed statements of financial position of material associates follow:

	2014		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>		
Current assets	₱22,064	₱6,574	₱226
Noncurrent assets	64,179	47,889	1,096
Current liabilities	(10,873)	(17,312)	(56)
Noncurrent liabilities	(35,023)	(27,926)	2
Non-controlling interests	(12,911)	661	—
Total net assets	₱27,436	₱9,886	₱1,268

	2013		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>		
Current assets	₱17,276	₱4,901	₱323
Noncurrent assets	42,599	48,052	1,055
Current liabilities	(10,763)	(14,245)	(80)
Noncurrent liabilities	(25,369)	(26,070)	(1)
Non-controlling interests	(4,002)	(1,333)	—
Total net assets	₱19,741	₱11,305	₱1,297



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

	2014			2013			2012
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>						
Revenues	₱18,993	₱32,378	₱3	₱2,824	₱262	₱11	₱8
Costs and expenses	(14,182)	(34,642)	(31)	(2,329)	(1,212)	(191)	(149)
Net income (loss)	4,811	(2,264)	(28)	495	(950)	(180)	(141)
Non-controlling interests	(1,235)	736	—	(172)	82	—	—
Net income (loss) attributable to equity holders of the parent	3,576	(1,528)	(28)	323	(868)	(180)	(141)
Other comprehensive income (loss)	—	(84)	—	—	378	—	—
Total comprehensive income (loss)	₱3,576	(₱1,612)	(₱28)	₱323	(₱490)	(₱180)	(₱141)
Dividends received	₱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:

	2014		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions, except % of ownership)</i>		
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

	2013		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of associates	₱23,305	₱11,305	₱1,297
Proportionate ownership in associates (%)	20	40	47
	4,661	4,522	610
Goodwill	2,159	—	50
	₱6,820	₱4,522	₱660

The following is the aggregate information of *GEPMICI* and *BPPC* that are not individually material associates:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Share in net income	₱30	₱4	₱1
Share in other comprehensive income (loss)	(1)	1	—
Share in total comprehensive income	₱29	₱5	₱1
Dividends received	₱—	₱—	₱—



Joint Ventures

The condensed statements of financial position of Rockwell Business Center, a material joint venture, follow:

	2014	2013
	<i>(Amounts in millions)</i>	
Current assets	₱500	₱613
Noncurrent assets	2,505	2,566
Current liabilities	(264)	(166)
Noncurrent liabilities	(7)	(7)
Net assets	₱2,734	₱3,006

Current assets include cash and cash equivalents of ₱316 million and ₱594 million as at December 31, 2014 and 2013, respectively. Noncurrent assets represent substantially the two (2) *BPO* towers for lease and the costs of ongoing construction 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, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Revenues	₱335	₱301	₱226
Costs and expenses	(182)	(142)	(98)
Provision for income tax - net	(54)	(57)	(44)
Net income	99	102	84
Other comprehensive income	—	—	—
Total comprehensive income	₱99	₱102	₱84
Dividends received	₱43	₱—	₱—

The foregoing condensed statements of comprehensive income include the following:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Depreciation	₱145	₱136	₱96
Interest income	(4)	(6)	(6)
Provision for income tax	54	57	59

The reconciliation of the net assets of the Rockwell Business Center to the carrying amount of the interest in Rockwell Business Center recognized in the consolidated financial statements is as follows:

	2014	2013
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets	₱2,734	₱3,006
Proportionate ownership (%)	30	30
	820	902
Effect of difference between <i>MERALCO's</i> percentage share in net income and proportionate ownership	52	15
	₱872	₱917



The following is the condensed financial information of *Indra Philippines* and *SBPL*, which are not considered material joint ventures:

	2014	2013	2012
	(Amounts in millions)		
Share in net income	₱73	₱125	₱34
Share in other comprehensive loss	(16)	—	—
Share in total comprehensive income	₱57	₱125	₱34
Dividends received	₱13	₱11	₱—

9. Investment Properties

The movements in investment properties are as follows:

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

2013			
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of year	₱1,535	₱206	₱1,741
Disposals	(89)	(25)	(114)
Balance at end of year	1,446	181	1,627
Less accumulated depreciation:			
Balance at beginning of year	—	107	107
Depreciation	—	8	8
Disposals	—	(14)	(14)
Balance at end of year	—	101	101
	₱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, 2014 and 2013 are as follows:

	2014	2013
	<i>(Amount in millions)</i>	
Land	₱1,863	₱1,863
Buildings and improvements	137	131

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:

	<i>Note</i>	2014	2013
<i>(Amounts in millions)</i>			
Unbilled receivables	2 and 12	₱7,047	₱18,394
Intangible assets	7	2,336	1,728
Deferred input VAT		1,680	1,702
Advance payments to a supplier	27 and 30	619	474
Receivable from the BIR	29	181	577
AFS financial assets	27	172	161
HTM investments	27	121	129
Deferred reinsurance premium		110	231
Goodwill		36	36
Others		312	171
		₱12,614	₱23,603

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*.

Intangible Assets

The movements of intangible assets are as follows:

2014					
		Software	Franchise	Land and Leasehold Rights	Total
	Note				
(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		1389	—	222	1,611
		₱2,078	₱49	₱209	₱2,336



	2013	
	Software	Franchise
	(Amounts in millions)	
Cost:		
Balance at beginning of year	₱1,525	₱49
Additions	876	—
Balance at end of year	2,401	49
Less accumulated amortization:		
Balance at beginning of year	553	—
Amortization	169	—
Balance at end of year	722	—
	₱1,679	₱49

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 or “*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.

AFS Financial Assets

The details of *AFS* financial assets are as follows:

	2014	2013
	(Amounts in millions)	
Investments in ordinary shares and club shares of stock:		
Quoted	₱138	₱124
Unquoted	34	37
	₱172	₱161

The rollforward of unrealized gains or losses on quoted *AFS* financial assets included in the consolidated statements of financial position follows:

	2014	2013	2012
	(Amounts in millions)		
Balance at beginning of year	₱105	₱120	₱85
Gains (losses) on change in fair value	7	(15)	35
Balance at end of year	₱112	₱105	₱120

11. Cash and Cash Equivalents

This account consists of:

	2014	2013
	(Amounts in millions)	
Cash on hand and in banks	₱5,921	₱5,129
Cash equivalents	63,548	54,722
	₱69,469	₱59,851



Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up to three (3) months depending on the *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	2014	2013
		(Amounts in millions)	
Trade:			
Electricity:			
Billed		₱23,095	₱27,281
Unbilled	10	4,082	4,175
Service contracts		2,662	1,490
Insurance receivable		102	453
Cost and estimated earnings in excess of billings on uncompleted contracts		718	455
Nontrade		3,397	2,016
		34,056	35,870
Less allowance for doubtful accounts		3,427	3,152
		₱30,629	₱32,718

Billed receivables from sale of electricity of *MERALCO* and *CEDC* consist of the following:

	2014	2013
	(Amounts in millions)	
Residential	₱10,039	₱9,446
Commercial	9,144	12,179
Industrial	3,413	5,128
Flat streetlights	499	528
	23,095	27,281
Less allowance for doubtful accounts	3,207	2,969
	₱19,888	₱24,312

Movements in allowance for doubtful accounts for trade and other receivables are as follows:

	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
(Amounts in millions)						
						Total
Individually impaired	₱1,036	₱344	₱98	₱80	₱218	₱2
Collectively impaired	770	619	193	67	—	—
	₱1,806	₱963	₱291	₱147	₱218	₱2

2013				
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
(Amounts in millions)				
Billed trade receivables:				
Residential	₱556	₱743	(₱231)	₱1,068
Commercial	1,028	175	(38)	1,165
Industrial	772	(201)	(38)	533
Flat streetlights	203	5	(5)	203
	2,559	722	(312)	2,969
Other trade receivables	145	36	—	181
Nontrade receivables	2	—	—	2
	₱2,706	₱758	(₱312)	₱3,152

2013						
	Residential	Commercial	Industrial	Flat Streetlights	Other Trade Receivables	Nontrade Receivables
(Amounts in millions)						
						Total
Individually impaired	₱763	₱123	₱298	₱31	₱181	₱2
Collectively impaired	305	1,042	235	172	—	—
	₱1,068	₱1,165	₱533	₱203	₱181	₱2

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs consist largely of generation and transmission charges, which represent 57% and 10%, respectively, of the total billed amount in 2014 and 57% and 9%, respectively, of the total billed amount in 2013. Billed receivables are due 10 days after bill date.

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 cost under-recoveries, net of over-recoveries, which are billed to the customers over the period approved by the *ERC*. *MERALCO*'s and *CEDC*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits.

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*, *Miescorrail* 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

	2014	2013
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At net realizable value	₱2,212	₱2,750
At cost	2,406	2,953
Total inventories at the lower of cost or net realizable value	₱2,212	₱2,750

The reversal of write-down of inventory cost to *NRV* amounted to ₱10 million, ₱4 million and ₱45 million in 2014, 2013 and 2012, respectively.

14. Other Current Assets

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Advances to an associate	8 and 23	₱4,998	₱4,884
Pass-through <i>VAT</i> - net		1,753	1,116
Prepaid tax		1,601	734
Prepayments and advances to suppliers		1,520	290
Input <i>VAT</i>		340	77
Short-term investments	27	–	4,841
Others		90	225
		₱10,302	₱12,167

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 deferred *VAT* to the generation companies is based on collection of billed receivables from the customers.

Short-term investments are temporary cash placements, which are made for varying periods beyond three (3) months but not exceeding 12 months, and earn interest at the prevailing short-term placement investment rates.

15. Equity

Common Stock

The movement in the number of shares of *MERALCO*'s common stock is as follows:

	2014	2013
	<i>(In millions, except par value)</i>	
Authorized - ₱10 par value a share	1,250	1,250
Issued and outstanding:		
Balance at beginning and end of year	1,127	1,127



The common shares of *MERALCO* were listed in the *PSE* on January 8, 1992. There are 46,586 and 46,409 shareholders of *MERALCO*'s common shares as at December 31, 2014 and 2013, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include undeclared 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 amounting to ₱36,175 million and ₱34,684 million as at December 31, 2014 and 2013, 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 2014, 2013 and 2012:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
<i>(In millions)</i>				
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
July 30, 2012	August 29, 2012	September 24, 2012	4.00	4,508
February 27, 2012	March 23, 2012	April 23, 2012	4.10	4,621

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 *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 to cover certain new development projects and investments in power generation. The additional appropriation was approved on March 22, 2013 by the *BOD*. As at December 31, 2014, the development of the first project, a 2 x 300 *MW CFB* coal-fired plant through *RP Energy*, is ongoing. *MERALCO* also signed a Joint Development Agreement and Shareholders Agreement to develop a supercritical coal-fired power plant through *SBPL*, which has a target completion by the first quarter 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, 2014 and 2013, 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. Movements in the number of common shares subscribed by employees under the *ESPP* are as follows:

2014				
	13 th A	14 th	Total	
Balance at beginning of year	68,333	5,706,802	5,775,135	
Fully paid	(68,333)	(5,706,802)	(5,775,135)	
Balance at end of year	—	—	—	

2013				
	13 th	13 th A	14 th	Total
Balance at beginning of year	3,309	135,703	7,753,272	7,892,284
Fully paid	(3,309)	(67,370)	(2,045,911)	(2,116,590)
Cancelled	—	—	(559)	(559)
Balance at end of year	—	68,333	5,706,802	5,775,135

MERALCO allotted a total of 55 million common shares for *ESPP* awards. As at December 31, 2014 and 2013, 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:

	2014	2013
	(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities -		
Long-term debt	₱27,743	₱20,756
Current portion of interest-bearing financial liabilities:		
Long-term debt	350	9,459
Redeemable preferred stock	1,549	1,562
	1,899	11,021
	₱29,642	₱31,777

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, 2014 and 2013. 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	2014	2013
	<i>(Amounts in millions)</i>	
<i>Bonds</i>		
₱11.5 Billion 7-year Bonds	₱11,500	₱11,500
₱7.0 Billion 12-year Bonds	7,000	7,000
<i>Fixed Rate Loans</i>		
₱7.2 Billion Note Facility Agreement	7,200	—
₱5.0 Billion Note Facility Agreement	—	4,900
₱4.8 Billion Note Facility Agreement	—	3,417
₱3.0 Billion Note Facility Agreement	—	530
<i>Floating Rate Loans</i>		
₱2.5 Billion Term Loan Facility	2,463	2,475
₱130 Million Term Loan Facility	130	—
₱3.0 Billion Term Loan Facility	—	600
Total long-term debt	28,293	30,422
Less unamortized debt issuance costs	200	207
	28,093	30,215
<i>Redeemable Preferred Stock</i>	1,549	1,562
	29,642	31,777
Less current portion	1,899	11,021
Long-term portion of interest-bearing financial liabilities	₱27,743	₱20,756

All of *MERALCO*'s interest-bearing long-term financial liabilities as at December 31, 2014 and 2013 are denominated in Philippine peso. The scheduled maturities of *MERALCO*'s outstanding long-term debt at nominal values as at December 31, 2014 are as follows:

	Amount
	<i>(In millions)</i>
Less than one (1) year	₱372
One (1) year up to two (2) years	385
More than two (2) years to three (3) years	397
More than three (3) years to four (4) years	2,809
More than four (4) years	24,330
	₱28,293

Bonds

₱18.5 Billion Fixed Rate Putable 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, putable 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 putable bonds due in 2020 and ₱7.0 billion fixed rate putable 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.

Fixed Rate Loans

₱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.

₱5.0 Billion Note Facility Agreement

In June 2011, *MERALCO* entered into a Fixed Rate Note Facility Agreement for its ₱500 million, 7-year notes and ₱4,500 million, 10-year notes due in 2018 and 2021, respectively. The principal is payable in nominal annual amortizations with a balloon payment on each of the two final maturity dates. In June 2014, *MERALCO* pre-terminated and settled the remaining principal of ₱4,900 million.

₱4.8 Billion Note Facility Agreement

In November 2010, *MERALCO* signed a Fixed Rate Note Facility Agreement for its ₱1,997 million, 7-year notes and ₱2,803 million, 10-year notes. The notes were issued on December 2, 2010 and are payable in nominal annual amortizations with a balloon payment on each of the two maturity dates in December 2018 and December 2020. In December 2013, *MERALCO* pre-terminated and settled the principal amount of ₱1,334 million. In March 2014, *MERALCO* pre-terminated and settled the remaining principal amount of ₱3,417 million.

₱3.0 Billion Note Facility Agreement

On January 5, 2012, *MERALCO* signed a ₱3,000 million Fixed Rate Note Facility Agreement for its ₱1,000 million, 7-year notes and ₱2,000 million, 10-year notes due in 2019 and 2022, respectively. The notes were priced off the relevant 7-year and 10-year benchmarks plus a spread and were issued on January 9, 2012. Principal repayments are through annual nominal amortizations and a balloon payment on maturity date. In December 2013, *MERALCO* pre-terminated and settled the principal amount of ₱2,440 million. In January 2014, *MERALCO* pre-terminated and settled the remaining principal amount of ₱530 million.

Floating Rate Loans

₱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 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.

₱130 Million Term Loan Facility

On June 27, 2014, *MIESCOR* obtained a ₱130 million, 7-year floating rate term loan. The principal is payable over six (6) years with final maturity in June 2021.



₱3.0 Billion Term Loan Facility

The ₱3,000 million, 5-year bilateral Floating Rate Term Loan Facility, was drawn in October 2009. The principal is payable over five (5) years with final maturity in October 2014.

Long-term debts totaling to ₱8,797 million, pre-terminated between January to June 30, 2014, were classified as part of the current portion of the long-term interest-bearing financial liabilities as at December 31, 2013.

The annual interest rates for the interest-bearing financial liabilities are as follows:

	2014	2013
Bonds	4.38% to 4.88%	4.38% to 4.88%
Fixed Rate Loans	4.50% to 5.50%	5.23% to 6.89%
Floating Rate Loans	2.10% to 2.19%	0.80% to 1.74%

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, 2014 and 2013, MERALCO is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs amounted to ₱200 million and ₱207 million as at December 31, 2014 and 2013, respectively.

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

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱207	₱82
Additions		36	186
Amortization charged to interest and other financial charges	25	(43)	(61)
Balance at end of year		₱200	₱207

Redeemable Preferred Stock

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

	2014	2013
Balance at beginning of year	156,189,168	159,356,939
Redemptions	(1,287,779)	(3,167,771)
Balance at end of year	154,901,389	156,189,168



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:

	2014			2013		
	Current Portion (see Note 22)	Noncurrent Portion	Total	Current Portion (see Note 22)	Noncurrent Portion	Total
(Amounts in millions)						
Bill deposits	₱3,562	₱24,344	₱27,906	₱6,130	₱21,600	₱27,730
Meter deposits	501	–	501	2,119	–	2,119
	₱4,063	₱24,344	₱28,407	₱8,249	₱21,600	₱29,849

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 consecutive years may now 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 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 or *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 0.375% per annum starting January 1, 2013 and 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:

	2014	2013
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱27,730	₱27,377
Additions	5,209	5,068
Refunds	(5,033)	(4,715)
Balance at end of year	27,906	27,730
Less portion maturing within one year	3,562	6,130
Noncurrent portion of bill deposits and related interests	₱24,344	₱21,600

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,” or *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, 2014 and 2013, total meter deposits refunded by *MERALCO* amounted to ₱2,595 million (inclusive of ₱1,347 million interest) and ₱977 million (inclusive of ₱503 million interest), respectively.

19. Provisions

Provisions consist of amounts recognized for probable costs, charges and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱24,729	₱19,411
Provisions		5,665	5,331
Settlements		(1)	(13)
Balance at end of year		30,393	24,729
Less current portion	22	14,320	—
Noncurrent portion of provisions		₱16,073	₱24,729



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.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from various local banks. Annual interest rates ranged from 2.5% to 5.5% in 2014 and 1.5% to 3.9% in 2013 on peso-denominated loans.

Interest expense on notes payable amounted to ₱7 million and ₱73 million for the years ended December 31, 2014 and 2013, respectively.

See *Note 25 – Expenses and Income*.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	<i>Note</i>	2014	2013
		<i>(Amounts in millions)</i>	
Trade accounts payable	<i>23 and 25</i>	₱32,101	₱43,893
Provisions	<i>19 and 29</i>	14,320	–
Output <i>VAT</i> – net		6,323	5,508
Accrued expenses:			
Employee benefits		2,271	2,520
Taxes		1,983	2,199
Interest		109	269
Others		1,713	2,532
Current portions of:			
Bill deposits and related interests	<i>18</i>	3,562	6,130
Meter deposits and related interests	<i>18</i>	501	2,119
Deferred lease income		693	726

(Forward)



	<i>Note</i>	2014	2013
		<i>(Amounts in millions)</i>	
Refundable service extension costs		₱1,852	₱1,615
Dividends payable on:			
Redeemable preferred stock	<i>17</i>	250	250
Common stock	<i>15</i>	188	91
Payable to customers		2,046	779
Universal charges payable		1,988	1,547
Regulatory fees payable		273	205
Reinsurance liability		74	215
Other current liabilities		3,377	3,294
		₱73,624	₱73,892

Trade Accounts Payable

Trade accounts payable mainly represent obligations to NPC/Power Sector Assets and Liabilities Management Corporation or *PSALM*, power generating companies, National Grid Corporation of the Philippines or *NGCP*, and Philippine Electricity Market Corporation or *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, 2014 and 2013, the noncurrent portion of refundable service extension costs of ₱7,006 million and ₱5,782 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 Contracts with Philippine Long Distance Telephone Company or 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 such as *PLDT*, *Metro Pacific*, *JG Summit* and San Miguel Corporation or *SMC* (up to 2013) 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 primary telecommunications carriers are *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, 2014, 2013 and 2012 and the outstanding balances as at December 31, 2014 and 2013:

Category	Amount of Transactions			Outstanding Receivable (Liability) as at December 31		Terms	Conditions
	2014	2013	2012	2014	2013		
(Amounts in millions)							
Sale of electricity:							
<i>JG Summit Group</i>	₱3,263	₱348	₱—	₱289	₱293	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,941	2,599	2,936	48	160	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	179	352	1,172	7	15	10-day; noninterest-bearing	Unsecured, no impairment
<i>SMC Group</i>	—	851	1,040	—	59	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	829	658	423	(1)	(2)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - <i>GEPMICI</i>	312	251	248	(21)	—	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	250	212	206	2	—	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	58	50	47	—	—	30-day; noninterest-bearing	Unsecured
Purchases of power:							
South Premiere Power Corporation or <i>SPPC</i>	—	34,885	—	—	(2,893)	30-day; noninterest-bearing	Unsecured
San Miguel Energy Corporation or <i>SMEC</i>	—	13,648	—	—	(951)	30-day; noninterest-bearing	Unsecured



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, 2014 and 2013.

See *Note 14 – Other Current Assets*.

Transaction with MERALCO Retirement Benefits Fund or Fund

The *MERALCO Group's* Retirement Benefits 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, 2014 and 2013, the fair value of the total assets being managed by the Fund amounted to ₱36.4 billion and ₱34.0 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:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Short-term employee benefits	₱538	₱517	₱432
Long-term employee and retirement benefits	45	283	256
Share-based payments	–	–	31
Total compensation to key management personnel	₱583	₱800	₱719

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 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, 2014, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a



contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Sale of Electricity

Electricity revenues account for 98% of total revenue in 2014 and 99% in 2013 and 2012. Following is the breakdown of electricity revenues:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Generation charge	₱159,281	₱192,558	₱183,708
Distribution service charges	56,373	56,105	50,892
Transmission charge	32,195	29,191	31,971
System loss charge	13,726	17,138	16,411
Power Act Reduction adjustment	—	(9)	(25)
Interclass, lifeline subsidies and others	165	(134)	34
	₱261,740	₱294,849	₱282,991

Distribution service revenue accounted for 22%, 19% and 18% of total electricity revenues in 2014, 2013 and 2012, respectively. *VAT*, *LFT* and universal charges, which are also pass-through charges are billed and collected on behalf of the national and local governments and do not form part of total electricity revenues.

See Note 6 – Segment Information.

Purchased Power

The details of purchased power are as follows:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Generation cost	₱169,033	₱206,507	₱198,648
Transmission cost	34,209	31,691	33,420
	₱203,242	₱238,198	₱232,068

Purchased power costs are pass-through costs and are revenue-neutral to *MERALCO* and *CEDC*, as *DUs*.

Generation cost is inclusive of 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 amounts to ₱44,204 million, ₱46,170 million and ₱18,946 million in 2014, 2013 and 2012, respectively. These also include the actual *SL* incurred which are within the *SL* cap of



8.5%. *MERALCO*'s actual 12 months moving average *SL* rates are 6.49%, 6.92% and 7.04% in 2014, 2013 and 2012, respectively.

The details of purchased power follow:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
First Gas Power Corporation or <i>FGPC</i> and FGP Corp. or <i>FGP</i>	₱53,772	₱55,360	₱58,592
<i>SPPC</i>	36,344	34,885	—
National Transmission Corporation or <i>TransCo/NGCP</i>	34,016	31,691	33,420
<i>QPPL</i>	14,480	14,251	15,147
<i>SMEC</i>	12,979	13,648	—
Masinloc Power Partners Co. Ltd. or <i>MPPCL</i>	12,515	12,905	—
Sem-Calaca Power Corporation or <i>Sem-Calaca</i>	10,486	10,673	—
Therma Luzon, Inc. or <i>TLI</i>	9,334	9,538	—
<i>PEMC/WESM</i>	5,975	40,600	28,401
<i>NPC/PSALM (including NPC Successor Generating Companies or SGCs/Independent Power Plant Administrators)</i>	4,836	11,531	96,375
Therma Mobile, Inc. or <i>TMO</i>	3,987	495	—
Trans-Asia Oil and Energy Development Corporation or <i>Trans-Asia</i>	2,281	2,043	—
1590 Energy Corp.	1,359	—	—
Others	878	578	133
	₱203,242	₱238,198	₱232,068

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/under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2014 and 2013, the total transmission cost and *SL* charge over-recoveries included in the "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱9,046 million and ₱6,358 million, respectively.

25. Expenses and Income

<i>Salaries, Wages and Employee Benefits</i>	Note	2014	2013	2012
		<i>(Amounts in millions)</i>		
Salaries, wages and related employee benefits		₱9,704	₱9,827	₱9,843
Pension	26	1,186	1,176	1,367
Other long-term post-employment benefits	26	118	258	261
<i>ESPP</i>	16	—	—	134
		₱11,008	₱11,261	₱11,605



<i>Other Expenses</i>				
	<i>Note</i>	2014	2013	2012
<i>(Amounts in millions)</i>				
Inventories	13	₱820	₱693	₱527
Rent and utilities		718	753	574
Advertising		438	309	179
Transportation and travel		396	360	386
Insurance		327	246	208
Communication	23	101	82	68
Others		965	955	1,808
		₱3,765	₱3,398	₱3,750

<i>Interest and Other Financial Charges</i>				
	<i>Note</i>	2014	2013	2012
<i>(Amounts in millions)</i>				
Interest expense on interest-bearing long-term financial liabilities, net of amount capitalized	7 and 17	₱1,210	₱1,038	₱1,202
Interest expense on bill deposits	18	84	82	91
Amortization of debt issuance costs	17	43	61	37
Interest expense on notes payable	21	7	73	5
Others		95	225	193
		₱1,439	₱1,479	₱1,528

<i>Interest and Other Financial Income</i>				
		2014	2013	2012
<i>(Amounts in millions)</i>				
Interest income on cash and cash equivalents		₱720	₱1,088	₱1,762
Carrying costs on ERC-approved under-recoveries		42	32	755
Others		8	52	52
		₱770	₱1,172	₱2,569

26. Long-term Employee Benefits

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

	2014	2013
<i>(Amounts in millions)</i>		
Long-term incentives	₱2,303	₱1,205
Retirement benefits liability	685	1,186
Other long-term post-employment benefits	1,899	1,792
	₱4,887	₱4,183



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)

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Current service costs	₱1,101	₱1,041	₱1,045
Net interest costs	76	130	319
Net retirement benefits expense	₱1,177	₱1,171	₱1,364

Retirement Benefits Liability

	2014	2013
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱37,129	₱35,225
Fair value of plan assets	(36,444)	(34,039)
Retirement benefits liability	₱685	₱1,186

Changes in the net retirement benefits liability are as follows:

	2014	2013
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of year	₱1,186	₱3,279
Net retirement benefits expense	1,177	1,171
Amounts recognized in <i>OCI</i>	153	(278)
Contributions by employer	(1,831)	(2,986)
Retirement benefits liability	₱685	₱1,186

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

	2014	2013
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱35,225	₱33,811
Interest costs	1,601	1,999
Current service costs	1,101	1,041
Benefits paid	(1,840)	(1,693)
Actuarial losses (gains) due to:		
Changes in financial assumptions	506	671
Experience adjustments	536	(604)
Defined benefit obligation at end of year	₱37,129	₱35,225



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

	2014	2013
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱34,039	₱30,532
Benefits paid	(1,840)	(1,693)
Interest income	1,525	1,869
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation	889	345
Contributions by employer	1,831	2,986
Fair value of plan assets at end of year	₱36,444	₱34,039

The Board of Trustees or *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. Substantially all of the assets of the *Fund* are managed by four (4) trustee banks 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.

Net carrying amount and fair value of the assets of the *Fund* as at December 31, 2014 and 2013 amounted to ₱36,444 million and ₱34,039 million, respectively. The major categories of plan assets are as follows:

	2014	2013
	<i>(Amount in millions)</i>	
Cash and cash equivalents	₱3,606	₱5,637
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	2,635	1,950
Electricity, energy, power and water	1,585	1,155
Food, beverages and tobacco	1,068	908
Telecommunication	908	607
Banks	743	713
Property	585	608
Transportation services	345	283
Gaming	139	75
Mining	138	66
Construction, infrastructure and allied services	135	82
Retail	130	44
Financial institution	—	81
Media	—	31
Hotel and leisure	—	15
Others	461	325

(Forward)



	2014	2013
	<i>(Amount in millions)</i>	
Quoted debt investments		
Government securities	₱11,226	₱11,385
“AAA” rated securities	10,032	7,399
Unquoted investments		
Receivables	1,754	1,721
Property	954	954
Fair value of plan assets	₱36,444	₱34,039

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)

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Interest costs	₱79	₱178	₱176
Current service costs	36	80	85
Actuarial loss	3	—	—
	₱118	₱258	₱261

Other Long-term Post-employment Benefits Liability

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

	2014	2013
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱1,792	₱2,962
Interest costs	79	178
Current service costs	36	80
Benefits paid	(73)	(53)
Actuarial losses (gains) due to change in assumptions	65	(1,375)
Balance at end of year	₱1,899	₱1,792

Actuarial Assumptions

The principal assumptions used as at December 31, 2014 and 2013 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2014	2013
Annual discount rate	4.5%	4.5%
Future range of annual salary increases	5.0%–8.0%	6.0%–10.0%



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	2014	2013
(Amounts in millions)			
Annual discount rate	+1.0%	(₱4,014)	(₱3,801)
	-1.0%	4,792	4,720
Future range of annual salary increases	+1.0%	1,139	1,199
	-1.0%	(1,047)	(1,099)

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.

MERALCO expects to contribute ₱939 million to the *Fund* in 2015.

The following is the maturity profile of the undiscounted benefit obligation as at December 31, 2014:

	<i>(Amounts in millions)</i>
Less than one (1) year	₱1,441
One (1) year up to five (5) years	7,456
More than five (5) years up to 10 years	9,911
More than 10 years up to 15 years	12,614
More than 15 years up to 20 years	11,536
More than 20 years	19,599

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 amount 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 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.

MERALCO 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, 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 the first 10% of the member's 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 ₱9 million, ₱5 million and ₱3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account)

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Expense recognized for defined benefit plans	₱1,177	₱1,171	₱1,364
Expense recognized for defined contribution plan	9	5	3
Retirement benefits expense	₱1,186	₱1,176	₱1,367



Long-term Incentive Plan or 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 the Plan must serve a minimum uninterrupted period to be entitled to any 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. 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, 2014 and 2013:

	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
<i>(Amounts in millions)</i>							
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
<i>(Amounts in millions)</i>							
Assets as at December 31, 2013							
Noncurrent							
Other noncurrent assets	₱474	₱129	₱–	₱–	₱161	₱–	₱764
Current							
Cash and cash equivalents	59,851	–	–	–	–	–	59,851
Trade and other receivables	28,543	–	–	–	–	–	28,543
Short-term investments	4,841	–	–	–	–	–	4,841
Advances to an associate	4,884	–	–	–	–	–	4,884
Total assets	98,593	129	–	–	161	–	98,883

(Forward)



	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
Liabilities as at December 31, 2013							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	P-	P-	P-	P-	P-	P20,756	P20,756
Customers' deposits - net of current portion	-	-	-	-	-	21,600	21,600
Refundable service extension costs - net of current portion	-	-	-	-	-	5,782	5,782
Current							
Notes payable	-	-	-	-	-	1,814	1,814
Trade payables and other current liabilities	-	-	-	-	-	57,113	57,113
Customers' refund	-	-	-	-	-	6,013	6,013
Current portion of interest-bearing long-term financial liabilities	-	-	-	-	-	11,021	11,021
Total liabilities	P-	P-	P-	P-	P-	P124,099	P124,099

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, 2014 and 2013.

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Loans and receivables -				
Advance payments to a supplier	P619	P634	P474	P522
AFS financial assets	172	172	161	161
HTM investments	121	125	129	135
	P912	P931	P764	P818
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing long-term financial liabilities	P29,642	P30,439	P31,777	P32,176

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, Short-term Investments, 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 3.68% as at December 31, 2014 and 3.76% as at December 31, 2013.



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 0.51% to 4.56% as at December 31, 2014 and 0.52% to 4.29% as at December 31, 2013.

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, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>(Amounts in millions)</i>							
Financial assets								
Advance payments to a supplier	P-	P-	P634	P634	P-	P-	P522	P522
AFS investments	138	-	34	172	124	-	37	161
HTM	-	-	125	125	-	-	135	135
	P138	P-	P793	P931	P124	P-	P694	P818
Financial liabilities								
Interest-bearing long-term financial liabilities	P-	P-	P30,439	P30,439	P-	P-	P32,176	P32,176



For the years ended December 31, 2014 and 2013, 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% and 90% of the borrowings bear fixed rate of interest as at December 31, 2014 and 2013, 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
<i>(Amounts in millions)</i>							
2014	₱13	₱25	₱36	₱2,449	₱70	₱–	₱2,593
2013	612	13	13	12	2,425	–	3,075

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 as at December 31, 2014 and 2013 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.

	2014		2013	
	Increase (Decrease) in Basis Points	Effect on Income before Income Tax	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
<i>(Amounts in millions)</i>				
Floating rate loans from various banks	+100 (100)	(₱26) 26	+100 (100)	(₱31) 31



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, 2014 and 2013, translated to Philippine peso at ₱44.72 and ₱44.395 to US\$1, respectively.

	2014		2013	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$119	₱5,331	\$65	₱2,864
Trade and other receivables	4	174	3	148
Advances to an associate	110	4,919	110	4,884
Advance payments to a supplier	14	610	11	474
	247	11,034	189	8,370
Financial liabilities -				
Trade payables and other liabilities	(10)	(447)	(46)	(2,043)
	\$237	₱10,587	\$143	₱6,327

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, 2014 and 2013



(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.

	2014		2013	
	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	+5	₱529	+5	₱317
and financial liabilities	-5	(529)	-5	(317)

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, trade and other receivables and short-term investments, 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, 2014 and 2013. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2014	2013
	<i>(Amounts in millions)</i>	
Cash and cash equivalents:		
Cash in banks	₱5,676	₱4,994
Cash equivalents	63,548	54,722
Trade and other receivables:		
Billed electricity	19,888	24,312
Service contracts	2,444	1,309
Insurance receivable	102	453
Cost and estimated earnings in excess of billings on uncompleted contracts	718	455
Nontrade receivables	3,395	2,014
Other current assets:		
Advances to an associate	4,998	4,884
Short-term investments	—	4,841
Other noncurrent assets:		
Advance payments to suppliers	619	474
HTM investments	121	129
	₱101,509	₱98,587

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:

	2014					
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
	<i>(Amounts in millions)</i>					
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



2013						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
(Amounts in millions)						
Cash in banks and cash equivalents	₱59,716	₱—	₱—	₱—	₱—	₱59,716
Trade and other receivables:						
Billed electricity	6,048	3,583	9,064	5,616	2,970	27,281
Service contracts	1,118	—	—	192	180	1,490
Insurance receivable	33	—	304	116	—	453
Cost and estimated earnings in excess of billings on uncompleted contracts	455	—	—	—	—	455
Nontrade receivables	1,883	8	20	103	2	2,016
Other current assets:						
Short-term investments	4,841	—	—	—	—	4,841
Advances to an associate	—	4,884	—	—	—	4,884
Other noncurrent assets	—	—	603	—	—	603
	₱74,094	₱8,475	₱9,991	₱6,027	₱3,152	₱101,739

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, 2014 and 2013:

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

(Forward)



2014						
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31-60 Days	61-90 Days	Over 90 Days		
<i>(Amounts in millions)</i>						
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

2013						
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31-60 Days	61-90 Days	Over 90 Days		
<i>(Amounts in millions)</i>						
Cash and cash equivalents:						
Cash equivalents	₱54,722	₱-	₱-	₱-	₱-	₱54,722
Cash in banks	4,994	-	-	-	-	4,994
Trade and other receivables:						
Trade:						
Billed electricity	18,695	2,068	504	3,044	2,970	27,281
Service contracts	1,118	-	-	192	180	1,490
Insurance receivable	337	5	9	102	-	453
Cost and estimated earnings in excess of billings on uncompleted contracts	455	-	-	-	-	455
Nontrade receivables	1,911	22	5	76	2	2,016
Other current assets:						
Short-term investments	4,841	-	-	-	-	4,841
Advances to an associate	4,884	-	-	-	-	4,884
Other noncurrent assets:						
Advance payments to a supplier	474	-	-	-	-	474
HTM investments	129	-	-	-	-	129
	₱92,560	₱2,095	₱518	₱3,414	₱3,152	₱101,739

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:

2014					
	Less than 3 Months	Over 3-12 Months	Over 1-5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱400	₱-	₱-	₱-	₱400
Trade payables and other current liabilities	37,260	-	-	-	37,260
Customers' refund	5,937	-	-	-	5,937
(Forward)					



2014					
	Less than 3 Months	Over 3-12 Months	Over 1-5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	₱40	₱34	₱2,725	₱12	₱2,811
Fixed rate borrowings	418	229	3,110	5,666	9,423
Bonds payable	211	633	4,222	20,040	25,106
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

2013					
	Less than 3 Months	Over 3-12 Months	Over 1-5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱1,816	₱—	₱—	₱—	₱1,816
Trade payables and other current liabilities	47,018	231	—	—	47,249
Customers' refund	6,013	—	—	—	6,013
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	14	601	2,592	—	3,207
Fixed rate borrowings	3,975	5,057	—	—	9,032
Bonds payable	211	645	3,427	21,716	25,999
Redeemable preferred stock	1,562	—	—	—	1,562
Customers' deposits	3,179	5,070	4,151	17,449	29,849
Refundable service extension costs	—	1,615	2,772	3,010	7,397
Total undiscounted financial liabilities	₱63,788	₱13,219	₱12,942	₱42,175	₱132,124

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 ₱3,562 million and ₱6,130 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, 2014 and 2013, 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.

	2014	2013
	<i>(Amounts in millions, except debt to equity ratio)</i>	
Long-term debt	₱28,093	₱30,215
Redeemable preferred stock	1,549	1,562
Notes payable	400	1,814
Debt (a)	30,042	33,591
Equity attributable to the holders of the parent (b)	79,154	75,162
Debt to equity ratio (a)/(b)	0.38	0.45

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2014 and 2013 are as follows:

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Deferred tax assets:			
Provisions for various claims	19	₱14,223	₱12,682
Accrued employee benefits	26	1,244	899
Unfunded retirement benefits cost and unamortized past service cost	26	252	480
Allowance for doubtful accounts	12	961	945
Allowance for excess of cost over net realizable value of inventories	13	58	61
Others		117	324
		16,855	15,391
Deferred tax liabilities:			
Revaluation increment in utility plant and others	15	7,311	7,389
Depreciation method differential		929	1,082
Capitalized interest		753	744
Capitalized duties and taxes deducted in advance		634	651
Net book value of capitalized/realized foreign exchange losses		12	22
Others		132	123
		9,771	10,011
		₱7,084	₱5,380



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

	2014	2013
Deferred tax assets - net	₱7,089	₱5,381
Deferred tax liabilities - net	(5)	(1)
	₱7,084	₱5,380

Provision for (benefit from) income tax consists of:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Current	₱9,961	₱9,889	₱9,490
Deferred	(1,624)	(2,835)	(3,749)
	₱8,337	₱7,054	₱5,741

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2014, 2013 and 2012, and provision for income tax as shown in the consolidated statements of income is as follows:

	2014	2013	2012
	<i>(Amounts in millions)</i>		
Income tax computed at statutory tax rate of:			
Continuing operations	₱7,941	₱7,298	₱6,607
Discontinued operations	—	—	318
	7,941	7,298	6,925
Income tax effects of:			
Nondeductible expenses	454	—	40
Interest income subjected to lower final tax rate	(206)	(314)	(521)
Nondeductible interest expense	85	130	213
Nontaxable income	(55)	(113)	(262)
Equity in net losses (earnings) of associates and joint ventures	(84)	78	5
Others	202	(25)	(576)
	8,337	7,054	5,824
Less provision for income tax of discontinued operations	—	—	83
	₱8,337	₱7,054	₱5,741

On December 18, 2009, the BIR issued Revenue Regulation, or RR No. 16-2008, which implemented the provisions of RA No. 9504 on Optional Standard Deductions or 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 2014, MERALCO elected to adopt the OSD in lieu of itemized deductions beginning with its first quarter tax return.



The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover amounting ₱1,105 million and ₱717 million as at December 31, 2014 and 2013, respectively.

NOLCO totaling to ₱1,105 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2012	December 31, 2015	₱193
December 31, 2013	December 31, 2016	402
December 31, 2014	December 31, 2017	510
		<u>₱1,105</u>

NOLCO amounting to ₱106 million expired in 2014.

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 system loss charges.

The Implementing Rules and Regulations 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 or *TCCs*, proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.



As at December 31, 2014 and 2013, the amount of unissued *TCCs* amounting to ₱181 million and ₱577 million, respectively, 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 or *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 tax credit certificate 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 Motion for Reconsideration 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 a Motion for Reconsideration 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*.

Overpayment of Income Tax Related to Change in Tax Basis

On February 4, 2008, the *SC* denied with finality a motion for reconsideration filed by the Commissioner of Internal Revenue or *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 or *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*.



LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code or *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 or RPT Assessments

Several Local Government Units or *LGUs* assessed *MERALCO* for deficiency *RPTs* on certain assets of *MERALCO*. The assets include electric transformers, wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, one has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers, where it is now submitted for resolution. The cases of the other *LGUs* 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 or *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 is set for mediation after the City of Manila files its comments on *MERALCO*'s petition.

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 *LGU* through a separate application with the *ERC*.

Mediation with NPC

The *NPC* embarked on a Power Development Program or *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 or *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 or *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 or *SA*, between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* 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 or *TRO* from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a motion for reconsideration 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*, independent of the pass-through for the settlement amount which is reserved for the *ERC*, valid and binding. 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. As at February 23, 2015, the case is for further action or decision by the *SC*.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-part transmission line, which completed the 230kV-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. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought for by the plaintiffs. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed a 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 pay all damages, which the plaintiffs may incur as a result of the Writ of Preliminary Injunction.

Thereafter, the plaintiffs questioned the *RTC-Makati* order before the *CA*. Separately, in its Order dated February 5, 2013, the *RTC-Makati* granted plaintiffs' motion and directed the re-affle of the case to another court after the judicial dispute resolution failed.

As at February 23, 2015, this case remains pending for resolution in the *CA*.

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 500kV Line 2 on June 22, 2008, and the 500kV 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 or *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 or *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 *SGCs* is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. or *APRI*, *TLI*, *SMEC* and *Sem-Calaca* or *SCPC*, 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 *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGCs* 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 *SGCs* 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 *SGCs*: *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 23, 2015, *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 Motion for Reconsideration of the December 1, 2014 Decision of the *CA*. As at February 23, 2015, *PSALM*'s Motion for Reconsideration is pending action or decision by the *CA*.

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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its Pre-trial Brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 23, 2015, 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*.



As at February 23, 2015, *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 23, 2015, 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 or *Malampaya*, 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 sixty (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 *DUs* 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.*, 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 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.

In its Order dated October 15, 2014, the *ERC* issued an Order denying the motions filed by the generating companies. The generating companies have filed separate petitions before the *CA* to question the March 3, 2014 and October 15, 2014 Orders of the *ERC*.

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 23, 2015, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

Others

Liabilities for certain local business taxes amounting to ₱6,407 million and ₱6,050 million as at December 31, 2014 and 2013, 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

Assignment of TSC Volume to SGCs

From 2008 to 2009, NPC privatized a number of its generating assets and Independent Power Plants or IPP contracts in favor of the successful bidders. As a result, the contracted energy volume under the original TSC between MERALCO and NPC was assigned by NPC to the respective new owners and Independent Power Producer Administrator or IPPAs. Following are the privatized plants and IPP contracts:

Year	Power Plant	Successor Owner/IPPAs	% of Total Volume
2008	Masinloc coal-fired power plant – 600 MW	MPPCL	21.3
2009	Tiwi-Makban geothermal power plants – 289 MW	APRI	8.1
	Pagbilao power plant – 735 MW	TLI	25.0
	Sual coal-fired power plant – 1,000 MW	SMEC	8.6
	Coal-fired Calaca power plant – 600 MW	Sem-Calaca	10.4
2010	Combined cycle gas turbine, natural gas-fired		
	Ilijan power plant – 1,200 MW	SPPC	15.2

NPC/PSALM remained the contracting party of record for the supply of power to MERALCO. Payments of the contracted volume are made based on the billing instructions from NPC/PSALM received by MERALCO.

Contracts for the Supply of Electricity or 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 PSAs are for a period of seven (7) years, extendable for three years upon agreement of the parties. Thereafter, applications for approval of the PSAs were filed with the ERC.

MPower likewise signed separate PSAs 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 PSAs of MERALCO with SPPC, Sem-Calaca, MPPCL, TLI and SMEC.

Motions for Reconsideration were filed regarding the ERC decisions on the PSAs with SPPC, Sem-Calaca and SMEC. MERALCO is awaiting the decision of the ERC on the SPPC and Sem-Calaca Motions for Reconsideration. 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 *PSAs*, 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 (In Megawatt)	Fixed Payment Amount (In million)
2015	3,050	₱37,613
2016	3,080	39,635
2017	3,080	39,408
2018	3,335	47,625
2019 to 2021	3,825	58,207

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 *PPAs* 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 *PPAs*. 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 *PPAs* of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPAs* 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 or *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 or *MEQ*, provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the US and Philippine Consumer Price Index or *CPI*.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Million)</i>
2015	15,312	₱22,537
2016	15,214	22,478
2017	15,213	22,665
2018	15,213	22,837
2019 to 2025	103,863	150,435

Montalban Methane Power Corporation or MMPC

MMPC operates an 8 *MW* (designed capacity of 11 *MW*) renewable energy generating facility, which utilizes landfill gas.

On May 13, 2009, *MERALCO* filed an application for the approval of the *CSE* with *MMPC* with the *ERC*. On June 9, 2009, *ERC* issued an order dated June 1, 2009 provisionally approving the *CSE* subject to the following conditions: (i) any amendments to the *CSE* shall be filed with the *ERC* for approval and the implementation shall be prospective; and (ii) in the event the rates approved are higher than the final rates, the amount corresponding to the excess shall be refunded by *MERALCO* to its customers by crediting the same in their electric bills.

After a series of negotiations, on May 23, 2011, *MERALCO* and *MMPC* signed a Letter Agreement extending the *CSE*. Said Agreement likewise contained minor amendments to the *CSE* that were intended to benefit the consumers. On June 3, 2011, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking the approval of the Letter Agreement, pursuant to the condition contained in the *ERC* Order dated June 1, 2009. On February 19, 2013, the *ERC* issued its Decision approving the application as well as the Letter Agreement. On June 6, 2013, *MERALCO* and *MMPC* signed a Letter Agreement extending the *CSE* for three (3) months from June 11, 2013 to September 11, 2013, and, thereafter, for a series of three (3)-month terms under the same terms and conditions. On June 11, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the June 6, 2013 Letter Agreement.

On June 2, 2014, *MERALCO* filed a new application with the *ERC* for approval of its new *PSA* with *MMPC*, executed by the parties on April 16, 2014, which has a term of two (2) years from *ERC* approval. Similar to the previous *CSE*, said *PSA* is a “take and pay” arrangement. However, under the new *PSA*, energy is no longer billed at the *ERC* approved *NPC TOU* rate but at a fixed contract price. On June 11, 2014, *MERALCO* received *MMPC*’s motion to join *MERALCO* as co-applicant in the case. Upon approval by the *ERC* of the new *PSA*, the same shall replace the



previous *CSE* executed between *MMPC* and *MERALCO*. Hearings on this case have been completed. On January 15, 2015, *MMPC*, with the conformity of *MERALCO*, terminated the *CSE*. *MERALCO* shall file a Manifestation informing the *ERC* of said termination.

Philippine Power and Development Company or 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. The case is now submitted for decision by the *ERC*.

BEI

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a 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 *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. The said case is pending decision by the *ERC*.

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. On June 13, 2013, *MERALCO* filed a Manifestation with Motion seeking *ERC*'s approval of said extension. In its Order dated September 30, 2013, the *ERC* denied said Manifestation and Motion. On October 11, 2013, *MERALCO* filed a motion with the *ERC* seeking reconsideration of its September 30, 2013 Order. In its Order December 9, 2013, the *ERC* reversed its previous ruling and allowed the *CSE* to be extended until March 15, 2015.

Pangea Green Energy Philippines, Inc. or PGEP

On May 31, 2012, the *MERALCO* signed a *CSE* with Pangea Green Energy Philippines, Inc., or *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.



Therma Mobile, Inc. or TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with Therma Mobile Inc. or *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 115kV line. *TMO* is thus an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115kV 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 Fishport 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 Formal Offer of Evidence or *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 covers the increase in the Maximum Monthly Capacity Factor to 60% provided that the average capacity factor for a contract year shall not exceed 40%, additional outage allowances and Operation and Maintenance expenses. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. The *ERC* already issued an Order and Notice of Public Hearing, both dated February 2, 2015 setting the initial hearing to be held on March 31, 2015.

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 the first supercritical highly fuel efficient, reliable and environmental friendly pulverized coal-fired power plant in the country. The *PSA* will be subject to the approval of the *ERC*.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On June 11, 2014, *MERALCO* received *SBPL*'s motion to intervene as a co-applicant. On July 25, 2014, *PMR Limited Co.* or *PMR* filed a petition to intervene in the case. The initial hearing for the application was held on July 31, 2014. On the same date, *MERALCO* and *SBPL* filed their respective oppositions to *PMR*'s intervention. In its Order dated August 26, 2014, the *ERC* deemed it appropriate to allow *PMR*'s participation as an intervenor in the case. The pre-trial conference including the presentation of *MERALCO*'s and *SBPL*'s witnesses, was held on September 1, 2014.

After *MERALCO* and *SBPL* filed their respective *FOE*, the *ERC* set the case for hearing for presentation of *PMR*'s witness. Thereafter, *PMR* filed its *FOE* on November 18, 2014. On December 5, 2014, *MERALCO* received an Order of the *ERC* dated December 2, 2014 ruling that the application is considered submitted for decision.



Bacman Geothermal, Inc. or 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. The *PSA* was submitted to the *ERC* for approval.

Interim Power Supply Agreements or IPSAs

On April 1, 2014, *MERALCO* signed two separate *IPSAs* with the wholly-owned subsidiaries of *GBPC*, namely: (1) Panay Power Corporation or *PPC* for a 27 *MW* firm output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City; and (2) Toledo Power Co. or *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 *IPSAs*, with the term of until on June 30, 2014, were filed for approval of the *ERC* on April 2, 2014. In its Decision dated June 2, 2014, the *ERC* approved the application with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *IPSAs*. 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 *IPSAs* with *PPC* for 27 *MW* and with *TPC* for 28 *MW* on firm basis and 9 *MW* on non-firm basis. The *IPSAs* 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. *MERALCO* is awaiting the Decision of the *ERC* on the application.

On April 3, 2014, *MERALCO* signed an *IPSA* with 1590 Energy Corp. 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 Corp. until October 31, 2014. A *MOA* dated October 30, 2014 was executed with 1590 Energy Corp. 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 April 8, 2014, *MERALCO* signed an *IPSA* with PanAsia Energy, Inc. for the 270 *MW* output from the Limay Combined Cycle Power Plant – a 540-*MW* diesel power facility at Barangay Luz, Limay, Bataan for a term of up to June 30, 2014. On July 18, 2014, the *ERC* approved the *IPSA* with Panasia Energy, Inc., subject to certain modifications. However, since the approval of the *IPSA* came after expiration of its term, the *IPSA* was never implemented. On December 4, 2014, *MERALCO* signed a new *IPSA* with PanAsia Energy, Inc. which shall be effective upon the issuance of the final approval of the *ERC* and will expire on July 25, 2015. The *IPSA* will involve the sale of up to 270 *MW* from January 26 to April 25, 2015 and up to 180 *MW* from April 26 to July 25, 2015. A Joint Application for approval of said *IPSA* was filed with the *ERC* on January 14, 2015. The *ERC* issued an Order and Notice of Public Hearing, both dated February 2, 2015, setting the case for initial hearing on March 25, 2015.



Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation or 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 is an interconnection at *MERALCO*'s Malaya-Teresa 115kV line. *Alternergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115kV 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.

Interconnection Agreement with Maibarara Geothermal, Inc. or MGI

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for their 20*MW* (with max capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which is an interconnection at *MERALCO*'s FPIP - Los Baños 115kV line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115kV line connecting its generating facility to *MERALCO*'s system.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. or 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 44YJ, Diliman 435VU and Parang 412YL 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 with Integrated Energy Distribution and Marketing or IEDM

MERALCO provides technical and management services for the operations of Ibadan Electricity Distribution Company and Yola Electricity Distribution Company in Nigeria. In consideration, *MERALCO* receives fixed monthly fees, subject to adjustment annually in accordance with the provisions of the Technical Services Agreement.

Technical Services Agreement with Comstech Integration Alliance, Inc. or Comstech

On February 12, 2014, *MERALCO* signed a Technical Services Agreement with *Comstech* whereby *MERALCO* shall provide technical services to support *Comstech* in the execution of the Investment and Management Agreement with Pampanga Electric Cooperative II or *PELCO II*.

Comstech secured the approval of the majority of the *PELCO II* membership to be the investment and management partner in electricity and distribution of *PELCO II*.

Agreement and Registration with Philippine Economic Zone Authority or 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 Cavite Economic Zone or *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:

	2014	2013	2012
	<i>(In millions, except per share data)</i>		
Net income attributable to equity holders of the Parent (a)	₱18,053	₱17,211	₱17,117
Weighted average common shares outstanding (b)	1,127	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	₱16.02	₱15.27	₱15.19

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 2014, 2013 and 2012. Basic and diluted earnings per share attributable to equity holders of the Parent of continuing operations of ₱14.40 in 2012 is based on net income attributable to equity holders of the Parent of continuing operations of ₱12,748 million.

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 or *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 23, 2015, 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. or *PEPOA* and Philippine Rural Electric Cooperative Association or *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 system loss 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 23, 2015, the Joint Petition is pending further action or decision by the *ERC*.

Retail Competition and Open Access or 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 *CRB* and Reportorial Requirements. The resolution mandates all *DUs* 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*.

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 or *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 or *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 or *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*. As at February 23, 2015, *MERALCO* has filed a comment on the motion and the motion is deemed submitted for resolution.

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 *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DUs* at the *RTC-Pasig*.

Purchase of Subtransmission Assets or 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 Motion for Reconsideration, 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 *TranCo*'s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a motion for reconsideration 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.

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., or *BATELEC II* and First Bay Power Corporation or *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 Peak/Off Peak or POP Program

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised Time of Use or *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 avalees 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.

Feed-in-Tariff or 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 or *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 or *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 or *FIT*-All 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. As at February 23, 2015, *MERALCO* is awaiting the action of the *SC* on this matter.



On April 30, 2014, the *DOE* issued a Certification revising the installation target for solar from 50MW to 500MW, 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 450MW.

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*. The *ERC* has yet to promulgate its resolution on the *FIT* Rate for the additional solar capacity.

Net Metering Program

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

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 *DUs*’ implementation of the Net Metering Program. Included in the Rules are the Interconnection Standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. 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 *DUs*’ blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The rules took effect on July 24, 2013. As at December 31, 2014, *MERALCO* has already energized 41 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

Interruptible Load Program or 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 February 23, 2015, there are 223 companies with a total generating capacity of 886 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity supplier as *ILP* participants.

33. Subsequent Event

On February 23, 2015, the *BOD* of *MERALCO* approved a final cash dividend of ₱8.49 per share to all shareholders of record as at March 23, 2015, payable on April 15, 2015.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Electric Company
Lopez Building
Ortigas Avenue, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and Subsidiaries as at December 31, 2014 and 2013 and for the years then ended, included in this Form 17-A, and have issued our report thereon dated February 23, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-2 (Group A),

March 15, 2012, valid until March 31, 2015

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4751287, January 5, 2015, Makati City

February 23, 2015



MANILA ELECTRIC COMPANY
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2014
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2014	Additions	Collections	Amount written off	Current	Noncurrent	December 31, 2014
Miescor Builders, Inc.	23	10	(7)	-	26	-	26
Miescor Logistics, Inc.	3	12	(7)	-	8	-	8
Meralco Industrial Engineering Services Corporation	-	6	(3)	-	3	-	3
Meralco Energy Inc.	5	-	(5)	-	-	-	-
Corporate Information Solutions, Inc.	2	1	(2)	-	1	-	1
eMERALCO Ventures, Inc.	-	3	(1)	-	2	-	2
Miescorrail, Inc.	7	14	(21)	-	-	-	-
Meralco Financial Services Corporation	30		(30)	-	-	-	-
	70	46	(76)	-	40	-	40

MANILA ELECTRIC COMPANY

Schedule D: The Movement of Intangible Assets (Included under Other Noncurrent Assets)

As at December 31, 2014

(Amounts In Millions Pesos)

Description	January 1, 2014	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	December 31, 2014
Software	1,679	514	291	-	176	2,078
Franchise	49	-		-	-	49
Land and leasehold rights	-	-	18	-	227	209
TOTALS	1,728	514	309	-	403	2,336

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule E: Interest Bearing Long-term Financial Liabilities

As at December 31, 2014

(Amounts In Million Pesos)

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under caption "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Bonds:			
<i>P11,500 Million, 7-Year Bonds</i>	11,500	-	11,500
<i>P7,000 Million, 12-Year Bonds</i>	7,000	-	7,000
Fixed Rate Loans:			
<i>P7,200 Million, 10-Year Note Facility</i>	7,200	360	6,840
Floating Rate Loans:			
<i>P2,500 Million, 7-Year Term Loan Facility</i>	2,500	13	2,450
<i>P130 Million, 7-Year Term Loan Facility</i>	130	-	130
Redeemable Preferred Stock:		1,549	-
Total		1,922	27,920
Less: Unamortized Debt Issue Cost		23	177
Balance at the end of the year		1,899	27,743

Manila Electric Company
Schedule H. Capital Stock
As at December 31, 2014
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	1,250	1,127	-	913	3	211

MANILA ELECTRIC COMPANY
Schedule I. List of Effective Standards and Interpretations
As at December 31, 2014

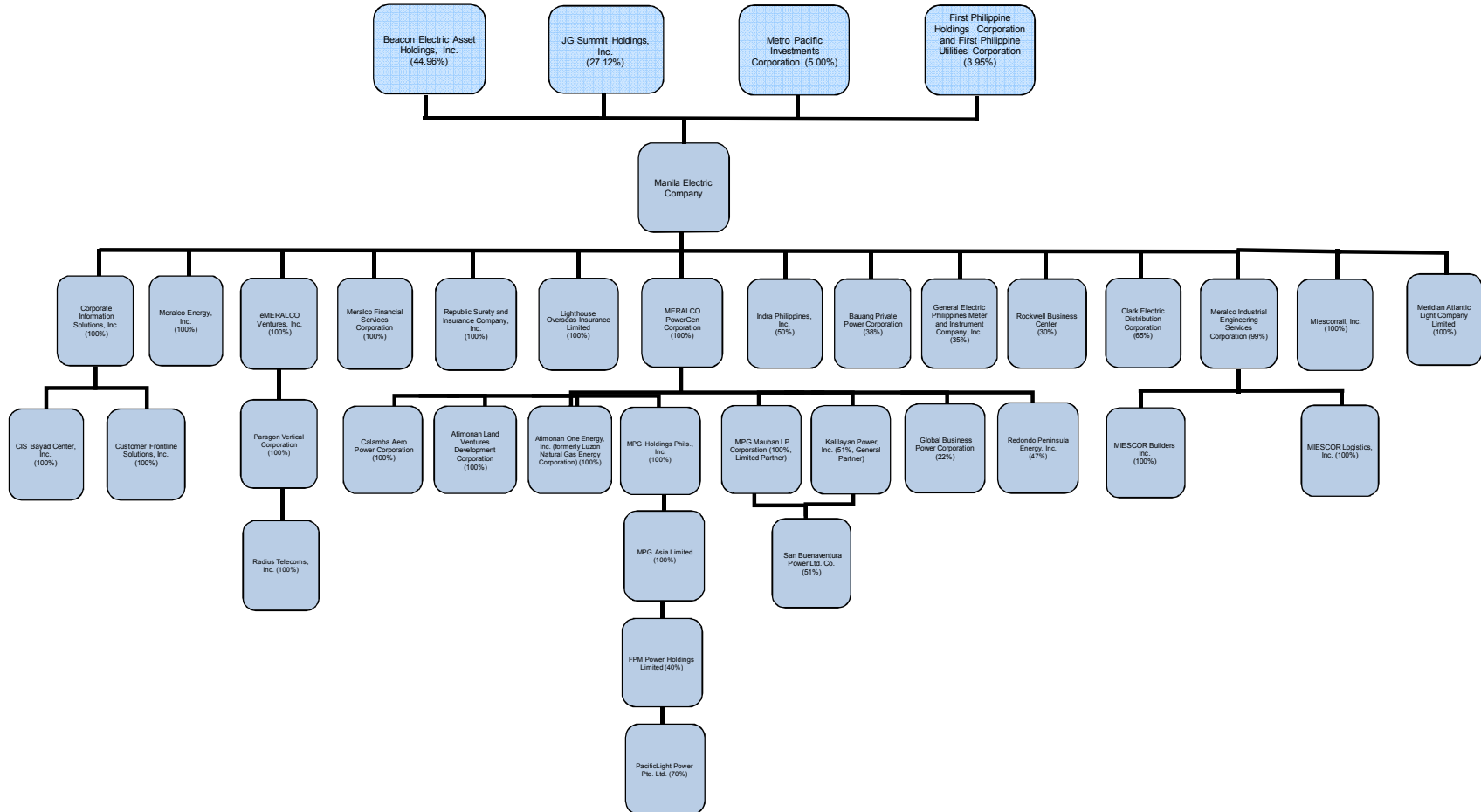
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (issued as of December 31, 2014)		ADOPTED	NOT ADOPTED	NOT APPLICABLE
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	X		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			X
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			X
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			X
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			X
	Amendments to PFRS 1: Government Loans		Not Early Adopted	
	Amendment to PFRS 1: Meaning of Effective PFRSs			X
	Amendment to PFRS 1: First-time Adoption of PFRS			X
PFRS 2	Share-based Payment	X		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	X		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	X		
	Amendment to PFRS 2: Definition of Vesting Condition		Not Early Adopted	
PFRS 3 (Revised)	Business Combinations	X		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination		Not Early Adopted	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements		Not Early Adopted	
PFRS 4	Insurance Contracts	X		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	X		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	X		
	Amendment to PFRS 5: Changes in Methods of Disposal		Not Early Adopted	
PFRS 6	Exploration for and Evaluation of Mineral Resources			X
PFRS 7	Financial Instruments: Disclosures	X		
	Amendments to PFRS 7: Transition	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			
		X		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	X		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	X		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	X		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not Early Adopted	
	Amendment to PFRS 7: Servicing Contracts		Not Early Adopted	
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements		Not Early Adopted	
PFRS 8	Operating Segments	X		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets		Not Early Adopted	
PFRS 9	Financial Instruments		Not Early Adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not Early Adopted	
PFRS 10	Consolidated Financial Statements	X		
	Amendments to PFRS 10: Investment Entities	X		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Not Early Adopted	
PFRS 11	Joint Arrangements	X		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations		Not Early Adopted	
PFRS 12	Disclosure of Interests in Other Entities	X		
	Amendments to PFRS 12: Investment Entities	X		
PFRS 13	Fair Value Measurement	X		
	Amendment to PFRS 13: Short-term Receivables and Payables	X		
	Amendment to PFRS 13: Portfolio Exception		Not Early Adopted	
PFRS 14	Regulatory Deferral Accounts		Not Early Adopted	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	X		
	Amendment to PAS 1: Capital Disclosures	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			X
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	X		
PAS 2	Inventories	X		
PAS 7	Statement of Cash Flows	X		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	X		
PAS 10	Events after the Balance Sheet Date	X		
PAS 11	Construction Contracts	X		
PAS 12	Income Taxes	X		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	X		
PAS 16	Property, Plant and Equipment	X		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation		Not Early Adopted	
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization		Not Early Adopted	
	Amendments to PAS 16: Bearer Plants			X
PAS 17	Leases	X		
PAS 18	Revenue	X		
PAS 19 (Amended)	Employee Benefits	X		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		Not Early Adopted	
	Amendments to PAS 19: Regional market issue regarding discount rate		Not Early Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			X
PAS 21	The Effects of Changes in Foreign Exchange Rates	X		
	Amendment to PAS 21: Net Investment in a Foreign Operation	X		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (issued as of December 31, 2014)		ADOPTED	NOT ADOPTED	NOT APPLICABLE
PAS 23 (Revised)	Borrowing Costs	X		
PAS 24 (Revised)	Related Party Disclosures	X		
	Amendments to PAS 24: Key Management Personnel		Not Early Adopted	
PAS 26	Accounting and Reporting by Retirement Benefit Plans			X
PAS 27 (Amended)	Separate Financial Statements	X		
	Amendments to PAS 27: Investment Entities	X		
	Amendments to PAS 27: Equity Method in Separate Financial Statements		Not Early Adopted	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	X		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Not Early Adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies			X
PAS 31	Interests in Joint Ventures	X		
PAS 32	Financial Instruments: Disclosure and Presentation	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			X
	Amendment to PAS 32: Classification of Rights Issues			X
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	X		
PAS 33	Earnings per Share	X		
PAS 34	Interim Financial Reporting	X		
	Amendment to PAS 34: Disclosure information 'elsewhere in the interim financial report'		Not Early Adopted	
PAS 36	Impairment of Assets	X		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	X		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X		
PAS 38	Intangible Assets	X		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization		Not Early Adopted	
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		Not Early Adopted	
PAS 39	Financial Instruments: Recognition and Measurement	X		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	X		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			X
	Amendments to PAS 39: The Fair Value Option	X		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	X		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	X		
	Amendment to PAS 39: Eligible Hedged Items			X
	Amendment to PAS 39: Recognition and Measurements – Novation of Derivatives and Continuation of Hedge Accounting			X
PAS 40	Investment Property	X		
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property		Not Early Adopted	
PAS 41	Agriculture			X
	Amendments to PAS 41: Bearer Plants		Not Early Adopted	
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	X		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			X
IFRIC 4	Determining Whether an Arrangement Contains a Lease	X		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			X
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			X
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			X
IFRIC 8	Scope of PFRS 2	X		
IFRIC 9	Reassessment of Embedded Derivatives	X		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	X		
IFRIC 10	Interim Financial Reporting and Impairment	X		
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			X
IFRIC 12	Service Concession Arrangements	X		
IFRIC 13	Customer Loyalty Programmes			X
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	X		
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement	X		
IFRIC 15	Agreements for the Construction of Real Estate		Not Early Adopted	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			X
IFRIC 17	Distributions of Non-cash Assets to Owners	X		
IFRIC 18	Transfers of Assets from Customers	X		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			X
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			X
IFRIC 21	Leases	X		
SIC-7	Introduction of the Euro			X
SIC-10	Government Assistance – No Specific Relation to Operating Activities			X
SIC-12	Consolidation – Special Purpose Entities			X
	Amendment to SIC-12: Scope of SIC-12			X
SIC-13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			X
SIC-15	Operating Leases – Incentives	X		
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			X
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	X		
SIC-29	Service Concession Arrangements: Disclosures	X		
SIC-31	Revenue - Barter Transactions Involving Advertising Services			X
SIC-32	Intangible Assets - Web Site Costs			X

MANILA ELECTRIC COMPANY
Schedule J: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2014
(Amounts in millions)

Unappropriated retained earnings as at December 31, 2013	P 44,739
Adjustments in previous years' reconciliation:	
Deferred tax assets	(15,984)
Revaluation increment on utility plant and others	<u>(17,242)</u>
Retained earnings available for dividends declaration as at December 31, 2013	<u>11,513</u>
Net income based on the face of annual parent company financial statements	17,753
Reconciling items:	
Dividends declared during the year	(13,931)
Movement of deferred tax assets	(1,372)
Depreciation of revaluation increment on utility plant and others - net of tax	<u>183</u>
	<u>2,633</u>
Retained earnings available for dividend declaration as at December 31, 2014	P <u><u>14,146</u></u>

MANILA ELECTRIC COMPANY
Schedule K: Map Showing the Relationships among the Companies within the Group
As at December 31, 2014



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Financial Soundness Indicators

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current Ratio ⁽¹⁾	1.35 : 1.00	1.14 : 1.00
Debt to Equity Ratio ⁽²⁾	0.38 : 1.00	0.45 : 1.00
Asset to Equity Ratio ⁽³⁾	3.40x	3.51x
Interest Coverage Ratio ⁽⁴⁾	18.86x	16.66x
Profit margin Ratio ⁽⁵⁾	0.07x	0.06x
Return on Assets ⁽⁶⁾	0.07x	.07x
EBITDA Margin ⁽⁷⁾	12.36%	10.27%

⁽¹⁾ Current ratio is measured as current assets divided by current liabilities.

⁽²⁾ Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

⁽³⁾ Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

⁽⁴⁾ Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

⁽⁵⁾ Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

⁽⁶⁾ Return on assets is measured as net income attributable to equity holders of the parent with total assets.

⁽⁷⁾ EBITDA margin is measured as EBITDA divided by total revenues.

EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if a

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Electric Company

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Manila Electric Company, which comprise the parent company statements of financial position as at December 31, 2014 and 2013, and the parent company statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company financial statements.

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



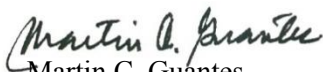
Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Manila Electric Company as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 32 to the parent company 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 information is the responsibility of the management of Manila Electric Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-2 (Group A),

March 15, 2012, valid until March 31, 2015

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4751287, January 5, 2015, Makati City

February 23, 2015



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2014	2013
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	6, 9 and 14	₱118,977	₱111,012
Investments in subsidiaries and associates and interests in joint ventures	7	22,859	20,514
Investment properties	8 and 14	1,500	1,503
Deferred tax assets - net	27	7,012	5,353
Other noncurrent assets	2, 9, 11, 26 and 28	11,865	22,937
Total Noncurrent Assets		162,213	161,319
Current Assets			
Cash and cash equivalents	10 and 26	66,369	57,607
Trade and other receivables	2, 9, 11, 22 and 26	25,911	29,547
Inventories	12	2,082	2,651
Other current assets	13 and 26	4,504	7,067
Total Current Assets		98,866	96,872
Total Assets		₱261,079	₱258,191
EQUITY AND LIABILITIES			
Equity			
Common stock	14	₱11,273	₱11,273
Subscriptions receivable		(8)	(69)
Additional paid-in capital		4,111	4,111
Employee stock purchase plan	15	1,049	1,049
Unrealized fair value gains on available-for-sale or AFS financial assets	9	100	88
Remeasurement adjustments on retirement and other post-employment liabilities	25	1,348	1,446
Treasury shares	14	(11)	(11)
Retained earnings:	14		
Appropriated		11,000	11,000
Unappropriated		48,561	44,739
Total Equity		77,423	73,626
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	16, 24 and 26	27,613	20,756
Customers' deposits - net of current portion	17, 21, 24 and 26	24,071	21,330
Refundable service extension costs - net of current portion	21	7,006	5,782
Long-term employee benefits	25	4,706	4,110
Provisions	18	16,073	24,729
Other noncurrent liabilities	6, 23 and 28	25,273	16,426
Total Noncurrent Liabilities		104,742	93,133
Current Liabilities			
Notes payable	20 and 26	—	1,700
Trade payables and other current liabilities	14, 15, 17, 21 and 22	69,410	71,071
Customers' refund	2, 19 and 26	5,937	6,013
Income tax payable		1,668	1,627
Current portion of interest-bearing long-term financial liabilities	16, 24 and 26	1,899	11,021
Total Current Liabilities		78,914	91,432
Total Liabilities		183,656	184,565
		₱261,079	₱258,191

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF INCOME

		Years Ended December 31	
	<i>Note</i>	2014	2013
<i>(Amounts in millions, except per share data)</i>			
REVENUES			
Sale of electricity	22, 23 and 29	₱258,883	₱292,251
Lease income	22	635	548
		259,518	292,799
COSTS AND EXPENSES			
Purchased power	22, 23 and 29	200,762	235,920
Salaries, wages and employee benefits	15, 24 and 25	9,216	9,246
Provisions for probable charges and expenses from claims	18 and 21	10,720	10,749
Depreciation and amortization	6, 8 and 9	5,786	5,858
Contracted services		4,304	3,966
Provision for doubtful accounts - net	11	443	481
Taxes, fees and permits		426	339
Other expenses	22 and 24	2,301	2,344
		233,958	268,903
OTHER INCOME (EXPENSES) - NET			
Interest and other financial income	24	878	1,573
Interest and other financial charges	16, 17 and 24	(1,424)	(1,474)
Foreign exchange loss - net		(31)	(37)
Derivative mark-to-market loss	26	—	(24)
Others	2	838	415
		261	453
INCOME BEFORE INCOME TAX		25,821	24,349
PROVISION FOR (BENEFIT FROM) INCOME TAX	27		
Current		9,686	9,690
Deferred		(1,618)	(2,828)
		8,068	6,862
NET INCOME		₱17,753	₱17,487
Earnings Per Share - Basic and Diluted	30	₱15.75	₱15.52

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	Note	2014	2013
		(Amounts in millions)	
NET INCOME		₱17,753	₱17,487
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent years:			
Unrealized fair value gain (loss) on AFS financial assets	9	13	(21)
Income tax effect		(1)	2
		12	(19)
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement adjustments on retirement and other post-employment liabilities	25	(140)	1,657
Income tax effect		42	(497)
		(98)	1,160
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		(86)	1,141
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱17,667	₱18,628

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock (Note 14)	Subscriptions Receivable	Additional Paid-in Capital	Employee Stock Purchase Plan (Note 15)	Unrealized Fair Value Gains (Losses) on AFS Financial Assets (Note 9)	Remeasurement Adjustments on Retirement and Other Post- Employment Liabilities (Note 25)	Treasury Shares (Note 14)	Retained Earnings		Total Equity
								Appropriated (Note 14)	Unappropriated (Note 14)	
<i>(Amounts in millions)</i>										
At January 1, 2014	₱11,273	(₱69)	₱4,111	₱1,049	₱88	₱1,446	(₱11)	₱11,000	₱44,739	₱73,626
Net income	—	—	—	—	—	—	—	—	17,753	17,753
Other comprehensive income (loss)	—	—	—	—	12	(98)	—	—	—	(86)
Total comprehensive income (loss)	—	—	—	—	12	(98)	—	—	17,753	17,667
Collection of subscriptions receivable	—	61	—	—	—	—	—	—	—	61
Dividends	—	—	—	—	—	—	—	—	(13,931)	(13,931)
	—	61	—	—	—	—	—	—	(13,931)	(13,870)
At December 31, 2014	₱11,273	(₱8)	₱4,111	₱1,049	₱100	₱1,348	(₱11)	₱11,000	₱48,561	₱77,423
At January 1, 2013	₱11,273	(₱211)	₱4,111	₱1,049	₱107	₱286	(₱11)	₱6,000	₱43,873	₱66,477
Net income	—	—	—	—	—	—	—	—	17,487	17,487
Other comprehensive income (loss)	—	—	—	—	(19)	1,160	—	—	—	1,141
Total comprehensive income (loss)	—	—	—	—	(19)	1,160	—	—	17,487	18,628
Collection of subscriptions receivable	—	142	—	—	—	—	—	—	—	142
Appropriation	—	—	—	—	—	—	—	5,000	(5,000)	—
Dividends	—	—	—	—	—	—	—	—	(11,621)	(11,621)
	—	142	—	—	—	—	—	5,000	(16,621)	(11,479)
At December 31, 2013	₱11,273	(₱69)	₱4,111	₱1,049	₱88	₱1,446	(₱11)	₱11,000	₱44,739	₱73,626

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2014	2013
(Amounts in millions)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱25,821	₱24,349
Adjustments for:			
Provisions, net of settlement	18 and 21	10,720	10,736
Depreciation and amortization	6, 8 and 9	5,786	5,858
Interest and other financial charges	24	1,424	1,474
Interest and other financial income	24	(878)	(1,573)
Provision for doubtful accounts - net	11	443	481
Others		(194)	(48)
Operating income before working capital changes		43,122	41,277
Decrease (increase) in:			
Trade and other receivables		12,063	(19,507)
Inventories		(704)	(1,371)
Other current assets		3,127	(214)
Increase (decrease) in:			
Trade payables and other current liabilities		(11,469)	24,403
Customers' deposits		(1,108)	1,632
Long-term employee benefits		458	(3,024)
Customers' refund		(76)	(114)
Cash generated from operations		45,413	43,082
Income tax paid		(7,089)	(7,102)
Net cash flows from operating activities		38,324	35,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Utility plant and others	6	(11,533)	(8,886)
Investments in a subsidiary and associates	7	(2,345)	(17,000)
Intangible assets	9	(382)	(875)
Short-term investments		—	(4,841)
Interest, other financial income and dividends received		659	1,069
Proceeds from disposal of utility plant and others and investment properties		166	218
Increase in other noncurrent assets		(144)	(484)
Net cash used in investing activities		(13,579)	(30,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Dividends	14	(13,933)	(12,567)
Interest-bearing long-term financial liabilities		(9,508)	(9,424)
Interest and other financial charges		(1,993)	(1,727)
Notes payable		(1,700)	(4,685)
Proceeds from:			
Availment of interest-bearing long-term financial liabilities		7,200	—
Collection of subscriptions receivable		61	142
Availment of notes payable		—	4,685
Issuances of bonds, net of issue costs	16	—	18,314
Increase (decrease) in other noncurrent liabilities		3,890	(904)
Net cash used in financing activities		(15,983)	(6,166)

(Forward)



		Years Ended December 31	
	Note	2014	2013
		(Amounts in millions)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		₱8,762	(₱985)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		57,607	58,592
CASH AND CASH EQUIVALENTS AT END OF YEAR	10	₱66,369	₱57,607

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company or *MERALCO*, holds a congressional franchise under Republic Act or *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 or *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 or *RES*, is through its local *RES* unit, *MPower*.

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

The common shares of *MERALCO* are listed on and traded in the Philippine Stock Exchange or *PSE*, with security symbol, *MER*.

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

The financial statements were approved and authorized for issue by the Board of Directors or *BOD* on February 23, 2014.

2. Rate Regulations

As a distribution utility or *DU*, *MERALCO* is subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* 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 or *SL*, charge, (d) lifeline and inter-class rate subsidies, and (e) local business taxes, such as, franchise tax or *LFT*; and [ii] the "Rules for the Setting of Distribution Wheeling Rates" or *RDWR*, as modified by the *ERC* on December 1, 2009, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.



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

Performance-Based Regulations or PBR

MERALCO

MERALCO was 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 or *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 or *RYs*. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The third *RP* is from July 1, 2011 to June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end on June 30, 2019. *MERALCO* is to undergo the fourth *RP* reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its fourth *RP* reset application.

Maximum Average Price or MAP for RY 2008 and RY 2009

On January 11 and April 1, 2008, *MERALCO* filed separate applications for the approval of the proposed translation of its *MAP* for *RY 2008* and *RY 2009*, respectively, into different rate schedules for its various customer segments. A portion of the distribution charge under-recoveries as a result of the delayed implementation of the *PBR* was incorporated in the proposed *MAP* for *RY 2009*.

In an Order dated April 13, 2009, the *ERC* approved the implementation of *MERALCO*'s average distribution rate of ₱1.2227 per kilowatt-hour or *kWh*, effective the billing period of May 2009, inclusive of the under-recoveries for calendar year 2007.

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals or *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 or *SC*. Comments, responses and respective manifestations have been filed by both parties. As at February 23, 2015, a decision on this case is pending at the *SC*.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed an 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 *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 23, 2015, 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 23, 2015, 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 23, 2015, 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 23, 2015, the application is pending final approval by the *ERC*.

Capital Expenditure or CAPEX for RY 2016

The last year of *MERALCO*'s third *RP* ends on June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end 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 fourth *RP* reset application. *MERALCO* anticipates that there is not adequate time for it to file its fourth *RP* reset application and secure approval of its *CAPEX* forecast before the end of the third *RP*. In view thereof, and pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, *MERALCO*, on February 9, 2015, filed an application for approval of authority to implement its *CAPEX* program for *RY* 2016 (July 1, 2015 to June 30, 2016). As at February 23, 2015, the application is pending approval by the *ERC*.

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 or *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 or *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. As at February 23, 2015, further action on the case is pending at the *CA*.

Applications for the Recovery of Generation Costs and SL Charges

MERALCO filed separate applications for the full recovery of generation costs, including value-added tax or *VAT*, incurred for the supply months of August 2006 to May 2007 or total under-recoveries of ₱12,679 million for generation charges and ₱1,295 million for *SL* charges.

The separate applications for the full recovery of generation charges have been approved by the *ERC* in its decisions released on January 18, 2008, September 3, 2008 and August 16, 2010.

As at December 31, 2014, the generation costs were fully recovered.

With respect to the ₱1,295 million *SL* charge under-recoveries, the *ERC* ordered *MERALCO* to file a separate application for the recovery of *SL* adjustments after the *ERC* confirms the transmission rate to be used in the calculation of the *SL* rate in accordance with the *SL* rate formula of the Automatic Generation Rate Adjustments Guidelines or *AGRA*. *MERALCO* has filed the application for recovery of the ₱1,295 million *SL* charge under-recoveries with the *ERC*. This was included in the Consolidated Application to confirm over- or under- recoveries in generation, transmission, *SL* and lifeline subsidies filed on March 31, 2011 with the *ERC*. Hearings were completed on October 25, 2011. On December 8, 2011, *MERALCO* filed for the admission of its Supplemental Application. Hearings on this case have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

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 system loss 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 *DUs* 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 an 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. Hearings on this case have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On July 6, 2012, *MERALCO* filed an 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. Hearings on the application have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On March 31, 2014, *MERALCO* filed an 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 month were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. On February 2, 2015, *ERC* released an Order setting the application for initial hearing on March 11, 2015.

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 or *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 involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period.



Deferred Purchased Price Adjustment or 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 customers ₱268 million of deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company or *QPPL* and deferred accounting adjustments or *DAA* 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 does not represent the transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 23, 2015, the *MR* is still pending resolution by the *ERC*.

Application for Recovery of LFT

On March 25, 2011, *MERALCO* filed with the *ERC* an application for recovery of *LFT* paid but not yet billed to customers for the period beginning 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* expense 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, 2014, a total of ₱1,369 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, 2014, *MERALCO* filed an application with the *ERC* for authority to collect *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 or *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 insofar 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* has paid the full amount of said *LFT* to the local treasurer of City of Martires. *MERALCO* shall file the application once it completes the documentation for the filing.



On July 26, 2013 *MERALCO* filed an application with the *ERC* for authority to collect *LFT* in the City of Bacoor, separate from the previous authority granted to the Province of Cavite, beginning the date of effectivity of its “*City Ordinance No. 39, Series of 2012*” on April 4, 2013. In its Decision dated April 28, 2014, the *ERC* approved said application and authorized *MERALCO* to recover the *LFT* at the rate of 50% of 1% and the proceeds thereof will be remitted to the City of Bacoor.

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. The refund is ongoing.

See *Note 19 – Customers’ Refund*.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

The accompanying parent company financial statements are presented in Philippine peso, *MERALCO*’s functional and presentation currency, and all values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

MERALCO also prepares and issues consolidated financial statements in compliance with *PFRS*. These are available publicly and may be downloaded from www.meralco.com.ph.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of the previous financial years except for the adoption of the following amendments and improvements to existing standards, which were effective beginning January 1, 2014.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of *PFRS 13, Fair Value Measurements*, on the disclosures required under *PAS 36*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the year. The amendments affect disclosures only and have no impact on *MERALCO*’s financial position or performance.



Investment Entities (Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 27, Separate Financial Statements)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *PFRS 10*. The exception for consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not relevant to *MERALCO* since none of the entities in *MERALCO* qualify to be an investment entity under *PFRS 10*.

Philippine Interpretation International Financial Reporting Interpretations Committee or IFRIC 21, Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *IFRIC 21* has no impact on *MERALCO*'s parent company financial statements.

PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments do not apply to *MERALCO* as it has no derivatives during the current year. However, these amendments would be considered for any future novation.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the *PAS 32* offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on *MERALCO*'s financial position or performance.

PFRS 13, Fair Value Measurement - Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment has no significant impact on *MERALCO*'s financial position or performance.

Future Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standards and interpretations that are already issued but will become effective subsequent to December 31, 2014:

PFRS 9, Financial Instruments – Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of *PAS 39* and applies to the classification and measurement of financial assets and liabilities as defined in *PAS 39, Financial Instruments: Recognition and Measurement*. *PFRS 9* requires all financial assets to be measured



at fair value at initial recognition. A debt financial asset may, if the fair value option or *FVO* is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or *OCI* or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For *FVO* liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in *OCI*. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in *OCI* would create or enlarge an accounting mismatch in profit or loss. All other *PAS 39* classification and measurement requirements for financial liabilities have been carried forward into *PFRS 9*, including the embedded derivative separation rules and the criteria for using the *FVO*. *MERALCO* conducted an evaluation of the early adoption of *PFRS 9* and has assessed that the first phase of *PFRS 9* will have an effect on the classification and measurement of financial assets. *MERALCO* will quantify the effect on the parent company financial statements in conjunction with the other phases, when issued, to present a comprehensive picture.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of *PFRS 9* was adopted by the Philippine Financial Reporting Standards Council or *FRSC*. Such adoption, however, is still for approval by the Board of Accountancy or *BOA*.

Philippine Interpretation *IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under *PAS 11, Construction contracts* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Philippine Securities and Exchange Commission or *SEC* and the Philippine *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. Adoption of the interpretation when it becomes effective will not have any impact on *MERALCO*'s parent company financial statements.

The following new standards and amendments issued by the *IASB* were already adopted by the Philippine *FRSC* but are still for approval by the *BOA*:

Effective 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. *MERALCO* shall consider these amendments for future contributions from employees.

Annual Improvements to PFRSs (2010-2012 cycle)

The *Annual Improvements to PFRS (2010-2012 cycle)* contain non-urgent but necessary amendments to the following standards:

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. *MERALCO* shall consider this amendment for future share-based payments.

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. *MERALCO* shall consider this amendment for future business combinations, where applicable.

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. *MERALCO* shall consider these amendments in future disclosures.



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. *MERALCO* shall consider this amendment in future transactions.

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. *MERALCO* shall consider this amendment in future disclosures.

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. *MERALCO* shall consider this amendment in future disclosures.



Annual Improvements to PFRSs (2011-2013 cycle)

The *Annual Improvements to PFRSs (2011-2013 cycle)* contain non-urgent but necessary amendments to the following standards:

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. *MERALCO* shall consider this amendment in future transactions.

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 *MERALCO*'s financial position or performance.

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 *MERALCO*'s financial position or performance.

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 *MERALCO* given that *MERALCO* 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 *MERALCO*'s parent company financial statements as *MERALCO* 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. *MERALCO* 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. *MERALCO* will consider the amendments in its future transactions.

PAS 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. *MERALCO* will consider these amendments in future transactions.



PFRS 14, Regulatory Deferral Accounts

PFRS 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. 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 *MERALCO* is an existing *PFRS* preparer, this standard would 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 *MERALCO*. 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, 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 – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

PFRS 9 (2013 version) already includes the third phase of the project to replace *PAS 39* which pertains to hedge accounting. This version of *PFRS 9* replaces the rules-based hedge accounting model of *PAS 39* with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. *PFRS 9* also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of *PFRS 9* was adopted by the Philippine *FRSC*. The adoption of the final version of *PFRS 9*, however, is still for approval by the *BOA*.

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

PFRS 9, Financial Instruments (2014 or final version)

In July 2014, the final version of *PFRS 9, Financial Instruments*, was issued. *PFRS 9* reflects all phases of the financial instruments project and replaces *PAS 39, Financial Instruments: Recognition and Measurement*, 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 *MERALCO*’s financial assets but will have no impact on the classification and measurement of *MERALCO*’s financial liabilities. The adoption will not have an effect on *MERALCO*’s application of hedge accounting. *MERALCO* is currently assessing the impact of adopting this standard.



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 new five-step model that will apply to 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 principles in *IFRS 15* provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. *MERALCO* is currently assessing the impact of *IFRS 15* 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 parent company 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 parent company 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.

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 14 – 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	10-50 years, depending on the life of the significant parts
Buildings and improvements	15-40 years
Communication equipment	10 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	5-20 years



Depreciation and amortization of an item of utility plant and others begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation and amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with *PFRS 5*, Noncurrent Assets Held for Sale and Discontinued Operations, and the date the item is derecognized.

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 parent company 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.

Asset Retirement Obligations

Under the terms of certain lease contracts, *MERALCO* 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. *MERALCO* 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, or *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 parent company 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.



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.

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.

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

See *Note 14 – 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 are recognized in the parent company 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 ending of owner-occupation or commencement of an operating lease to another party. If owner-occupied property becomes an investment property, *MERALCO* 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 commencement of owner-occupation or commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property 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) 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 parent company 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 parent company statement of income.

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

Investments in Subsidiaries and Associates and Interest in Joint Ventures

Investments in subsidiaries (entities over which *MERALCO* has control) and associates (entities over which *MERALCO* has significant influence) and interests in joint ventures (entities over which *MERALCO* has joint control) are accounted for under the cost method of accounting in the parent company financial statements. Investments in subsidiaries and associates and interests in joint ventures are carried in the parent company statement of financial position at cost less any impairment in value. *MERALCO* recognizes income from the investments only to the extent that *MERALCO* receives distributions from accumulated profits of the subsidiaries, associates and joint venture arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Impairment of Nonfinancial Assets

MERALCO assesses at each reporting date whether there is an indication that a nonfinancial asset (utility plant and others, investment properties, investments in subsidiaries, associates and interests in joint ventures, receivable from the Bureau of Internal Revenue or *BIR* and intangible assets), other than intangible assets with indefinite useful life, may be impaired. If any such indication exists, *MERALCO* 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 parent company 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 such indication exists, *MERALCO* 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 parent company 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 parent company statement of income. Impairment losses relating to intangible assets may be reversed in future periods.

Fair Value Measurement

MERALCO 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 *MERALCO*.

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.

MERALCO 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 parent company 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 parent company financial statements on a recurring basis, *MERALCO* 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, *MERALCO* 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.

Financial Assets

Initial Recognition

Financial assets are classified as at fair value through profit or loss or *FVPL*, loans and receivables, held-to-maturity or *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 *MERALCO* commits to purchase or sell the asset.

MERALCO's financial assets include cash and cash equivalents, trade and non-trade receivables, advance payments to a supplier and quoted and unquoted equity securities that are not accounted for as effective accounting hedges.

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, 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 or more embedded derivatives that would need to be recorded separately.

Financial assets at *FVPL* are carried in the parent company statement of financial position at fair value with gains or losses on fair value changes recognized in the parent company statement of income under “Interest and other financial income” or “Interest and other financial charges” account, respectively. Interest earned and dividends received from investment at *FVPL* are also recognized in the parent company 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 parent company 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 parent company 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” account, respectively, in the parent company statement of income. Assets in this category are included under current assets except for assets with maturities beyond 12 months from the 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 *MERALCO* 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 parent company 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 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 until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in the parent company statement of income, or determined to be impaired, at which time the cumulative loss



recorded in other comprehensive income is recognized in the parent company statement of income. Interest earned on holding *AFS* debt securities are included under “Interest and other financial income” account in the parent company statement of income. Dividends earned on holding *AFS* equity are recognized in the parent company 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*.

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

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 parent company statement of financial position at fair value with gains or losses recognized in the parent company statement of income under “Interest and other financial income” or “Interest and other financial charges” account, respectively. Interest incurred on financial liabilities designated as at *FVPL* is recognized in the parent company 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 are 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 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 or more embedded derivatives that would need to be recorded separately. *MERALCO* does not have financial liabilities designated as at *FVPL* as at December 31, 2014 and 2013.



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 parent company statement of income when the liabilities are derecognized 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 parent company 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 parent company statement of income. Changes in fair value of derivative instruments accounted as effective hedges are recognized in other comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. *MERALCO* 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 26 – Financial Assets and Financial Liabilities*.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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, *MERALCO* recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the parent company 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 parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, *MERALCO* determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets

MERALCO 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, *MERALCO* 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* considers 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 parent company 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 *MERALCO*.



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 parent company statement of income. Any reversal of an impairment loss is recognized in the parent company 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 other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income 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 parent company statement of income. Subsequent increases in fair value after impairment are recognized directly in other comprehensive income.

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 parent company 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 parent company statement of income, the impairment loss is reversed in the parent company 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;
- *MERALCO* 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 *MERALCO* (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 *MERALCO* 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 *MERALCO*’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 *MERALCO* 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 parent company 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 parent company statement of financial position. The corresponding dividends on those shares are recognized as part of “Interest and other financial charges” account in the parent company statement of income. Dividends are no longer accrued 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 current replacement cost of the asset.

Value Added Tax or VAT

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on local purchase 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 “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 asset” account.



Provisions

Provisions are recognized when *MERALCO* 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 *MERALCO* 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 parent company 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 has distinct, funded, noncontributory defined benefit retirement plan 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 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 which 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 the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- 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 profit or loss. 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 profit or loss.

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 other comprehensive income 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 *MERALCO*, nor can they be paid directly to *MERALCO*. 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.

MERALCO's right to be reimbursed of some or all of the expenditure 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 termination 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 year 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 year.

Employee Stock Purchase Plan or ESPP

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 period 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 year.

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

Revenues are stated at amounts invoiced to customers, inclusive of pass-through components, net of discounts, rebates, *VAT* and other taxes, where applicable. Revenue is recognized to the extent that it is probable that the economic benefits will flow to *MERALCO* 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. *MERALCO* assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. *MERALCO* 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. The Uniform Filing Requirements or *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 or *CERA* I and II, where applicable and (h) interclass and lifeline subsidies. *VAT*, *LFT*, the Power Act Reduction (for residential customers) adjustment and universal charges are also separately presented in the customer's billing statement. *VAT*, *LFT* and universal charges are billed and collected on behalf of the national and local governments and do not form part of *MERALCO*'s revenues.



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 *MERALCO*'s right to receive the payment is established.

Lease Income

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

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.

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 parent company statement of income on a straight-line basis over the lease term.

Company as Lessor

Leases where *MERALCO* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. 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 parent company 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 *MERALCO* operates. This is also the currency that mainly influences the revenue from and cost of rendering services.

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 period. All differences are recognized in the parent company 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.



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 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 offset 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 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 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 parent company financial statements. These are disclosed in the notes to parent company 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 parent company financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post reporting date events that provide additional information about *MERALCO*'s financial position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post reporting date events that are not adjusting events are disclosed in the notes to parent company financial statements, when material.

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 *ESPP*, which was awarded in 2009 fully vested in October 2012. Since 2009, there have been no *ESPPs* implemented.

Other comprehensive income 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, 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.



5. Management's Use of Judgments, Estimates and Assumptions

The preparation of the parent company 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 year. 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 *MERALCO*'s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the parent company financial statements.

Determination of Functional Currency

The functional currencies of the entities under *MERALCO* is the currency 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* is the Philippine peso.

Operating Lease Commitments

As Lessor

As a lessor, *MERALCO* has several lease arrangements. 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 *MERALCO*. 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, *MERALCO* has commercial lease arrangements covering certain office spaces, payment offices and substation sites and towers. *MERALCO* 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 *MERALCO* the ownership over the assets at the end of the lease term and do not provide *MERALCO* 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 or *PPAs* and Purchase Supply Agreements or *PSAs* with certain power generating companies qualify as leases on the basis that *MERALCO* and these power generating companies have 'take or pay' or *TOP* arrangements where payments for purchased power 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 *PPAs* and *PSAs* 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 as a lease, amounted to ₱44,204 million and ₱46,170 million for the years ended December 31, 2014 and 2013, respectively. These are recognized as “Purchased Power” in the parent company statements of income.

See *Note 23 – Revenues and Purchased Power*.

Contingencies

MERALCO 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 28 – 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 period are discussed as follows:

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

MERALCO 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 year-end 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 ₱5,528 million and ₱5,684 million for the years ended December 31, 2014 and 2013, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱118,977 million and ₱111,012 million as at December 31, 2014 and 2013, respectively.

Total depreciation of investment properties amounted to ₱3 million and ₱5 million for the years ended December 31, 2014 and 2013, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,500 million and ₱1,503 million as at December 31, 2014 and 2013, respectively.



Total amortization of intangible assets with finite lives amounted to ₱255 million and ₱169 million for the years ended December 31, 2014 and 2013, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,235 million and ₱1,720 million as at December 31, 2014 and 2013, respectively.

See Note 6 – *Utility Plant and Others*, Note 8 – *Investment Properties* and Note 9 – *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 subsidiaries and associates and interest 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 parent company financial statements. Future events may cause management to conclude that utility plant and others, construction in progress, investment properties, investments in subsidiaries and interest in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on *MERALCO*'s parent company 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*.

The carrying values of nonfinancial assets as at December 31, 2014 and 2013 subject to impairment review are as follows:

Account	2014	2013
	<i>(Amounts in millions)</i>	
Utility plant and others	₱118,977	₱111,012
Investments in subsidiaries and associates and interests in joint ventures	22,859	20,514
Investment properties	1,500	1,503
Intangible assets	2,235	1,720
Receivable from the <i>BIR</i>	181	577

See Note 6 – *Utility Plant and Others*, Note 7 – *Investments in Subsidiaries, Associates and Interest in Joint Ventures*, Note 8 – *Investment Properties* and Note 9 – *Other Noncurrent Assets*.



Realizability of Deferred Tax Assets

MERALCO 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 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 periods. 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 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. The recognized deferred tax assets as of December 31, 2014 and 2013 amounted to ₱16,777 million and ₱15,364 million, respectively.

See Note 27 – *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 parent company 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 value of financial instruments.

See Note 26 – *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, 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 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 receivables to amounts that management expects to collect is applied. These specific reserves are reevaluated 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 recognized in the parent company statements of income net of recoveries amounted to ₱443 million and ₱481 million for the years ended December 31, 2014 and 2013, respectively. Trade and other receivables, net of asset impairment, amounted to ₱25,911 million and ₱29,547 million as at December 31, 2014 and 2013, respectively.

See *Note 11 – Trade and Other Receivables* and *Note 13 – Other Current Assets*.

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the power distribution and services segments. The excess of cost over net realizable value relating to inventories consists of collective and specific provisions. 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 parent company statement of income.

The carrying values of inventories amounted to ₱2,082 million and ₱2,651 million as at December 31, 2014 and 2013, respectively.

See *Note 12 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other long-term 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 pension 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 benefit liability and other long-term post-employment benefits as at December 31, 2014 and 2013 amounted to ₱2,403 million and ₱2,905 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 pension increases are based on expected future inflation rates for the specific country.

See *Note 24 – Expenses and Income* and *Note 25 – Long-term Employee Benefits*.



Provision for Asset Retirement Obligations

Provision for asset retirement obligations is recognized in the period 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

MERALCO is involved in various legal proceedings as discussed in *Note 28 – Contingencies and Legal Proceedings*. *MERALCO*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

MERALCO, in consultation with its external legal counsels, does not believe that these proceedings will have a material adverse effect in the parent company 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.

MERALCO recognized provisions amounting to ₱10,720 million and ₱10,749 million for the years ended December 31, 2014 and 2013, respectively.

See *Note 18 – Provisions* and *Note 21 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

MERALCO'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* 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 *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates.

The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by the generators is taken up in the subsequent year. Management believes that such use of estimates will not result in material adjustments in future years.



6. Utility Plant and Others

The movements in utility plant and others are as follows:

2014									
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	₱137,466	₱15,185	₱5,078	₱6,056	₱2,924	₱2,493	₱2,206	₱3,068	₱174,476
Additions	1,725	6	–	7	302	451	71	8,971	11,533
Transfers from construction in progress	4,572	–	180	53	9	–	–	(4,814)	–
Disposals/retirements	(1,510)	–	(2)	(465)	(305)	(224)	(24)	–	(2,530)
Reclassification and others	9 5,983	5	120	(4,594)	(274)	71	146	–	1,457
Balance at end of year	148,236	15,196	5,376	1,057	2,656	2,791	2,399	7,225	184,936
Less accumulated depreciation and amortization:									
Balance at beginning of year	52,393	–	2,085	4,238	1,979	1,583	1,186	–	63,464
Depreciation and amortization	4,746	–	128	74	268	212	100	–	5,528
Disposals/retirements	(1,510)	–	(2)	(465)	(305)	(224)	(24)	–	(2,530)
Reclassification and others	9 3,349	–	(118)	(3,448)	(298)	(86)	98	–	(503)
Balance at end of year	58,978	–	2,093	399	1,644	1,485	1,360	–	65,959
	₱89,258	₱15,196	₱3,283	₱658	₱1,012	₱1,306	₱1,039	₱7,225	₱118,977
2013									
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	₱131,681	₱15,181	₱5,023	₱6,175	₱3,340	₱2,419	₱2,111	₱2,639	₱168,569
Additions	1,772	4	–	112	511	157	138	6,192	8,886
Transfers from construction in progress	5,427	–	54	281	1	–	–	(5,763)	–
Disposals/retirements	(1,161)	–	–	(592)	(897)	(79)	(50)	–	(2,779)
Reclassification and others	9 (253)	–	1	80	(31)	(4)	7	–	(200)
Balance at end of year	137,466	15,185	5,078	6,056	2,924	2,493	2,206	3,068	174,476
Less accumulated depreciation and amortization:									
Balance at beginning of year	49,030	–	1,949	4,456	2,656	1,483	1,115	–	60,689
Depreciation and amortization	4,688	–	118	360	220	179	119	–	5,684
Disposals/retirements	(1,161)	–	–	(592)	(897)	(79)	(50)	–	(2,779)
Reclassification and others	9 (164)	–	18	14	–	–	2	–	(130)
Balance at end of year	52,393	–	2,085	4,238	1,979	1,583	1,186	–	63,464
	₱85,073	₱15,185	₱2,993	₱1,818	₱945	₱910	₱1,020	₱3,068	₱111,012



As at December 31, 2014 and 2013, the net book values of customer-funded assets included in “Utility plant and others” account amounted to ₱1,811 million and ₱1,568 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2014 and 2013 are included in “Other noncurrent liabilities” account in the parent company statements of financial position.

Construction in progress pertains to on-going electric capital projects or *ECPs* and non-electric capital projects or *NEPs*. *ECPs* 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 ₱182 million and ₱122 million for the years ended December 31, 2014 and 2013, respectively.

The average annual range of interest rates used for capitalization for the years ended December 31, 2014 and 2013 ranged from 4.38% to 4.97% and 4.55% to 5.93%, respectively.

7. Investments in Subsidiaries and Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2014 and 2013:

	Place of Incorporation	Principal Business Activities	2014		2013	
			Percentage of Ownership		Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
Corporate Information Solutions, Inc., or <i>CIS</i>	Philippines	e-Transactions	100	—	100	—
CIS Bayad Center, Inc., or <i>Bayad Center</i>	Philippines	Bills payment collection	—	100	—	100
Customer Frontline Solutions, Inc. or <i>CFSI</i>	Philippines	Teller services	—	100	—	100
Meralco Energy, Inc., or <i>MEI</i>	Philippines	Energy systems management	100	—	100	—
eMERALCO Ventures, Inc., or <i>e-MVI</i>	Philippines	e-Business development	100	—	100	—
Paragon Vertical Corporation	Philippines	Information technology or <i>IT</i> and multi-media services	—	100	—	100
Radius Telecoms, Inc.	Philippines	Information technology or <i>IT</i> and multi-media services	—	100	—	100
<i>MGen</i>	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. (formerly Luzon Natural Gas Energy Corporation) ²	Philippines	Power generation	—	100	—	100
MPG Holdings Phils., Inc.	Philippines	Holding company	—	100	—	100
MPG Asia Limited	British Virgin Islands	Holding company	—	100	—	100
Meralco Financial Services Corporation or <i>Finserve</i>	Philippines	Financial services provider	100	—	100	—
Republic Surety and Insurance Company, Inc. or <i>RSIC</i>	Philippines	Insurance	100	—	100	—
Lighthouse Overseas Insurance Limited or <i>LOIL</i>	Bermuda	Insurance	100	—	100	—
Miescorrail, Inc. or <i>Miescorrail</i>	Philippines	Engineering, construction and maintenance of mass transit system	100	—	100	—
Meridian Atlantic Light Company Limited <i>MIESCOR</i>	Nigeria	Management of power distribution	100	—	100	—
	Philippines	Engineering, construction and consulting services	99	—	99	—
MIESCOR Builders Inc. or <i>MBI</i>	Philippines	Electric transmission and distribution operation and maintenance services	—	100	—	100
MIESCOR Logistics Inc. or <i>MLI</i>	Philippines	General services, manpower/maintenance	—	100	—	100
<i>CEDC</i>	Philippines	Power distribution	65	—	65	—



	Place of Incorporation	Principal Business Activities	2014		2013	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Associates						
Bauang Private Power Corporation or <i>BPPC</i>	Philippines	Power generation	38	—	38	—
General Electric Philippines Meter and Instrument Company, Inc. or <i>GEPMICI</i>	Philippines	Sale of metering products and services	35	—	35	—
Joint Ventures						
<i>Indra Philippines</i>	Philippines	Management and <i>IT</i> consultancy	50	—	50	—
Rockwell Business Center	Philippines	Real estate	30	—	30	—

¹ Incorporated February 15, 2011 and has not started commercial operations as at December 31, 2014.

² Incorporated January 11, 2013 and has not started commercial operations as at December 31, 2014.

The movements of investments in subsidiaries and associates and interest in joint ventures are as follows:

	2014	2013
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱20,514	₱3,514
Additions	2,345	17,000
Balance at end of year	₱22,859	₱20,514

CIS

CIS was incorporated in 1974 to provide information technology services and integrated business solutions to enterprise clients. In 1997, *CIS* engaged in the business of bills payment collection, which was spun off as *CIS Bayad Center, Inc.* or *Bayad Center*. *Bayad Center* offers a network of bills payment collection services in the Philippines operating nationwide with brand name “Bayad Center”. *Bayad Center* also provides outsource tellering services through *CFSI*.

MEI

MEI was established as a wholly owned subsidiary of *MERALCO* in June 2000 to provide demand-side energy services to *MERALCO*’s key accounts. It offers integrated energy efficiency solutions including marketing, engineering design capability, turnkey installation management, project financing development, monitoring and performance assurance of energy management projects.

e-MVI

e-MVI is a telecommunications infrastructure anchored on a 2,000-km fiber optic network within the *MERALCO* franchise area. It offers data connectivity solutions to local and international carriers, internet service providers, data centers and other businesses.

MGen

MGen is engaged in the planning and development of projects, investing and funding management-related services to project companies for the development, building and operation of power plant and related facilities.



Finserve

Finserve has embarked on investing and managing commercial center operations with *The Strip* along Ortigas Avenue as its flagship project. *Finserve* also has in its portfolio the Integrated Direct Marketing business, which offers targeted advertising and marketing services utilizing nontraditional channels.

RSIC

RSIC is a professional non-life insurance company acquired in 2007 to align with *MERALCO*'s recognition of the imperative for a disciplined approach in managing its risk exposures.

LOIL

LOIL, a captive reinsurer, 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.

MIESCOR

MIESCOR is a contractor - specialist engaged in engineering, construction and maintenance activities related to power generation, transmission and distribution, as well as industrial plants, water resources and telecommunications.

Miescorrail

Miescorrail, incorporated in 2009, is engaged in the business of engineering, construction and maintenance of mass transit system.

CEDC

CEDC is registered with Clark Development Corporation or *CDC*, under *RA* No. 9400, *Bases Conversion Development Act of 1992*, as a Clark Special Economic Zone or *CSEZ*, enterprise, primarily engaged in owning, operating, and maintaining a power distribution system within *CSEZ*.

BPPC

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

In accordance with the Build-Operate-Transfer or *BOT*, Agreement signed in 1993, First Private Power Corporation or *FPPC*, then parent company, constructed the 215 *MW* Bauang Power Plant or *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 or *NPC*, without any compensation and free of any liens. In 2010, *SEC* approved the merger of *FPPC* and *BPPC*, with *BPPC* as the surviving entity. *BPPC* management continues to evaluate its investment options in the 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.

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* supports *MERALCO*'s *IT* requirements in the area of system development, outsourcing of *IS* and *IT* operations and management consulting.

Rockwell Business Center

The Rockwell Business Center is a joint venture between Rockwell Land Corporation or *Rockwell Land*, and *MERALCO*, where *Rockwell Land* shall construct three (3) Business Process Outsourcing or *BPO*, enabled buildings in a non-regulatory asset base property of *MERALCO* over a pre-agreed cooperation period. 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 share ratio on the basis of 20:80 in favor of *Rockwell Land*. However, sharing of depreciation and amortization is proportionate to their contributions.

8. Investment Properties

The movements in investment properties are as follows:

2014			
	Land	Buildings and Improvements	Total
<i>(Amounts in millions)</i>			
Cost:			
Balance at beginning of year	₱1,446	₱151	₱1,597
Less accumulated depreciation:			
Balance at beginning of year	—	94	94
Depreciation	—	3	3
Balance at end of year	—	97	97
	₱1,446	₱54	₱1,500
2013			
	Land	Buildings and Improvements	Total
<i>(Amounts in millions)</i>			
Cost:			
Balance at beginning of year	₱1,535	₱176	₱1,711
Disposals	(89)	(25)	(114)
Balance at end of year	1,446	151	1,597
Less accumulated depreciation:			
Balance at beginning of year	—	103	103
Depreciation	—	5	5
Disposals	—	(14)	(14)
Balance at end of year	—	94	94
	₱1,446	₱57	₱1,503



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, 2014 and 2013 are as follows:

	Amount (in millions)
Land	₱1,863
Buildings and improvements	131

Land pertains primarily to properties where the *BPO* building and “Strip” mall are located and 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 property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the 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.



9. Other Noncurrent Assets

This account consists of:

	Note	2014	2013
		(Amounts in millions)	
Unbilled receivables	11	₱7,047	₱18,394
Intangible assets	6	2,235	1,720
Deferred input VAT		1,625	1,646
Advance payments to a supplier	26 and 29	619	474
Receivable from the BIR	28	181	577
AFS investments	26	138	124
Others		20	2
		₱11,865	₱22,937

Unbilled Receivables

This account represents unbilled generation and other pass-through costs incurred by *MERALCO* as a *DU*, which are still to be billed and which are covered by an approved recovery mechanism of the *ERC*. This also includes other unbilled generation and pass-through charges of current and prior periods, which are the subject of various applications for recovery and approval by the *ERC*.

Intangible Assets

The movements of intangible assets are as follows:

	Note	Software	Franchise	Land and Leasehold Rights	Total
		(Amounts in millions)			
Cost:					
Balance at beginning of year		₱2,392	₱49	₱—	₱2,441
Additions		382	—	—	382
Reclassifications	6	537	—	431	968
Balance at end of year		3,311	49	431	3,791
Less accumulated amortization:					
Balance at beginning of year		721	—	—	721
Amortization		237	—	18	255
Reclassifications	6	376	—	204	580
Balance at end of year		1,334	—	222	1,556
		₱1,977	₱49	₱209	₱2,235

	Software	Franchise	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of year	₱1,517	₱49	₱1,566
Additions	875	—	875
Balance at end of year	2,392	49	2,441
Less accumulated amortization:			
Balance at beginning of year	552	—	552
Amortization	169	—	169
Balance at end of year	721	—	721
	₱1,671	₱49	₱1,720



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 or “*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.

10. Cash and Cash Equivalents

This account consists of:

	2014	2013
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱4,044	₱3,871
Cash equivalents	62,325	53,736
	₱66,369	₱57,607

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

11. Trade and Other Receivables

This account consists of:

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Trade receivables:			
Billed	22 and 26	₱22,835	₱26,830
Unbilled	2 and 9	4,075	4,175
Nontrade receivables	22 and 26	2,201	1,505
		29,111	32,510
Less allowance for doubtful accounts		3,200	2,963
		₱25,911	₱29,547

Billed receivables from sale of electricity consist of the following:

	2014	2013
	<i>(Amounts in millions)</i>	
Residential	₱10,037	₱9,443
Commercial	9,017	11,870
Industrial	3,283	4,989
Flat streetlights	498	528
	22,835	26,830
Less allowance for doubtful accounts	3,200	2,963
	₱19,635	₱23,867



Movements of allowance for doubtful accounts are as follows:

2014				
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
<i>(Amounts in millions)</i>				
Billed trade receivables:				
Commercial	₱1,165	(₱145)	(₱65)	₱955
Residential	1,067	1,189	(441)	1,815
Industrial	530	(219)	(26)	285
Flat streetlights	201	(56)	–	145
	₱2,963	₱769	(₱532)	₱3,200

2014					
	Commercial	Residential	Industrial	Flat Streetlights	Total
<i>(Amounts in millions)</i>					
Individually impaired	₱337	₱1,025	₱93	₱77	₱1,532
Collectively impaired	618	790	192	68	1,668
Total	₱955	₱1,815	₱285	₱145	₱3,200

2013				
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
<i>(Amounts in millions)</i>				
Billed trade receivables:				
Commercial	₱1,028	₱175	(₱38)	₱1,165
Residential	555	742	(230)	1,067
Industrial	772	(204)	(38)	530
Flat streetlights	201	5	(5)	201
	₱2,556	₱718	(₱311)	₱2,963

2013					
	Commercial	Residential	Industrial	Flat Streetlights	Total
<i>(Amounts in millions)</i>					
Individually impaired	₱123	₱762	₱294	₱30	₱1,209
Collectively impaired	1,042	305	236	171	1,754
Total	₱1,165	₱1,067	₱530	₱201	₱2,963

Trade Receivables

Trade receivables include charges for pass-through costs. Pass-through costs consist largely of generation and transmission charges, which represent 57% and 10%, respectively, of the total billed amount in 2014 and 57% and 9%, respectively, of the total billed amount in 2013. Billed receivables are generally due 10 days after bill date.

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 cost under-recoveries, net of over-recoveries, which are billed to customers over the allowed recovery period approved by the ERC. Trade receivables are noninterest-bearing and are substantially secured by bill deposits.

See Note 17 – Customers’ Deposits and Note 26 – Financial Assets and Financial Liabilities.



12. Inventories

	2014	2013
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At net realizable value	₱2,082	₱2,651
At cost	2,275	2,854
Total inventories at the lower of cost or net realizable value	₱2,082	₱2,651

The reversal of write-down of inventory cost to *NRV* amounted to ₱10 million and ₱4 million in 2014 and 2013, respectively.

13. Other Current Assets

This account consists of:

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Pass-through <i>VAT</i> - net		₱1,753	₱1,116
Prepaid tax		1,444	734
Prepayments and advances to suppliers		988	113
Input <i>VAT</i>		249	—
Short-term investments	26	—	4,841
Prepaid expenses		70	263
		₱4,504	₱7,067

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 deferred *VAT* to the generation companies is based on collection of billed receivables from the customers.

Short-term investments are temporary cash placements which are made for varying periods beyond three (3) months but not exceeding 12 months and earn interest at the prevailing short-term placement investment rates.

14. Equity

Common Stock

The movement in the number of shares (in millions) of *MERALCO*'s common stock is as follows:

	2014	2013
	<i>(In millions, except par value)</i>	
Authorized - ₱10 par value a share	1,250	1,250
Issued and outstanding:		
Balance at beginning and end of year	1,127	1,127



The common shares of *MERALCO* were listed in the *PSE* on January 8, 1992. There are 46,586 and 46,409 shareholders of *MERALCO*'s common shares as at December 31, 2014 and 2013, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include the balance of revaluation increment in utility plant and others and investment properties carried at deemed cost and deferred tax assets amounting to ₱34,415 million and ₱33,226 million as at December 31, 2014 and 2013, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting years.

The following are cash dividends declared on common shares in 2014 and 2013:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount (In millions)
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 consolidated core net income or *CCNI* for the year, which may be supplemented by a special dividend determined on a “look-back” basis. Declaration and payment of a special dividend is 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 *SEC*.

Appropriated Retained Earnings

On February 22, 2010, retained earnings of ₱6,000 million have been appropriated specifically for *MERALCO*'s business expansion into power generation. The amount appropriated was increased by ₱5,000 million to cover the new development projects and investments in power generation initiatives. The additional appropriation was approved on March 22, 2013 by the *BOD*. As at December 31, 2014, the development of the first project, a 2 x 300 *MW CFB* coal-fired plant through *RP Energy* is ongoing. *MERALCO* signed a Joint Development Agreement and Shareholders Agreement to develop a supercritical coal-fired power plant, which has target completion by the first quarter of 2019.

See *Note 7 – Investments in Subsidiaries and Associates and Interest 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, 2014 and 2013, a total of 172,412 shares were acquired from employees who have opted to cancel their participation in the *ESPP*.



15. Employee Stock Purchase Plan

MERALCO has an *ESPP*, which entitles participants to purchase its common shares subject to certain terms and conditions, during a nominated offer period. Movements in the number of common shares subscribed by employees under the *ESPP* are as follows:

2014				
	13 th	A	14 th	Total
Balance at beginning of year		68,333	5,706,802	5,775,135
Fully paid		(68,333)	(5,706,802)	(5,775,135)
Balance at end of year		–	–	–

2013				
	13 th	13 th	14 th	Total
		A		
Balance at beginning of year	3,309	135,703	7,753,272	7,892,284
Fully paid	(3,309)	(67,370)	(2,045,911)	(2,116,590)
Cancelled	–	–	(559)	(559)
Balance at end of year	–	68,333	5,706,802	5,775,135

MERALCO allotted a total of 55 million common shares for *ESPP* awards. As at December 31, 2014, 12 million common shares are available for any future offerings. There were no other *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.

16. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2014	2013
	(Amounts in millions)	
Long-term portion of interest-bearing long-term financial liabilities -		
Long-term debt	₱27,613	₱20,756
Current portion of interest-bearing long-term financial liabilities:		
Long-term debt	350	9,459
Redeemable preferred stock	1,549	1,562
	1,899	11,021
	₱29,512	₱31,777

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, 2014 and 2013. Interest is no longer accrued when the preferred shares have been called for redemption.



The details of interest-bearing long-term financial liabilities are as follows:

Description	2014	2013
	<i>(Amounts in millions)</i>	
<i>Bonds</i>		
₱11.5 Billion 7-year Bonds	₱11,500	₱11,500
₱7.0 Billion 12-year Bonds	7,000	7,000
<i>Fixed Rate Loans</i>		
₱7.2 Billion Note Facility Agreement	7,200	—
₱5.0 Billion Note Facility Agreement	—	4,900
₱4.8 Billion Note Facility Agreement	—	3,417
₱3.0 Billion Note Facility Agreement	—	530
<i>Floating Rate Loans</i>		
₱2.5 Billion Term Loan Facility	2,463	2,475
₱3.0 Billion Term Loan Facility	—	600
Total long-term debt	28,163	30,422
Less unamortized debt issuance costs	200	207
	27,963	30,215
<i>Redeemable Preferred Stock</i>	1,549	1,562
	29,512	31,777
Less current portion	1,899	11,021
Long-term portion of interest-bearing financial liabilities	₱27,613	₱20,756

All of *MERALCO*'s interest-bearing long-term financial liabilities as at December 31, 2014 and 2013 are denominated in Philippine pesos. The scheduled maturities of *MERALCO*'s outstanding long-term debt at nominal values as at December 31, 2014 are as follows:

	Amount
	<i>(In millions)</i>
Less than one (1) year	₱372
One (1) year up to two (2) years	373
More than two (2) years to three (3) years	373
More than three (3) years to four (4) years	2,785
More than four (4) years	24,260
	₱28,163

Bonds

₱18.5 Billion Fixed Rate Putable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7-year and 12-year corporate bonds, putable in five (5) and ten (10) years, respectively, with an aggregate principal amount of up to ₱15.0 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 putable bonds due in 2020 and ₱7.0 billion fixed rate putable 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.

Fixed Rate Loans

₱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.

₱5.0 Billion Note Facility Agreement

In June 2011, *MERALCO* entered into a Fixed Rate Note Facility Agreement for its ₱500 million, 7-year notes and ₱4,500 million, 10-year notes due in 2018 and 2021, respectively. The principal is payable in nominal annual amortizations with a balloon payment on each of the two final maturity dates. In June 2014, *MERALCO* pre-terminated and settled the remaining principal of ₱4,900 million.

₱4.8 Billion Note Facility Agreement

In November 2010, *MERALCO* signed a Fixed Rate Note Facility Agreement for its ₱1,997 million, 7-year fixed rate notes and ₱2,803 million, 10-year fixed rate notes. The notes were issued on December 2, 2010 and are payable in nominal annual amortizations with a balloon payment on each of the two maturity dates in December 2018 and December 2020. In December 2013, *MERALCO* pre-terminated and settled the principal amount of ₱1,334 million. In March 2014, *MERALCO* pre-terminated and settled the remaining principal of ₱3,417 million.

₱3.0 Billion Note Facility Agreement

On January 5, 2012, *MERALCO* signed a ₱3,000 million Fixed Rate Note Facility Agreement for its ₱1,000 million, 7-year notes and ₱2,000 million, 10-year notes due in 2019 and 2022, respectively. The notes were priced off the relevant 7-year and 10-year benchmarks plus a spread and were issued on January 9, 2012. Principal repayments are through annual nominal amortizations and a balloon payment on maturity date. In December 2013, *MERALCO* pre-terminated and settled the principal amount of ₱2,440 million. In January 2014, *MERALCO* pre-terminated and settled the remaining principal of ₱530 million.

Floating Rate Loans

₱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 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.



₱3.0 Billion Term Loan Facility

The ₱3,000 million, 5-year bilateral Floating Rate Term Loan Facility, was drawn in October 2009. The principal is payable over five years with final maturity in October 2014.

Long-term debt totaling ₱8,797 million, pre-terminated between January to June 30, 2014, were classified as part of the current portion of the long-term interest-bearing financial liabilities as at December 31, 2013.

The average annual interest rates for the interest-bearing financial liabilities are as follows:

	2014	2013
Bonds	4.38%-4.88%	4.38%-4.88%
Fixed Rate Loans	4.50%-5.50%	5.23%-6.89%
Floating Rate Loans	2.10%-2.19%	0.80%-1.74%

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.2 times calculated at 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, 2014 and 2013, MERALCO is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs amounted to ₱200 million and ₱207 million as at December 31, 2014 and 2013, respectively.

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

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱207	₱82
Additions		36	186
Amortization charged to interest and other financial charges	24	(43)	(61)
Balance at the end of year		₱200	₱207

Redeemable Preferred Stock

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

	2014	2013
Balance at beginning of year	156,189,168	159,356,939
Redemptions	(1,287,779)	(3,167,771)
Balance at end of year	154,901,389	156,189,168



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 new distribution facilities, has 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.

17. Customers’ Deposits

This account consists of:

	2014			2013		
	Current Portion (see Note 21)	Noncurrent Portion	Total	Current Portion (see Note 21)	Noncurrent Portion	Total
(Amounts in millions)						
Bill deposits	₱3,531	₱24,071	₱27,602	₱6,125	₱21,330	₱27,455
Meter deposits	500	—	500	2,118	—	2,118
	₱4,031	₱24,071	₱28,102	₱8,243	₱21,330	₱29,573

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 with 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 consecutive years may now 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 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 or *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 0.375% per annum starting January 1, 2013 and 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 secure security deposits from its 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:

	2014	2013
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱27,455	₱27,201
Additions	5,170	4,731
Refunds	(5,023)	(4,477)
Balance at end of year	27,602	27,455
Less portion maturing within one year	3,531	6,125
Long-term portion of bill deposits and interests	₱24,071	₱21,330

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,” or *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, 2014 and 2013, total meter deposits refunded by *MERALCO* amounted to ₱2,595 million (inclusive of ₱1,347 million interest) and ₱977 million (inclusive of ₱503 million interest), respectively.

18. Provisions

Provisions consist of amounts recognized for probable costs, charges and expenses relating to claims against *MERALCO*, among others. The movements of provisions follow:

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱24,729	₱19,411
Provisions		5,665	5,331
Settlements		(1)	(13)
Balance at end of year		30,393	24,729
Less current portion	21	14,320	—
Noncurrent portion of provisions		₱16,073	₱24,729



The balance of provisions substantially represents the amount of claims related to a commercial contract, which remains unresolved and local taxes being contested as discussed in *Note 28 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

19. 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 the 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.

20. Notes Payable

Notes payable represent unsecured interest-bearing working capital peso loans obtained from various local banks. Annual interest rates ranged from 1.5% to 3.9% in 2013.

Interest expense on notes payable amounted to nil and ₱71 million for the year ended December 31, 2014 and 2013, respectively.

See *Note 24 – Expenses and Income*.

21. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Trade accounts payable	22 and 23	₱30,759	₱42,824
Provisions	18 and 28	14,320	–
(Forward)			
Output <i>VAT</i> - net		5,970	5,393
Accrued expenses:			
Employee benefits		2,249	2,482
Taxes		1,934	1,779
Interest		109	265
Others		850	876
Current portions of:			
Bill deposits and related interests	17	3,531	6,125
Meter deposits and related interests	17	500	2,118
Deferred lease income		690	778
Refundable service extension costs		1,852	1,615

(Forward)



	Note	2014	2013
(Amounts in millions)			
Dividends payable on:			
Redeemable preferred stock	15	₱250	₱250
Common stock	14	75	77
Universal charges payable		1,958	1,523
Payable to customers		2,046	779
Regulatory fees payable		271	204
Other current liabilities		2,046	3,983
		₱69,410	₱71,071

Trade Accounts Payable

Trade accounts payable mainly represent obligations to *NPC*/ Power Sector Assets and Liabilities Management Corporation or *PSALM*, power generating companies, National Grid Corporation of the Philippines or *NGCP*, and Philippine Electricity Market Corporation or *PEMC*, for costs 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 accounts payable are noninterest-bearing and are generally settled within the 15- to 60-day trade term. Other current liabilities are noninterest-bearing and are due within one (1) year from incurrence.

See Note 22 –*Related Party Transactions* and Note 29 – *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 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, 2014 and 2013, the noncurrent portion of refundable service extension costs of ₱7,006 million and ₱5,782 million, respectively, is presented as “Refundable Service Extension Costs - net of current portion” account in the parent company 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* monthly remit collections to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.



22. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by *MERALCO* to/with related parties for the relevant financial year. The outstanding balances are unsecured, non-interest bearing and are to be settled in cash.

Pole Attachment Contract with Philippine Long Distance Telephone Company or 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 such as *PLDT*, *Metro Pacific*, *JG Summit*, and San Miguel Corporation or *SMC* (up to 2013) and their respective subsidiaries, and affiliates for the latter's 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

MERALCO's primary telecommunications carriers are *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 *MERALCO*.

See Note 24 – *Expenses and Income*.

Purchase of Goods and Services

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

Following is the summary of the foregoing related party transactions for the years ended December 31, 2014 and 2013 and the outstanding balances as at December 31, 2014 and 2013:

Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	2014	2013	2014	2013		
(Amounts in millions)						
Sale of electricity:						
<i>JG Summit Group</i>	₱3,263	₱348	₱289	₱293	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,941	2,599	48	160	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	179	352	7	15	10-day; noninterest-bearing	Unsecured, no impairment
<i>SMC Group</i>	—	851	—	59	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	829	658	(1)	(2)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - <i>GEPMICI</i>	312	251	(21)	—	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	250	212	2	—	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	58	50	—	—	30-day; noninterest-bearing	Unsecured

(Forward)



Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	2014	2013	2014	2013		
Purchases of power:						
South Premiere Power Corporation or <i>SPPC</i>	₱–	₱34,885	₱–	(₱2,893)	30-day; noninterest-bearing	Unsecured
San Miguel Energy Corporation or <i>SMEC</i>	–	13,648	–	(951)	30-day; noninterest-bearing	Unsecured
Purchases of services:						
<i>MIESCOR and subsidiaries</i>	1,314	1,339	(117)	(13)	30-day; noninterest-bearing	Unsecured
<i>CIS and subsidiaries</i>	462	400	–	–	30-day; noninterest-bearing	Unsecured
<i>RSIC</i>	334	292	(2)	–	30-day; noninterest-bearing	Unsecured
<i>Others</i>	221	4	(2)	–	30-day; noninterest-bearing	Unsecured

Transaction with MERALCO Pension Fund

MERALCO Pension Fund or *Fund* holds 6,000 common shares of *RP Energy* at ₱100 par value 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, 2014 and 2013, the fair value of the total assets being managed by *MERALCO Pension Fund* amounted to ₱36.3 billion and ₱34.0 billion, respectively.

See *Note 25 – Long-Term Employee Benefits*.

Compensation of Key Management Personnel

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

	2014	2013
	<i>(Amounts in millions)</i>	
Short-term employee benefits	₱538	₱517
Long-term employee and retirement benefits	45	283
Total compensation to key management personnel	₱583	₱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 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, 2014, there are no agreements between *MERALCO* 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.

23. Revenues and Purchased Power

Sale of Electricity

Following is the breakdown of electricity revenues:

	2014	2013
	<i>(Amount in millions)</i>	
Generation charge	₱157,116	₱190,700
Distribution service charges	56,290	55,796
Transmission charge	31,839	28,865
System loss charge	13,620	17,026
Power Act Reduction adjustment	—	(8)
Interclass, lifeline subsidies and others	18	(128)
	₱258,883	₱292,251

Distribution service revenue accounted for 22% and 19% of total electricity revenues in 2014 and 2013 respectively. *VAT*, *LFT* and universal charges, which are also pass-through charges are billed and collected on behalf of the national and local governments and do not form part of total electricity revenues.

Purchased Power

The details of purchased power are as follows:

	2014	2013
	<i>(Amounts in millions)</i>	
Generation cost	₱166,958	₱204,620
Transmission cost	33,804	31,300
	₱200,762	₱235,920

Purchased power costs are pass-through costs and revenue-neutral to *MERALCO* as a *DU*.

Generation cost is inclusive of 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 parent company statements of income amounts to ₱44,204 million and ₱46,170 million in 2014 and 2013, respectively. These also include the actual *SL* incurred which are within the *SL* cap of 8.5%. *MERALCO*’s actual 12 months moving average *SL* rates are 6.49% and 6.92% in 2014 and 2013, respectively.



The details of purchased power are as follows:

	2014	2013
	<i>(Amounts in millions)</i>	
First Gas Power Corporation or <i>FGPC</i> and FGP Corp. or <i>FGP</i>	₱53,772	₱55,360
<i>SPPC</i>	36,344	34,885
National Transmission Corporation or <i>TransCo/NGCP</i>	33,611	31,274
<i>QPPL</i>	14,480	14,251
Masinloc Power Partners Co. Ltd. or <i>MPPCL</i>	12,515	12,905
<i>SMEC</i>	10,974	11,749
Sem-Calaca Power Corporation or <i>Sem-Calaca</i>	10,486	10,673
Therma Luzon, Inc. or <i>TLI</i>	9,334	9,538
<i>PEMC/Wholesale Electricity Spot Market</i> or <i>WESM</i>	5,905	40,559
<i>NPC/PSALM</i> (including <i>NPC</i> Successor Generating Companies or <i>SGCs/Independent Power</i> Producers Administrators or <i>IPPAs</i>	4,836	12,075
Therma Mobile, Inc. or <i>TMO</i>	3,987	—
Trans-Asia Oil and Energy Development Corporation or <i>Trans-Asia</i>	2,281	—
1590 Energy Corp.	1,359	—
Others	878	2,651
	₱200,762	₱235,920

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/under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2014 and 2013, the total transmission cost and *SL* over-recoveries included in the “Other noncurrent liabilities” account in the parent company statements of financial position amounted to ₱9,046 million and ₱6,358 million, respectively.

24. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2014	2013
		<i>(Amounts in millions)</i>	
Salaries, wages and related employee benefits		₱8,081	₱7,841
Pension expense	25	1,017	1,147
Other long-term post-employment benefits expense	25	118	258
		₱9,216	₱9,246



Other Expenses

	<i>Note</i>	2014	2013
<i>(Amounts in millions)</i>			
Rent and utilities		₱479	₱472
Advertising		401	291
Insurance		308	290
Inventories		277	288
Transportation and travel		207	241
Communication	22	74	60
Others		555	702
		₱2,301	₱2,344

Interest and Other Financial Charges

	<i>Note</i>	2014	2013
<i>(Amounts in millions)</i>			
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	6 and 16	₱1,209	₱966
Interest expense on bill deposits	17	83	81
Amortization of debt issuance costs	16	43	61
Interest expense on notes payable	20	—	71
Others		89	295
		₱1,424	₱1,474

Interest and Other Financial Income

	2014	2013
<i>(Amounts in millions)</i>		
Interest income on cash and cash equivalents	₱689	₱1,047
Dividend income	147	491
Others	42	35
	₱878	₱1,573

25. Long-term Employee Benefits

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

	2014	2013
<i>(Amounts in millions)</i>		
Long-term incentives and provident plan liability	₱2,303	₱1,205
Retirement benefit liability	504	1,113
Other long-term post-employment benefits	1,899	1,792
	₱4,706	₱4,110



Defined Benefit Retirement Plan

The features of *MERALCO*'s defined benefit retirement plan are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

Actuarial valuation is prepared annually by an independent actuary engaged by *MERALCO*.

Expense recognized for defined benefit plan (included in "Salaries, wages and employee benefits" account)

	2014	2013
	<i>(Amounts in millions)</i>	
Current service costs	₱996	₱1,039
Net interest costs	12	103
Net retirement benefits expense	₱1,008	₱1,142

Retirement Benefits Liability

	2014	2013
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱36,757	₱35,098
Fair value of plan assets	(36,253)	(33,985)
Retirement benefits liability	₱504	₱1,113

Changes in the net retirement benefits liability are as follows:

	2014	2013
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of year	₱1,113	₱3,186
Net retirement benefits expense	1,008	1,142
Total amounts recognized in <i>OCI</i>	77	(282)
Contributions by employer	(1,694)	(2,933)
Retirement benefits liability at end of year	₱504	₱1,113

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

	2014	2013
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱35,098	₱33,713
Interest costs	1,537	1,971
Benefits paid	(1,840)	(1,693)
Current service costs	996	1,039
Actuarial losses (gains) due to:		
Changes in financial assumptions	430	671
Experience adjustments	536	(603)
Defined benefit obligation at end of year	₱36,757	₱35,098



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

	2014	2013
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱33,985	₱30,527
Return on plan assets, excluding amount included in net interest on the net defined obligation	889	350
Interest income	1,525	1,868
Benefits paid	(1,840)	(1,693)
Contributions by employer	1,694	2,933
Fair value of plan assets at end of year	₱36,253	₱33,985

The Board of Trustees or *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. Substantially all of the assets of the *Fund* are managed by four (4) trustee banks 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.

Net carrying amount and fair value of the assets of the fund as at December 31, 2014 and 2013 amounted to ₱36,253 million and ₱33,985 million, respectively. The major categories of plan assets are as follows:

	2014	2013
	<i>(Amount in millions)</i>	
Cash and cash equivalents	₱3,606	₱5,637
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	2,635	1,950
Electricity, energy, power and water	1,585	1,155
Food, beverages and tobacco	1,068	908
Telecommunication	908	607
Banks	743	713
Property	585	608
Transportation services	345	283
Gaming	139	75
Mining	138	66
Construction, infrastructure and allied services	135	82
Retail	130	44
Financial institution	—	81
Media	—	31
Hotel and leisure	—	15
Others	461	325

(Forward)



	2014	2013
	<i>(Amount in millions)</i>	
Quoted debt instruments:		
Government securities	₱11,226	₱11,385
“AAA” rated securities	10,032	7,399
Unquoted investments:		
Receivables	1,563	1,667
Property	954	954
Fair value of plan assets	₱36,253	₱33,985

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 Expense (included in “Salaries, wages and employee benefits” account)

	2014	2013
	<i>(Amounts in millions)</i>	
Interest costs	₱79	₱178
Current service costs	36	80
Actuarial loss	3	—
	₱118	₱258

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

	2014	2013
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱1,792	₱2,962
Interest costs	79	178
Current service costs	36	80
Benefits paid	(73)	(53)
Actuarial loss (gains) due to change in assumptions	65	(1,375)
Balance at end of year	₱1,899	₱1,792

Actuarial Assumptions

The principal assumptions used as at December 31, 2014 and 2013 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2014	2013
Annual discount rate	4.5%	4.5%
Future range of annual salary increases	5.0%-8.0%	6.0%-10.0%



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 year would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	2014	2013
		<i>(Amounts in millions)</i>	
Annual discount rate	+1.0%	(₱4,014)	(₱3,801)
	-1.0%	4,792	4,720
Future range of annual salary increases	+1.0%	1,139	1,199
	-1.0%	(1,047)	(1,099)

Funding

MERALCO contributes to the *Fund* from time to time such amounts of money 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.

MERALCO expects to contribute ₱939 million to the *Fund* in 2015.

The following is the maturity profile of the undiscounted benefit payments:

	Amounts
	<i>(In Millions)</i>
Less than one (1) year	₱1,441
One (1) year up to five (5) years	7,456
More than five (5) years up to 10 years	9,911
More than 10 years up to 15 years	12,614
More than 15 years up to 20 years	11,536
More than 20 years	19,599

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 amount 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 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 that market falls drastically, 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.

MERALCO 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, 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 the first 10% of the member's 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 ₱9 million and ₱5 million for the years ended December 31, 2014 and 2013, respectively.

Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account)

	2014	2013
	<i>(Amounts in millions)</i>	
Expense recognized for defined benefit plans	₱1,008	₱1,142
Expense recognized for defined contribution plan	9	5
Retirement benefits expense	₱1,017	₱1,147



Long-term Incentive Plan or LTIP

MERALCO's LTIP covers qualified executives and is based on MERALCO'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 the plan must serve a minimum uninterrupted period to be entitled to any pay-out.

26. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents and trade and nontrade receivables, which are generated directly from operations. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and non-trade payables, which are incurred to finance operations in the normal course of business.

The following table sets forth the financial assets and financial liabilities as at December 31, 2014 and 2013:

	Loans and Receivables	HTM Investments	Fair Value through Profit or Loss	AFS Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>						
Assets as at December 31, 2014						
Noncurrent						
Other noncurrent assets	P619	P-	P-	P138	P-	P757
Current						
Cash and cash equivalents	66,369	-	-	-	-	66,369
Trade and other receivables	21,836	-	-	-	-	21,836
Total assets	88,824	-	-	138	-	88,962
Liabilities as at December 31, 2014						
Noncurrent						
Interest-bearing long-term financial liabilities – net of current portion	-	-	-	-	27,613	27,613
Customers' deposits - net of current portion	-	-	-	-	24,071	24,071
Refundable service extension costs – net of current portion	-	-	-	-	7,006	7,006
Current						
Trade payables and other current liabilities	-	-	-	-	41,556	41,556
Customers' refund	-	-	-	-	5,937	5,937
Interest-bearing long-term financial liabilities	-	-	-	-	1,899	1,899
Total liabilities	P-	P-	P-	P-	P108,082	P108,082
Assets as at December 31, 2013						
Noncurrent						
Other noncurrent assets	P474	P-	P-	P124	P-	P598
Current						
Cash and cash equivalents	57,607	-	-	-	-	57,607
Trade and other receivables	25,372	-	-	-	-	25,372
Short-term investments	4,841	-	-	-	-	4,841
Total assets	88,294	-	-	124	-	88,418
Liabilities as at December 31, 2013						
Noncurrent						
Interest-bearing long-term financial liabilities – net of current portion	-	-	-	-	20,756	20,756
Customers' deposits – net of current portion	-	-	-	-	21,330	21,330
Refundable service extension costs – net of current portion	-	-	-	-	5,782	5,782
Current						
Notes payable	-	-	-	-	1,700	1,700
Trade payables and other current liabilities	-	-	-	-	55,780	55,780
Customers' refund	-	-	-	-	6,013	6,013
Interest-bearing long-term financial liabilities	-	-	-	-	11,021	11,021
Total liabilities	P-	P-	P-	P-	P122,382	P122,382



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 *MERALCO*'s financial instruments as at December 31, 2014 and 2013.

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(Amounts in millions)</i>			
Financial assets				
Loans and receivables -				
Advance payments to a supplier	₱619	₱634	₱474	₱552
Available-for-sale financial assets	138	138	124	124
	₱757	₱772	₱598	₱676
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing long-term financial liabilities	₱29,512	₱30,439	₱31,777	₱32,176

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 3.68% as at December 31, 2014 and 3.76% as at December 31, 2013.

AFS Investments

The fair values were determined by reference to market bid quotes as at reporting date. The unquoted equity securities were carried at cost.

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 0.51% to 4.56% as at December 31, 2014 and 0.52% to 4.29% as at December 31, 2013.

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 such 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:

	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(Amounts in millions)</i>								
Financial assets								
Advance payments to a supplier	P-	P-	P634	P634	P-	P-	P552	P552
AFS investments	138	-	-	138	124	-	-	124
	P138	P-	P634	P772	P124	P-	P552	P676
Financial liabilities								
Interest-bearing long-term financial liabilities	P-	P-	P30,439	P30,439	P-	P-	P32,176	P32,176

For the years ended December 31, 2014 and 2013, 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 *MERALCO*'s 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

MERALCO's exposure to the changes in market interest rates relate primarily to the long-term interest-bearing financial liabilities.



MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. Approximately 91% and 90% of the borrowings bear fixed rate of interest as at December 31, 2014 and 2013, 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
<i>(Amounts in millions)</i>							
2014	₱13	₱13	₱12	₱2,425	₱–	₱–	₱2,463
2013	612	13	13	12	2,425	–	3,075

Floating interest rate of bank loans is repriced at intervals of less than one year. The other financial liabilities of *MERALCO* 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 *MERALCO*'s income before income tax as at December 31, 2014 and 2013 through the impact on floating rate borrowings. There is no other impact on *MERALCO*'s equity other than those already affecting the parent company statements of income.

	2014		2013	
	Increase (Decrease) in Basis Points	Effect on Income before Income Tax	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
<i>(Amounts in millions)</i>				
Floating rate loans from various banks	+100 (100)	(₱25) 25	+100 (100)	(₱31) 31

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 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 *MERALCO*'s revenues and liabilities is denominated in U.S. dollars, a substantial portion of *MERALCO*'s capital expenditures for electricity capital project 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 *MERALCO*'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 foreign currency-denominated financial assets and financial liabilities as at December 31, 2014 and 2013, translated to Philippine peso at ₱44.72 and ₱44.40 to US\$1, respectively.

	2014		2013	
	U.S.Dollar	Peso Equivalent	U.S.Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$119	₱5,331	\$65	₱2,864
Trade and other receivables	4	174	3	148
Advance payments to a supplier	14	610	11	474
	137	6,115	79	3,486
Financial liabilities -				
Trade payables and other liabilities	(10)	(447)	(46)	(2,043)
	\$127	₱5,668	\$33	₱1,443

All of *MERALCO*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables is 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 *MERALCO*'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 *MERALCO* 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 peso, with all other variables held constant, of *MERALCO*'s income before income tax as at December 31, 2014 and 2013 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on *MERALCO*'s equity other than those already affecting the parent company statement of income.

	2014		2013	
	Appreciation (Depreciation) of U.S. Dollar <i>(In %)</i>	Effect on Income before Income Tax <i>(In millions)</i>	Appreciation (Depreciation) of U.S. Dollar <i>(In %)</i>	Effect on Income before Income Tax <i>(In millions)</i>
U.S. dollar-denominated financial assets	+5	₱283	+5	₱73
and financial liabilities	-5	(₱283)	-5	(₱73)

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, receivable 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. *MERALCO*'s exposure to price risk is minimal. The cost of fuel is part of *MERALCO*'s generation costs that are recoverable from the customers through the generation charge in the billings to customers.



Credit Risk

Credit risk is the risk that *MERALCO* is exposed to as a result of its customers, clients or counterparties failing to discharge their contracted obligations. *MERALCO* 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.

With respect to placements of cash with financial institutions, these institutions are subject to *MERALCO*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. *MERALCO* transacts derivatives only with similarly accredited financial institutions. In addition, *MERALCO*'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, trade and other receivables and short-term investments 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. *MERALCO*'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 in *MERALCO*.

The table below shows the maximum exposure to credit risk for the components of the parent company statements of financial position as at December 31, 2014 and 2013. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2014	2013
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱66,124	₱57,472
Trade and other receivables		
Billed electricity	19,635	23,867
Nontrade receivables	2,201	1,505
Short-term investments	—	4,841
Advance payments to a supplier	618	474
	₱88,578	₱88,159



The credit quality of financial assets is managed using High Grade, Standard Grade and Sub-standard Grade as internal credit ratings. The following tables show the credit quality by asset class:

2014						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
(Amounts in millions)						
Cash in banks and cash equivalents	₱66,124	₱—	₱—	₱—	₱—	₱66,124
Trade and other receivables:						
Billed electricity	3,720	2,335	9,840	3,740	3,200	22,835
Nontrade receivables	2,023	3	—	175	—	2,201
Advance payments to a supplier	—	—	618	—	—	618
	₱71,867	₱2,338	₱10,458	₱3,915	₱3,200	₱91,778
2013						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
(Amounts in millions)						
Cash in banks and cash equivalents	₱57,472	₱—	₱—	₱—	₱—	₱57,472
Trade and other receivables:						
Billed electricity	5,793	3,583	9,046	5,445	2,963	26,830
Nontrade receivables	1,374	8	20	103	—	1,505
Short-term investments	4,841	—	—	—	—	4,841
Advance payments to a supplier	—	—	474	—	—	474
	₱69,480	₱3,591	₱9,540	₱5,548	₱2,963	₱91,122

Credit ratings were determined as follows:

- High Grade

High grade financial assets include cash in bank 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 consisting 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 billing, which are not expected to be collected within 60 days.



The following table shows the aging analysis of financial assets as at December 31, 2014 and 2013:

2014						
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired Financial Assets	Total
		31-60 Days	61-90 Days	Over 90 Days		
		<i>(Amounts in millions)</i>				
Cash and cash equivalents	₱66,124	₱—	₱—	₱—	₱—	₱66,124
Trade and other receivables:						
Billed electricity	15,895	1,170	453	2,117	3,200	22,835
Nontrade receivables	2,026	19	17	139	—	2,201
Advance payments to a supplier	618	—	—	—	—	618
	₱84,663	₱1,189	₱470	₱2,256	₱3,200	₱91,778

2013						
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired Financial Assets	Total
		31-60 Days	61-90 Days	Over 90 Days		
		<i>(Amounts in millions)</i>				
Cash and cash equivalents	₱57,472	₱—	₱—	₱—	₱—	₱57,472
Trade and other receivables:						
Billed electricity	18,422	2,066	504	2,875	2,963	26,830
Nontrade receivables	1,402	23	5	75	—	1,505
Short-term investments	4,841	—	—	—	—	4,841
Advance payments to a supplier	474	—	—	—	—	474
	₱82,611	₱2,089	₱509	₱2,950	₱2,963	₱91,122

Liquidity Risk

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

MERALCO maintains an adequate amount of cash and cash equivalents, which may be readily converted to cash in any unforeseen interruption of its cash collections. *MERALCO* also maintains accounts with several relationship banks to avoid significant concentration of cash with one institution.

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

2014					
	Less than 3 Months	Over 3-12 Months	Over 1-5 Years	More than 5 Years	Total
	<i>(Amounts in millions)</i>				
Trade payables and other current liabilities	₱35,672	₱—	₱—	₱—	₱35,672
Customers' refund	5,937	—	—	—	5,937
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	40	27	2,585	—	2,652
Fixed rate borrowings	418	229	3,110	5,666	9,423
Bonds payable	211	633	4,222	20,040	25,106
Redeemable preferred stock	1,549	—	—	—	1,549
Customers' deposits	783	3,248	4,607	19,464	28,102
Refundable service extension costs	106	1,746	2,673	4,333	8,858
Total undiscounted financial liabilities	₱44,716	₱5,883	₱17,197	₱49,503	₱117,299



	2013				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	<i>(Amounts in millions)</i>				
Notes payable	₱1,700	₱—	₱—	₱—	₱1,700
Trade payables and other current liabilities	45,923	—	—	—	45,923
Customers' refund	6,013	—	—	—	6,013
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	14	601	2,592	—	3,207
Fixed rate borrowings	3,975	5,057	—	—	9,032
Bonds payable	211	645	3,427	21,716	25,999
Redeemable preferred stock	1,562	—	—	—	1,562
Customers' deposits	3,172	5,070	3,881	17,449	29,572
Refundable service extension costs	—	1,615	2,772	3,010	7,397
Total undiscounted financial liabilities	₱62,570	₱12,988	₱12,672	₱42,175	₱130,405

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 a portion of bill deposits (including related interest), amounting to ₱3,531 million, will be refunded within the year. This is shown as part of "Trade payables and other current liabilities" account in the parent company statement of financial position as at December 31, 2014.

Capital Management

The primary objective of *MERALCO*'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.

MERALCO monitors capital using, among other measures, debt to equity ratio, which is consolidated gross debt divided by consolidated equity attributable equity holders of the parent. *MERALCO* considers long-term debt, redeemable preferred stock and note payable as debt.

	2014	2013
<i>(Amounts in millions, except debt to equity ratio)</i>		
Consolidated long-term debt	₱28,093	₱30,215
Redeemable preferred stock	1,549	1,562
Notes payable	400	1,814
Consolidated debt (a)	30,042	33,591
Consolidated equity attributable to the holders of the parent (b)	79,154	75,162
Consolidated debt to equity ratio (a)/(b)	0.38	0.45



27. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2014 and 2013 are as follows:

	<i>Note</i>	2014	2013
<i>(Amounts in millions)</i>			
Deferred tax assets:			
Provisions for various claims	<i>18 and 23</i>	₱14,223	₱12,682
Accrued employee benefits	<i>25</i>	1,244	899
Unfunded pension cost and unamortized past service cost	<i>25</i>	251	478
Allowance for doubtful accounts	<i>11</i>	960	889
Allowance for excess of cost over net realizable value of inventories	<i>12</i>	58	61
Others		41	355
		16,777	15,364
Deferred tax liabilities:			
Revaluation increment in utility plant and others and investment properties	<i>14</i>	7,311	7,389
Depreciation method differential		929	1,082
Capitalized interest		753	744
Capitalized duties and taxes deducted in advance		634	651
Net book value of capitalized/ realized foreign exchange losses		12	22
Others		126	123
		9,765	10,011
		₱7,012	₱5,353

Provision for (benefit from) income tax consists of:

	2014	2013
<i>(Amounts in millions)</i>		
Current	₱9,686	₱9,690
Deferred	(1,618)	(2,828)
	₱8,068	₱6,862



A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2014 and 2013, and provision for income tax as shown in the parent company statements of income is as follows:

	2014	2013
	<i>(Amounts in millions)</i>	
Income tax computed at statutory tax rate	₱7,746	₱7,305
Income tax effects of:		
Interest income subjected to lower final tax rate	(206)	(314)
Nondeductible interest expense	85	130
Nontaxable income	(55)	(97)
Nondeductible expenses	6	30
Others	492	(192)
	₱8,068	₱6,862

On December 18, 2009, the *BIR* issued Revenue Regulation or *RR* No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions or *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 2014, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter tax return.

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 customers' bill and computed as a percentage of the sum of generation, transmission, distribution services and related system loss charges.

The Implementing Rules and Regulations 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 charges in the customers' bill.

28. 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 or *TCCs*, proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2014 and 2013, the amount of unissued *TCCs* amounting to ₱181 million and ₱577 million, respectively, is presented as part of “Other noncurrent assets” account in the parent company statements of financial position.

See *Note 9 – Other Noncurrent Assets*.

MERALCO filed a Petition with the Court of Tax Appeals or *CTA* assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 to 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 tax credit certificate 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 to 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*.

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 or *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 or *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*.



LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code or *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 or RPT Assessments

Several Local Government Units or *LGUs* assessed *MERALCO* for deficiency *RPTs* on certain assets of *MERALCO*. The assets include electric transformers, wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, one has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers, where it is now submitted for resolution. The cases of the other *LGUs* 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 or *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 is set for mediation after the City of Manila files its comments on *MERALCO*'s petition.

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 *LGU* through a separate application with the *ERC*.

Mediation with NPC

The *NPC* embarked on a Power Development Program or *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 or *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 or *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 or *SA* between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* 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 or *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*, independent of the pass-through for the settlement amount which is reserved for the *ERC*, valid and binding. 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. As at February 23, 2015, the case is for further action or decision by the *SC*.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-part transmission line, which completed the 230kV-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. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought for by the plaintiffs. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed a 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 pay all damages, which the plaintiffs may incur as a result of the Writ of Preliminary Injunction.

Thereafter, the plaintiffs questioned the *RTC-Makati* order before the *CA*. Separately, in its Order dated February 5, 2013, the *RTC-Makati* granted plaintiffs' motion and directed the re-raffle of the case to another court after the judicial dispute resolution failed.

As at February 23, 2015, this case remains pending for resolution in the *CA*.

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 500kV Line 2 on June 22, 2008, and the 500kV 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 or *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 or *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 *SGCs* is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. or *APRI*, *TLI*, *SMEC* and *Sem-Calaca* or *SCPC*, 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 *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGCs* 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 *SGCs* 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 *SGCs*: *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 23, 2015, *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*. As at February 23, 2015, *PSALM*'s *MR* is pending action or decision by the *CA*.



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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its Pre-trial Brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 23, 2015, 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*.

As at February 23, 2015, *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 to 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 23, 2015, 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 or *Malampaya*, 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 sixty (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 *DUs* 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., 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 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.

In its Order dated October 15, 2014, the *ERC* issued an Order denying the motions filed by the generating companies. The generating companies have filed separate petitions before the *CA* to question the March 3, 2014 and October 15, 2014 Orders of the *ERC*.

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 23, 2015, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

Others

Liabilities on certain local business taxes amounting to ₱6,407 million and ₱6,050 million as at December 31, 2014 and 2013, respectively, are included in "Other noncurrent liabilities" account in the parent company statement of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect the *MERALCO*'s financial position and results of operations.

29. Significant Contracts and Commitments

Assignment of TSC Volume to SGCs

From 2008 to 2009, *NPC* privatized a number of its generating assets and Independent Power Plants or *IPP* contracts in favor of the successful bidders. As a result, the contracted energy volume under the original *TSC* between *MERALCO* and *NPC* was assigned by *NPC* to the respective new owners and *IPPs*. Following are the privatized plants and *IPP* contracts:

Year	Power Plant	Successor Owner/ <i>IPPs</i>	% of Total Volume
2008	Masinloc coal-fired power plant – 600 <i>MW</i>	<i>MPPCL</i>	21.3
2009	Tiwi-Makban geothermal power plants – 289 <i>MW</i>	<i>APRI</i>	8.1
	Pagbilao power plant – 735 <i>MW</i>	<i>TLI</i>	25.0
	Sual coal-fired power plant – 1,000 <i>MW</i>	<i>SMEC</i>	8.6
	Coal-fired Calaca power plant – 600 <i>MW</i>	<i>Sem-Calaca</i>	10.4
2010	Combined cycle gas turbine, natural gas-fired		
	Ilijan power plant – 1,200 <i>MW</i>	<i>SPPC</i>	15.2



NPC/PSALM remained the contracting party of record for the supply of power to *MERALCO*. Payments of the contracted volume are made based on the billing instructions from *NPC/PSALM* received by *MERALCO*.

Contracts for the Supply of Electricity or 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 *PSAs* are for a period of seven (7) years, extendable for three years upon agreement of the parties. Thereafter, applications for approval of the *PSAs* were filed with the *ERC*.

MPower likewise signed a separate *PSAs* 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 *PSAs* of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

Motions for Reconsideration were filed regarding the *ERC* decisions on the *PSAs* with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca* Motions for Reconsideration. 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 *PSAs*, 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
	<i>(In Megawatt)</i>	<i>(In million)</i>
2015	3,050	₱37,613
2016	3,080	39,635
2017	3,080	39,408
2018	3,335	47,625
2019 to 2021	3,825	58,207

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 *PPAs* 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 *PPAs*. 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 *PPAs* of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPAs* 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 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 9 – 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 or *MEQ*, provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the US and Philippine Consumer Price Index or *CPI*.

Year	MEQ (In million kwh)	Equivalent Amount (In Million)
2015	15,312	₱22,537
2016	15,214	22,478
2017	15,213	22,665
2018	15,213	22,837
2019 to 2025	103,863	150,435



Montalban Methane Power Corporation or MMPC

MMPC operates an 8 MW (designed capacity of 11 MW) renewable energy generating facility, which utilizes landfill gas.

On May 13, 2009, MERALCO filed an application for the approval of the CSE with MMPC with the ERC. On June 9, 2009, ERC issued an order dated June 1, 2009 provisionally approving the CSE subject to the following conditions: (i) any amendments to the CSE shall be filed with the ERC for approval and the implementation shall be prospective; and (ii) in the event the rates approved are higher than the final rates, the amount corresponding to the excess shall be refunded by MERALCO to its customers by crediting the same in their electric bills.

After a series of negotiations, on May 23, 2011, MERALCO and MMPC signed a Letter Agreement extending the CSE. Said Agreement likewise contained minor amendments to the CSE that were intended to benefit the consumers. On June 3, 2011, MERALCO filed a Manifestation with Motion with the ERC seeking the approval of the Letter Agreement, pursuant to the condition contained in the ERC Order dated June 1, 2009. On February 19, 2013, the ERC issued its Decision approving the application as well as the Letter Agreement. On June 6, 2013, MERALCO and MMPC signed a Letter Agreement extending the CSE for three (3) months from June 11, 2013 to September 11, 2013, and, thereafter, for a series of three (3)-month terms under the same terms and conditions. On June 11, 2013, MERALCO filed a Manifestation with Motion with the ERC seeking approval of the June 6, 2013 Letter Agreement.

On June 2, 2014, MERALCO filed a new application with the ERC for approval of its new PSA with MPPC, executed by the parties on April 16, 2014, which has a term of two (2) years from ERC approval. Similar to the previous CSE, said PSA is a “take and pay” arrangement. However, under the new PSA, energy is no longer billed at the ERC approved NPC TOU rate but at a fixed contract price. On June 11, 2014, MERALCO received MMPC’s motion to join MERALCO as co-applicant in the case. Upon approval by the ERC of the new PSA, the same shall replace the previous CSE executed between MMPC and MERALCO. Hearings on this case have been completed. On January 15, 2015, MMPC, with the conformity of MERALCO, terminated the CSE. MERALCO shall file a Manifestation informing the ERC of said termination.

Philippine Power and Development Company or 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. The case is now submitted for decision by the ERC.



BEI

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a 4MW 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 *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. The said case is pending decision by the *ERC*.

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. On June 13, 2013, *MERALCO* filed a Manifestation with Motion seeking *ERC*'s approval of said extension. In its Order dated September 30, 2013, the *ERC* denied said Manifestation and Motion. On October 11, 2013, *MERALCO* filed a motion with the *ERC* seeking reconsideration of it September 30, 2013. In its Order December 9, 2013, the *ERC* reversed its previous ruling and allowed the *CSE* to be extended until March 15, 2015.

Pangea Green Energy Philippines, Inc. or PGEP

On May 31, 2012, the *MERALCO* signed a *CSE* with Pangea Green Energy Philippines, Inc., or *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.

Therma Mobile, Inc. or TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with Therma Mobile Inc. or *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 Fishport 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 Formal Offer of Evidence or *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 covers the increase in the Maximum Monthly Capacity Factor to 60% provided that the average capacity factor for a contract year shall not exceed 40%, additional outage allowances and Operation and Maintenance expenses. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. The *ERC* already issued an Order and Notice of Public Hearing, both dated February 2, 2015 setting the initial hearing to be held on March 31, 2015.

San Buenaventura Power Ltd. Co. or 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 the first supercritical highly fuel efficient, reliable and environmental friendly pulverized coal-fired power plant in the country. The *PSA* will be subject to the approval of the *ERC*.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On June 11, 2014, *MERALCO* received *SBPL*'s motion to intervene as a co-applicant. On July 25, 2014, *PMR Limited Co. or PMR* filed a petition to intervene in the case. The initial hearing for the application was held on July 31, 2014. On the same date, *MERALCO* and *SBPL* filed their respective oppositions to *PMR*'s intervention. In its Order dated August 26, 2014, the *ERC* deemed it appropriate to allow *PMR*'s participation as an intervenor in the case. The pre-trial conference including the presentation of *MERALCO*'s and *SBPL*'s witnesses, was held on September 1, 2014.

After *MERALCO* and *SBPL* filed their respective *FOE*, the *ERC* set the case for hearing for presentation of *PMR*'s witness. Thereafter, *PMR* filed its *FOE* on November 18, 2014. On December 5, 2014, *MERALCO* received an Order of the *ERC* dated December 2, 2014 ruling that the application is considered submitted for decision.

Bacman Geothermal, Inc. or 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. The *PSA* was submitted to the *ERC* for approval.

Interim Power Supply Agreement or IPSAs

On April 1, 2014, *MERALCO* signed two separate *IPSAs* with the wholly-owned subsidiaries of *GBPC*, namely: (1) Panay Power Corporation or *PPC* for a 27 *MW* firm output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City; and (2) Toledo Power Co. or *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 *IPSAs*, with the term of until on June 30, 2014, were filed for approval of the *ERC* on April 2, 2014. In its Decision dated June 2, 2014, the *ERC* approved the application with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *IPSAs*. 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 *IPSAs* with *PPC* for 27 *MW* and with *TPC* for 28 *MW* on firm basis and 9 *MW* on non-firm basis. The *IPSAs* 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. *MERALCO* is awaiting the Decision of the *ERC* on the application.

On April 3, 2014, *MERALCO* signed an *IPSA* with *1590 Energy Corp.* 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 Corp.* until October 31, 2014. A *MOA* dated October 30, 2014 was executed with *1590 Energy Corp.* 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 April 8, 2014, *MERALCO* signed an *IPSA* with *PanAsia Energy, Inc.* for the 270 *MW* output from the Limay Combined Cycle Power Plant – a 540-*MW* diesel power facility at Barangay Luz, Limay, Bataan for a term of up to June 30, 2014. On July 18, 2014, the *ERC* approved the *IPSA* with *PanAsia Energy, Inc.*, subject to certain modifications. However, since the approval of the *IPSA* came after expiration of its term, the *IPSA* was never implemented. On December 4, 2014, *MERALCO* signed a new *IPSA* with *PanAsia Energy, Inc.* which shall be effective upon the issuance of the final approval of the *ERC* and will expire on July 25, 2015. The *IPSA* will involve the sale of up to 270 *MW* from January 26 to April 25, 2015 and up to 180 *MW* from April 26 to July 25, 2015. A Joint Application for approval of said *IPSA* was filed with the *ERC* on January 14, 2015. The *ERC* issued an Order and Notice of Public Hearing, both dated February 2, 2015, setting the case for initial hearing on March 25, 2015.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation or 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 is an interconnection at *MERALCO*'s Malaya-Teresa 115kV line, *Alternergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115kV 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.

Interconnection Agreement with Maibarara Geothermal, Inc. or MGI

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for their 20*MW* (with max capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which is an interconnection at *MERALCO*'s FPIP - Los Baños 115kV line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115kV line connecting its generating facility to *MERALCO*'s system.



Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. or 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 44YJ, Diliman 435VU and Parang 412YL 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 with Integrated Energy Distribution and Marketing or IEDM

MERALCO provides technical and management services for the operations of Ibadan Electricity Distribution Company and the Yola Electricity Distribution Company in Nigeria. In consideration, *MERALCO* receives fixed monthly fees, subject to adjustment annually in accordance with the provisions of the Technical Services Agreement.

Technical Services Agreement with Comstech Integration Alliance, Inc. or Comstech

On February 12, 2014, *MERALCO* signed a Technical Services Agreement with *Comstech* whereby *MERALCO* shall provide technical services to support *Comstech* in the execution of the Investment and Management Agreement with the Pampanga Electric Cooperative II or *PELCO II*.

Comstech secured the approval of the majority of the *PELCO II* membership to be the investment and management partner in electricity and distribution of *PELCO II*.

Agreement and Registration with Philippine Economic Zone Authority or 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 Cavite Economic Zone or *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.



30. Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	2014	2013
	<i>(In millions, except per share data)</i>	
Net income (a)	₱17,753	₱17,487
Weighted average common shares outstanding (b)	1,127	1,127
Per Share Amounts:		
Basic and diluted earnings per share (a/b)	₱15.75	₱15.52

Basic and diluted earnings per share amounts are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 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 parent company financial statements.

31. 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 or *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 23, 2015, 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. or *PEPOA* and Philippine Rural Electric Cooperative Association or *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 system loss 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 23, 2015, the Joint Petition is pending further action or decision by the *ERC*.

Retail Competition and Open Access or 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 *CRB* and Reportorial Requirements. The resolution mandates all *DUs* 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*.

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 or *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 or *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 or *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*. As at February 23, 2015, *MERALCO* has filed a comment on the motion and the motion is deemed submitted for resolution.

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 *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DUs* at the *RTC-Pasig*.

Purchase of Subtransmission Assets or 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 an *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 *TranCo*'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.



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., or *BATELEC II* and First Bay Power Corporation or *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 Peak/Off Peak or POP Program

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised Time of Use or *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 avalees 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.

Feed-in-Tariff or 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 or *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 or *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 or *FIT*-All 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. As at February 23, 2015, *MERALCO* is awaiting the action of the *SC* on this matter.

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*. The *ERC* has yet to promulgate its resolution on the *FIT* Rate for the additional solar capacity.

Net Metering Program

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

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 *DUs*’ implementation of the Net Metering Program. Included in the Rules are the Interconnection Standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. 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 *DUs*’ blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The rules took effect on July 24, 2013. As at December 31, 2014, *MERALCO* has already energized 41 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.



Interruptible Load Program or 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 February 23, 2015, there are 223 companies with a total generating capacity of 886 *MW* that have signed up with *MERALCO*, *MPower* and with other electric supplier as *ILP* participants.

32. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by *RR* No. 15-2010, hereunder are the information on taxes, duties and license fees paid and accrued during the taxable year.

Output VAT

MERALCO is a *VAT*-registered company with total *VAT* output tax declared of ₱8,242 million in 2014 based on the following revenue streams:

Revenue Item	Amount
	<i>(In Millions)</i>
Distribution revenues	₱67,322
Leases and others	1,365
	<u>₱68,687</u>

MERALCO has zero-rated distribution revenues of ₱1,979 million pursuant to the provisions of *RA* No. 7916 as amended by *RA* No. 8748, *RA* 9337 Section 108B, *RR* No. 16-2005 Section 4.108-5 and Section 4.108-6.

Generation, transmission, and system loss charges, which are part of *MERALCO*'s revenues are pass-through items. *VAT* on such revenues are remitted mainly to *IPPs*, *PSALM* and its successor generator companies, *PEMC* and *NGCP*, who are responsible for ultimate remittance to the *BIR*.



Input VAT

The amount of *VAT* input taxes claimed are broken down as follows:

	Amount (In Millions)
Balance at beginning of the year	₱920
Add input <i>VAT</i> on 2014 purchases from:	
Goods for resale/ manufacture or further processing	₱538
Capital goods subject to amortization	582
Services lodged under other accounts	2,700
	3,820
Less input <i>VAT</i> claimed:	
From goods other than capital goods and services	3,238
Amortization of <i>VAT</i> input tax on capital goods	374
	3,612
Balance at end of year	₱1,128

MERALCO also applied against its Output *VAT* the amount of *VAT* withheld on payments to non-residents for services rendered in the Philippines of ₱5.0 million which are duly supported by *BIR* Form 1600.

Documentary Stamp Tax or DST

DST paid in 2014 amounted to ₱128.5 million which includes the *DST* of the bonds issued in 2013 amounting to ₱92.5 million.

Withholding Taxes

The amount of withholding taxes in 2014 amounted to the following:

	Amount (In Millions)
Tax on compensation and benefits	₱1,802
Expanded withholding taxes	2,971
Final withholding taxes	365

Local Taxes

The amount of national and local taxes paid in 2014 are as follows:

	Amount (In Millions)
Local franchise tax	₱1,573
Fringe benefit tax	692
Energy tax	160
Real property taxes	96



Tax Assessments

MERALCO does not have any pending assessments for deficiency taxes as at December 31, 2014.

Tax Cases

MERALCO's tax cases as at December 31, 2014 are discussed in *Note 28 – Contingencies and Legal Proceedings*.

33. Subsequent Event

On February 23, 2015, the *BOD* of *MERALCO* approved a final cash dividend of ₱8.49 per share to all shareholders of record as at March 23, 2015, payable on April 15, 2015.





Consolidated Changes in ACGR for 2014

Note: Changes/updates made in 2014 are in blue font.

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A. BOARD MATTERS

1) BOARD OF DIRECTORS

Number of Directors per Articles of Incorporation	11
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Actual number of Directors for the year	11
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(a) **Composition of the Board**

(Updated based on May 27, 2014 PSE/SEC 17-C Disclosures on SEC 17-C (Results of the Annual Meeting of the Stockholders' and Organizational Meeting of the Board of Directors 2014)

<http://corporate-downloadables-sec-filings.s3.amazonaws.com/784ca9c1ee3b19351c55676d7fd3d565.pdf>

Director's Name	Type [Executive (ED), Non- Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID) ¹	Elected when (Annual /Special Meeting)	No. of years served as director ²
Ray C. Espinosa	ED	Beacon Electric Asset Holdings, Inc	Beacon Electric Asset Holdings, Inc	05/26/2009	05/27/2014	AGM	5 years
Jose Ma. K. Lim	NED	Beacon Electric Asset Holdings, Inc	Beacon Electric Asset Holdings, Inc	05/29/2012	05/27/2014	AGM	2 years
Manuel M. Lopez	NED	Beacon Electric Asset Holdings, Inc	Beacon Electric Asset Holdings, Inc	04/14/1986	05/27/2014	AGM	28 years
Artemio V. Panganiban	ID	None	Mark Dennis Y.C. Joven	05/27/2009	05/27/2014	AGM	5 years
Manuel V. Pangilinan	NED	Beacon Electric Asset Holdings, Inc	Beacon Electric Asset Holdings, Inc	05/26/2009	05/27/2014	AGM	5 years
Oscar S. Reyes	ED	Beacon Electric	Beacon Electric Asset	07/01/2010	05/27/2014	AGM	4 years

		Asset Holdings, Inc	Holdings, Inc				
Pedro E. Roxas	ID	None	Mark Dennis Y.C. Joven	05/25/2010	05/27/2014	AGM	4 years
James L. Go	NED	JG Summit Holdings, Inc.	JG Summit Holdings, Inc.	12/16/2013	05/27/2014	AGM	1 year
Lance Y. Gokongwei	NED	JG Summit Holdings, Inc.	JG Summit Holdings, Inc.	12/16/2013	05/27/2014	AGM	1 year
John L. Gokongwei, Jr. ³	NED	JG Summit Holdings, Inc.	JG Summit Holdings, Inc.	03/31/2014	05/27/2014	AGM	9 months
Napoleon L. Nazareno ^{3,4}	NED	Beacon Electric Asset Holdings, Inc	Beacon Electric Asset Holdings, Inc	05/26/2009	05/27/2014	AGM	9 months

¹ Reckoned as of December 31, 2014.

² Since first appointment until December 31, 2014.

³ Mr. Ramon S. Ang and Atty. Estelito P. Mendoza resigned and were replaced by Messrs. John L. Gokongwei, Jr. and Napoleon L. Nazareno effective March 31, 2014.

⁴ Mr. Nazareno was first elected during the May 26, 2009 Annual General Meeting (AGM) and replaced in the May 29, 2012 AGM until he was re-elected on March 31, 2014 and on the May 27, 2014 AGM.

Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

As defined in the Company's Manual of Corporate Governance, the following decisions require Board approval:

- a. all principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries;
- b. any temporary disqualification of a director recommended by the Nomination and Governance Committee;
- c. Board Committee membership appointments, including Committee chairmanships;
- d. establishment of and changes to financial, accounting and treasury policies;
- e. all major financing transactions of the Company;
- f. issuance of shares and shares repurchases, valuation of shares, and other such activities involving existing shares;
- g. Company's corporate plans and budgets;
- h. major contracts and variations;
- i. proposals for dividends and transfers to reserve;
- j. financing guarantees and indemnities and mortgaging of the Company's assets;

- k. any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company;
- l. guarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval;
- m. corporate expansion projects or programs
- n. capitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;
- o. proposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment; and
- p. action for violation of the Revised Manual of Corporate Governance.

The Company adheres to the principles of integrity, accountability, fairness, and transparency as the cornerstone of its governance policy in its continuing advocacy to inculcate an ethical culture within to promote the best interest of the Company, its shareholders, employees, customers, suppliers and other stakeholders.

In line with this, the Company's BOD has approved the following CG Policies:

- [Revised Manual of Corporate Governance](#)
- Code of Ethics
- Conflict of Interest Policy
- [Revised Insider Trading Policy](#)
- Whistleblowing Policy
- Policy on Solicitation and Acceptance of Gifts
- Supplier Business Conduct Policy
- Related Party Transaction Policy
- Policy on Continuing Education of the Board

These CG policies provide for the following:

TREATMENT OF ALL SHAREHOLDERS

The Company believes that its shareholders, including those in the minority, are its principals and makes every effort to protect their investment and treat them equally and fairly. All shareholders are given the opportunity to exercise their basic rights as described in the Company's Manual of Corporate Governance, the Philippine Corporation Code, Securities and Regulations Code and other relevant laws.

The Company's shareholders, including those in the minority, are given the opportunity to exercise their basic rights with respect to the following:

- a) Changes and/or amendments to the company's Articles of Incorporation and By-laws;
- b) Sale, purchase and/or transfer of a significant share of corporate assets, that may result in a change in the character of the Company;
- c) Authorization for the issuance of additional shares of the Company;
- d) Opportunity to nominate candidates for membership in the BOD.
- e) Opportunity to elect individually the members of the BOD. The Notice of AGM, being sent to all shareholders include the profiles of all nominees for seats in the Board of Directors such as age, qualifications and experience, date of first appointment to the Board of the company, and directorships in other publicly listed corporations (or subsidiaries, whether listed or non-listed, within our group of companies) Non-controlling shareholders are also encouraged to exercise their right to vote and elect the Company's BOD.
- f) Approval of the remuneration of all non-executive Directors (members of the Board).
- g) Appointment of the external auditor. The Notice of AGM clearly identifies the external auditor seeking appointment and the same were duly appointed by the shareholders.

For the further protection of the rights of the minority shareholders, the following are also provided:

- a) Pre-emptive right
- b) Right of inspection
- c) Appraisal right
- d) Right to dividends

Disclosure Duties

The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders. All material information may include: earnings results, acquisition or disposition of assets, board changes, related party transactions, shareholdings of directors, changes in ownership, remuneration (including stock options) of all directors and senior management, corporate strategy, and off balance sheet transactions.

All disclosed information may be released via the approved stock exchange procedure for Company announcements as well as through the annual report. The Company shall cause the filing of all required information for the interest of the stakeholders.

In cases of acquisition of corporate control in the capital markets and other extraordinary transactions such as mergers and sales of substantial portions of the corporate assets the Company, through its BOD, will appoint an independent party to evaluate the fairness of the transaction. The Company will also fully disclose such transactions, report on fair value and other terms and conditions, for better understanding by shareholders of their rights and course of action.

In addition, shareholders, including minority shareholders, are also given accurate, timely, complete and transparent updates of relevant events through the Company's website (www.meralco.com.ph), the contents of which are in the English language. Included in these regular updates are the products and service offerings of the Company, business operations and locations, business offices contact numbers, shareholdings and corporate structures, corporate vision, mission and objectives. The website also provides downloadable copies of the Company's Articles of Incorporation, By-laws, Manual of Corporate Governance, Annual Reports issued in the last five years, Financial Reports of the last three years, Notice of AGM, Information Statements, and other relevant Company disclosures, governance policies, rules and regulations.

Board Responsibilities

The Board of Directors is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management. The Board should establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance. A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness.

Specific Duties and Functions

To ensure a high standard of best practice for the Company and its stakeholders, the Board shall:

- a) Adopt a process of selection to ensure a mix of competent directors and officers and oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;
- b) Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance;
- c) Ensure that the Company complies with all relevant laws, regulations and endeavor to adopt best business practices;
- d) Identify the Company's major and other stakeholders and oversee Management's formulation and implementation of the Company's policy on communicating or relating with them through an effective investor relations program and other appropriate communication programs;
- e) Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness;
- f) Provide oversight with regard to enterprise risk management;
- g) Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- h) Ensure that the Company establishes appropriate policies and procedures in accordance with this Revised Manual and applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions;
- i) Constitute Board Committees, including an Audit Committee, that it deems necessary to assist the Board in the performance of its duties and responsibilities;

- j) Consider the creation and maintenance of an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable;
- k) Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;
- l) Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing law, rules and regulation; and
- m) Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably, shall act as Compliance Officer.

Please refer to attached **Annex A** for the full copy of the [Company's Revised Manual of Corporate Governance which was also submitted and disclosed to SEC last July 28, 2014.](#)

How often does the Board review and approve the vision and mission?

[The Board conducted the review of the Company vision and mission during the financial year of 2014, simultaneously with their annual strategy and business plan exercise for the Company. The Board reviews and approves the vision and mission annually.](#)

[The Board monitors/oversees the implementation of the corporate strategy. The Board works together to define objectives for a 12-month period, and most importantly, solicits the commitment of the whole Company to ensure the successful accomplishment of plans. The Board comes up with a basis for setting priorities, monitoring progress as well as for assessing results and impact.](#)

[The monitoring and overseeing of corporate strategy helps assure that our Company remains responsive to the requirements of our customers, regulators, shareholders and other stakeholders.](#)

(b) Directorship in Other Companies

(i) Directorship in the Company's Group¹

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Ray C. Espinosa	Meralco PowerGen Corporation	Non-Executive

¹ The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

Jose Ma. K. Lim	Meralco PowerGen Corporation	Non-Executive
Manuel M. Lopez	Indra Phils., Inc.	Chairman
Manuel V. Pangilinan	Meralco PowerGen Corporation	Chairman
Oscar S. Reyes	Meralco PowerGen Corporation	Executive
	Redondo Peninsula Energy, Inc.	Chairman
	Meralco Industrial Engineering Services, Inc.	Chairman
	Meralco Energy, Inc.	Chairman
	CIS Bayad Center, Inc.	Chairman
	Republic Surety & Insurance Company, Inc.	Non-Executive

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the Company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Ray C. Espinosa	Lepanto Consolidated Mining Company	Non-executive
	Metro Pacific Investments Corporation	Non-executive
	Philippine Long Distance Telephone Company	Non-executive
James L. Go	Oriental Petroleum and Minerals Corp.	Chairman, Executive (Chief Executive Officer)
	JG Summit Holdings, Inc.	Chairman, Executive (Chief Executive Officer)
	Robinsons Retail Holdings, Inc.	Vice Chairman, Executive (Deputy Chief Executive Officer)
	Universal Robina Corporation	Chairman
	Robinsons Land Corporation	Chairman
	Philippine Long Distance Telephone Company	Non-executive
	Cebu Air, Inc.	Non-executive
John L. Gokongwei, Jr.	JG Summit Holdings, Inc	Chairman Emeritus, Non-Executive
	Universal Robina Corporation	Chairman Emeritus, Non-Executive
	Robinsons Land Corporation	Chairman Emeritus, Non-Executive

	A. Soriano Corporation	Non-Executive
	Cebu Air, Inc.	Non-Executive
	Oriental Petroleum and Minerals Corporation	Non-Executive
Lance Y. Gokongwei	Robinsons Land Corporation	Vice Chairman, Executive (Chief Executive Officer)
	JG Summit Holdings, Inc.	Executive (President and Chief Operating Officer)
	Cebu Air Inc.	Executive (President and Chief Executive Officer)
	Universal Robina Corporation	Executive (President and Chief Operating Officer)
	Robinsons Retail Holdings, Inc.	Vice Chairman, Non-executive
	Oriental Petroleum and Minerals Corp.	Vice Chairman, Non-executive
Jose Ma. K. Lim	Metro Pacific Investments Corporation	Executive (President and CEO)
Manuel M. Lopez	Rockwell Land Corporation	Chairman, Non-executive
	Lopez Holdings Corporation	Chairman, Executive (CEO)
	First Philippine Holdings Corporation	Vice Chairman, Non-executive
	ABS-CBN Corporation	Non-executive
	ABS-CBN Holdings Corporation	Non-executive
Napoleon L. Nazareno	Philippine Long Distance Telephone Company	Executive (President and Chief Operating Officer)
Artemio V. Panganiban	GMA Network, Inc.	Independent
	First Philippine Holdings Corporation	Independent
	Metro Pacific Investments Corporation	Independent
	Robinsons Land Corporation	Independent
	GMA Holdings, Inc.	Independent
	Petron Corporation	Independent
	Bank of the Philippine Islands	Independent
	Philippine Long Distance Telephone Company	Independent
	Jollibee Foods Corporation	Non-executive
	Asian Terminals, Inc.	Independent
Manuel V. Pangilinan	Philippine Long Distance Telephone Company	Chairman
	Metro Pacific Investments Corporation	Chairman
	Philex Mining Corporation	Chairman
	First Pacific Company Limited (Hongkong)	Executive (CEO and Managing Director)
Oscar S. Reyes	Bank of the Philippine Islands	Independent

	Manila Water Company	Independent
	Ayala Land, Inc.	Independent
	Philippine Long Distance Telephone Company	Non-executive
	Pepsi Cola Products Philippines, Inc.	Chairman, Independent
	Basic Energy Corporation	Independent
Pedro E. Roxas	Roxas Holdings, Inc.	Chairman
	Roxas and Company, Inc.	Chairman, Executive (President and CEO)
	Philippine Long Distance Telephone Company	Independent

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders* in the Company and/or in its Group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Ray C. Espinosa	Beacon Electric Asset Holdings, Inc	Director
James L. Go	JG Summit Holdings, Inc.	Chairman, Executive (Chief Executive Officer)
Lance Y. Gokongwei	JG Summit Holdings, Inc.	Director, Executive (President and Chief Operating Officer)
Jose Ma. K. Lim	Beacon Electric Asset Holdings, Inc	Director
Estelito P. Mendoza	San Miguel Corporation	Director
Manuel V. Pangilinan	Beacon Electric Asset Holdings, Inc	Chairman of the Board

*We interpret significant shareholders as those with 5% and above shareholdings in the Company, following the disclosure on Beneficial Ownerships.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

The Company has not yet set a limit, although the Company's Revised Manual of Corporate Governance provides that The Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient

performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)

For the Company's CEO and other executives, they may be covered by a lower indicative limit for directorships in boards of other companies. For the independent or non-executive directors who at the same time serve as full time executives in other companies, a similar limit may be set.

	Guidelines	Maximum Number of Directorships in other companies
Executive Director	The Company has not set a limit, although the Company's Revised Manual of Corporate Governance provides that the Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)	The Company has not set a limit, although the Company's Revised Manual of Corporate Governance provides that the Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)
Non-Executive Director	The Company has not set a limit, although the Company's Revised Manual of Corporate Governance provides that the Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)	The Company has not set a limit, although the Company's Revised Manual of Corporate Governance provides that the Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)
CEO	The Company has not set a limit, although the Company's Revised Manual of Corporate Governance provides that the Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)	The Company has not set a limit, although the Company's Revised Manual of Corporate Governance provides that the Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company. (Part I. Board Governance, Section 3.0 Multiple Board Seats)

(c) **Shareholding in the Company**

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares*	Number of Indirect shares / Through (name of record owner)*	% of Capital Stock (1,127,098,705)**
Ray C. Espinosa	21,000	0	0.00%
James L. Go	10	0	0.00%
John L. Gokongwei, Jr.	10	0	0.00%
Lance Y. Gokongwei	10	0	0.00%
Jose Ma. K. Lim	10	0	0.00%
Manuel M. Lopez	2,445,411	0	0.22%
Napoleon L. Nazareno	1,210	0	0.00%
Artemio V. Panganiban	1	0	0.00%
Manuel V. Pangilinan	25,000	0	0.00%
Oscar S. Reyes	268	0	0.00%
Pedro E. Roxas	1,000	0	0.00%
TOTAL		2,493,930	0.22%
* Based on the Disclosure: Public Ownership Level as of December 31, 2014 at http://corporate-downloadables-sec-filings.s3.amazonaws.com/1426239108.eb995eb7ed7e828ccc40ce3d1fdf7999.pdf			

2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☒

No ☐

Identify the Chair and CEO:

Chairman of the Board	Manuel V. Pangilinan
CEO/President	Oscar S. Reyes

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	CEO/Executive Director	Chairman	Independent and Non-Executive Directors
Role	<p>The Board of Directors is primarily responsible for the governance of the Company. They monitor/oversee the implementation of the corporate strategy.</p> <p>The Executive Director presents the Company's performance to the Board. He serves as the link between the Management and the Board. Executive directors have a dual role as officers of the company and as directors.</p> <p>As defined in the Company's Manual of Corporate Governance, the following decisions require Board approval:</p> <ul style="list-style-type: none"> q. all principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries; r. any temporary disqualification of a director recommended by the Nomination and Governance Committee; s. Board Committee membership appointments, including Committee chairmanships; 	<p>The Chairman leads the Board and ensures that the Board works effectively and performs its duties responsibly.</p> <p>The Board of Directors is primarily responsible for the governance of the Company. They monitor/oversee the implementation of the corporate strategy. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.</p> <ul style="list-style-type: none"> a. The Board should establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance. b. A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness. <p>To ensure a high standard of best practice for the Company and its stakeholders, the Board shall:</p> <ul style="list-style-type: none"> a. Adopt a process of selection to ensure a mix of competent directors 	<p>Independent directors are not directors or officers of the Company or of its related companies or any of its substantial shareholders except when the same shall be independent directors of any of the foregoing.</p> <p>Independent directors have not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by themselves and/or with other persons and or through a firm of which they are partners and/or a Company of which they are directors or substantial shareholders.</p> <p>The Board of Directors is primarily responsible for the governance of the Company. They monitor/oversee the implementation of the corporate strategy.</p>

	<ul style="list-style-type: none"> t. establishment of and changes to financial, accounting and treasury policies; u. all major financing transactions of the Company; v. issuance of shares and shares repurchases, valuation of shares, and other such activities involving existing shares; w. Company's corporate plans and budgets; x. major contracts and variations; y. proposals for dividends and transfers to reserve; z. financing guarantees and indemnities and mortgaging of the Company's assets; aa.any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company; bb. uarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval; cc. corporate expansion projects or programs dd. 	<p>and officers and oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;</p> <ul style="list-style-type: none"> b. Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance; c. Ensure that the Company complies with all relevant laws, regulations and endeavor to adopt best business practices; d. Identify the Company's major and other stakeholders and oversee Management's formulation and implementation of the Company's policy on communicating or relating with them through an effective investor relations program and other appropriate communication programs; e. Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness; f. Provide oversight with regard to enterprise risk management; g. Identify key risk areas and key performance indicators and monitor these factors with due diligence; 	<p>Independent Directors perform the same roles, duties and responsibilities of Non-Executive Directors, as discussed further below.</p> <p>However, Independent Directors play crucial role in ensuring that the board appropriate scrutiny over management and shareholders (in their capacity as owners of the company). They are individuals who do not maintain close ties with the management and expected to ensure potential conflict of interests between managers and shareholders are avoided or prevented.</p> <p>They are likewise expected to be able to provide independent judgment and outside experience and objectivity, not subordinated to operational considerations, on all issues which come before the Board.</p> <p>Independent Directors, as much as possible, are to be in attendance during Board meetings to promote transparency.</p> <p>Corollary to setting the policies for the accomplishment of the</p>
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	<p>apitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;</p> <p>ee. roposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment; and</p> <p>ff. action for violation of the Revised Manual of Corporate Governance.</p>	<p>h. Ensure that the Company establishes appropriate policies and procedures in accordance with this Revised Manual and applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions;</p> <p>i. Constitute Board Committees, including an Audit Committee, that it deems necessary to assist the Board in the performance of its duties and responsibilities;</p> <p>j. Consider the creation and maintenance of an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable;</p> <p>k. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;</p> <p>l. Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing law, rules and regulation; and</p> <p>m. ppoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the</p>	<p>corporate objectives, it shall provide an independent check on Management.</p> <p>a. The Board should establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance.</p> <p>b. A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness.</p> <p>To ensure a high standard of best practice for the Company and its stakeholders, the Board shall:</p> <p>a. Adopt a process of selection to ensure a mix of competent directors and officers and oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;</p> <p>b. Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital</p>
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		<p>Corporate Secretary, preferably, shall act as Compliance Officer.</p> <p>As defined in the Company's Manual of Corporate Governance, the following decisions require Board approval:</p> <ul style="list-style-type: none"> a. all principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries; b. any temporary disqualification of a director recommended by the Nomination and Governance Committee; c. Board Committee membership appointments, including Committee chairmanships; d. establishment of and changes to financial, accounting and treasury policies; e. all major financing transactions of the Company; f. issuance of shares and shares repurchases, valuation of shares, and other such activities involving existing shares; g. Company's corporate plans and budgets; h. major contracts and variations; i. proposals for dividends and transfers to reserve; j. financing guarantees and 	<p>expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance;</p> <ul style="list-style-type: none"> c. Ensure that the Company complies with all relevant laws, regulations and endeavor to adopt best business practices; d. Identify the Company's major and other stakeholders and oversee Management's formulation and implementation of the Company's policy on communicating or relating with them through an effective investor relations program and other appropriate communication programs; e. Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness; f. Provide oversight with regard to enterprise risk management; g. Identify key risk areas and key performance indicators and monitor these factors with due diligence; h. Ensure that the Company establishes appropriate policies and procedures in accordance with this Revised Manual and
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		<p>indemnities and mortgaging of the Company's assets;</p> <p>k. any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company;</p> <p>l. guarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval;</p> <p>m. corporate expansion projects or programs</p> <p>n. capitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;</p> <p>o. proposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment; and</p> <p>p. action for violation of the Revised Manual of Corporate Governance.</p>	<p>applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions;</p> <p>i. Constitute Board Committees, including an Audit Committee, that it deems necessary to assist the Board in the performance of its duties and responsibilities;</p> <p>j. Consider the creation and maintenance of an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable;</p> <p>k. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;</p> <p>l. Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing law, rules and regulation; and</p> <p>m. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary,</p>
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			<p>preferably, shall act as Compliance Officer.</p> <p>As defined in the Company's Manual of Corporate Governance, the following decisions require Board approval:</p> <ul style="list-style-type: none"> a. all principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries; b. any temporary disqualification of a director recommended by the Nomination and Governance Committee; c. Board Committee membership appointments, including Committee chairmanships; d. establishment of and changes to financial, accounting and treasury policies; e. all major financing transactions of the Company; f. issuance of shares and shares repurchases, valuation of shares, and other such activities involving existing shares; g. Company's corporate plans and budgets; h. major contracts and variations; i. proposals for dividends and
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			<p>transfers to reserve;</p> <p>j. financing guarantees and indemnities and mortgaging of the Company's assets;</p> <p>k. any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company;</p> <p>l. guarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval;</p> <p>m. corporate expansion projects or programs</p> <p>n. capitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;</p> <p>o. proposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment; and</p> <p>p. action for violation of the Revised Manual of Corporate Governance.</p>
Accountabilities	The executive director is accountable to	The Board, as led by the Chairman, shall	Independent directors likewise

	<p>the shareholders of the Company as they are involved in the day-to-day activities of the Company and are responsible for execution of business strategies and plans.</p>	<p>ensure that stockholders are provided with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.</p> <p>The Chairman also attends to the following accountabilities:</p> <p>Presiding in Annual meetings of the stockholders and the Board.</p> <p>Supervise the preparation of the agenda of each meeting in coordination with the Corporate Secretary, taking into consideration the proposals of the CEO, Management and Directors of the Company.</p> <p>Assist in assuring compliance with and performance of the corporate governance policies and practices.</p> <p>Ensure that Board meetings are held in accordance with the By-Laws and the annual schedule previously approved by the Board.</p> <p>Ensure that the lines of communication</p>	<p>share the same accountability to the shareholders. They are expected to maintain their independence from Management and exercise independent judgment in carrying out their responsibilities as director of the Company. As Independent Directors, as much as possible, they should be in attendance during board meetings to promote transparency.</p>
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		and flow of information between Management and the Board are maintained	
Deliverables	The Executive Director presents a monthly update on the progress of Management in achieving set goals and targets, report major opportunities and potential risks and provide any information the Board requires concerning the business operations of the Company.	The Non-Executive directors support the Board by attending and participating in all Board and committee meetings in order to fulfill their accountabilities. They will give independent perspective in their oversight function and engagement of Management. They will help ensure that Management formulates and implements sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance. Ensure that appropriate policies and procedures are adopted in accordance with this Revised Manual and applicable laws and regulations, including conflict of interest and related party transactions, among others.	The Independent directors, being chairmen of the Nomination and Governance Committee and the Audit Committee, lead the programs and policy formulation in these respective committees.

Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

The Company's Board and the Board 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 Chairman of the Board and of the Remuneration and Leadership Committee, the President and 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 the Company's succession planning process are the talent reviews that are conducted at Senior Management and at various levels in the organization. Currently, this has resulted in a pool of internal candidates, in addition to external candidates who, may be identified, and subject to the realization of their development plans, could become management committee level within the next 5 years.

The talent reviews have been a hallmark of our process and is a best in class talent management practice. The process deliverables are individual development plans designed to bring the key talent to their next level of growth and performance and/or realize their career aspirations. It involves authentic and extensive management discussions and deliberations by leaders of these key talents on their aspirations, strengths, development needs and challenges.

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

3) OTHER EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTORS

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

YES. The Board, through the Nomination and Governance Committee (Nom&Gov), screens and shortlists qualified individuals nominated for election as Directors to ensure a mix of competent directors and officers. To encourage diversity, Board members are selected without regard to their gender, race, religion, or age, as stated in the Company's Revised Manual of Corporate Governance.

Does it ensure that at least one non-executive director has experience in the sector or industry the company belongs to? Please explain.

YES. 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 and CEO of the Company in different periods from 2001 to 2010.

4) Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors

	Executive	Non-Executive	Independent Director
Role	The Executive Director presents the Company's performance to the Board. He serves as	The Board of Directors is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management. c. The Board should establish the Company's vision,	Independent directors are not directors or officers of the Company or of its related companies or any of its substantial shareholders except when the same shall be

	<p>the link between the Management and the Board. Executive directors have a dual role as officers of the company and as directors.</p>	<p>mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance.</p> <p>d. A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness.</p> <p>To ensure a high standard of best practice for the Company and its stakeholders, the Board shall:</p> <p>n. Adopt a process of selection to ensure a mix of competent directors and officers and oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;</p> <p>o. Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance;</p> <p>p. Ensure that the Company complies with all relevant laws, regulations and endeavor to adopt best business practices;</p> <p>q. Identify the Company's major and other stakeholders and oversee Management's formulation and implementation of the Company's policy on communicating or relating with them through an effective investor relations program and other appropriate communication programs;</p> <p>r. Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness;</p> <p>s. Provide oversight with regard to enterprise risk management;</p>	<p>independent directors of any of the foregoing.</p> <p>Independent directors have not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by themselves and/or with other persons and or through a firm of which they are partners and/or a Company of which they are directors or substantial shareholders.</p> <p>Independent Directors perform the same roles, duties and responsibilities of Non-Executive Directors.</p> <p>However, they play crucial role in ensuring that the board appropriate scrutiny over management and shareholders (in their capacity as owners of the company). They are individuals who do not maintain close ties with the management and expected to ensure potential conflict of interests between managers and shareholders are avoided or prevented.</p> <p>They are likewise expected to be able to provide independent judgment and</p>
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		<ul style="list-style-type: none"> t. Identify key risk areas and key performance indicators and monitor these factors with due diligence; u. Ensure that the Company establishes appropriate policies and procedures in accordance with this Revised Manual and applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions; v. Constitute Board Committees, including an Audit Committee, that it deems necessary to assist the Board in the performance of its duties and responsibilities; w. Consider the creation and maintenance of an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable; x. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted; y. Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing law, rules and regulation; and z. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably, shall act as Compliance Officer. 	<p>outside experience and objectivity, not subordinated to operational considerations, on all issues which come before the Board.</p> <p>Independent Directors, as much as possible, are to be in attendance during Board meetings to promote transparency.</p> <p>In addition to these, the following are expectations from Independent Directors:</p> <ul style="list-style-type: none"> a. Providing clearer and wider view of external factors affecting the Company and its environment as input to Strategic Planning. b. Non-bias and objective monitoring of the performance of executive management, especially in the achievement of the Company goals and strategies. c. Help connect the Company's business and the Board with networks of potentially useful people and organizations. d. They are expected to provide the true and fair reflection of the Company's actions and financial performance and that the necessary internal controls are in-placed and regularly assessed and monitored.
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			Currently, the Company's Independent Directors are appointed as Chairpersons of Nomination and Governance Committee, and Audit Committee.
Accountabilities	The executive director is accountable to the shareholders of the Company as they are involved in the day-to-day activities of the Company and are responsible for execution of business strategies and plans.	The Board shall ensure that stockholders are provided with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.	Independent directors likewise share the same accountability to the shareholders. They are expected to maintain their independence from Management and exercise independent judgment in carrying out their responsibilities as director of the Company. As Independent Directors, as much as possible, they should be in attendance during board meetings to promote transparency.
Deliverables	The Executive Director presents a monthly update on the progress of Management in achieving set goals and targets, report major opportunities and potential risks and provide any information the Board requires concerning the business operations of the Company.	The Non-Executive directors support the Board by attending and participating in all Board and committee meetings in order to fulfill their accountabilities. They will give independent perspective in their oversight function and engagement of Management. They will help ensure that Management formulates and implements sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance. Ensure that appropriate policies and procedures are adopted in accordance with this Revised Manual and applicable laws and regulations, including conflict of interest and related party transactions, among others.	The Independent directors, being chairmen of the Nomination and Governance Committee and the Audit Committee, lead the programs and policy formulation in these respective committees.

Provide the company's definition of "independence" and describe the company's compliance to the definition.

Independence is defined as having no business or other relationship with the Company that could reasonably be perceived to materially interfere with the exercise of independent director's judgment in carrying out his responsibilities as a director. Our independent directors, namely, Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas have no business or other relationship with the Company which may interfere with the exercise of their judgment in carrying out their responsibilities as independent directors.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company's By-Laws states that the Board of Directors shall serve within the limits at the time provided by law, as may from time to time be determined or elected by stockholders of the corporation entitled to do so, at a regular or special meeting of such stockholders, at which a quorum shall be present. (Source: By-Laws, Article II Board of Directors, Section I. Election)

CHANGES IN THE BOARD OF DIRECTORS (EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTORS)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
Ramon S. Ang	Non-Executive Director	March 31, 2014	Resignation
Estelito Mendoza	Non-Executive Director	March 31, 2014	Resignation
Based on the Disclosure on the Results of the Board Meeting held on March 31, 2014 http://corporate-downloadables-sec-filings.s3.amazonaws.com/dfec7b6145fdcbdd20792bb192f972e8.pdf			

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
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a. Selection/Appointment		
(i) Executive Directors	As prescribed by the Company's By-laws, all members of the BOD are elected by the shareholders during the AGM meeting. The Nomination and Governance Committee (Nom&Gov) undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions and prepares the final lists of candidates which are made available to the SEC and to all stockholders through the filing and distribution of the Information Statements. Members of Nom&Gov are guided by the criteria set in the Company's Manual.	<ul style="list-style-type: none"> a. Shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. b. Possesses college education or the skills needed to effectively carry out his functions as director. c. Possesses integrity/probity; and d. Has strong adherence to legal and moral principles. e. A director must have a practical understanding of business in general and of the business of the Company, in particular. f. The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.
(ii) Non-Executive Directors	As prescribed by the Company's By-laws, all members of the BOD are elected by the shareholders during the AGM meeting. The Nomination and Governance Committee (Nom&Gov) undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions and prepares the final lists of candidates which are made available to the SEC and to all stockholders through the filing and distribution of the Information Statements. Members of Nom&Gov are guided by the criteria set in the Company's Manual.	<ul style="list-style-type: none"> a. Shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. b. Possesses college education or the skills needed to effectively carry out his functions as director. c. Possesses integrity/probity; and d. Has strong adherence to legal and moral principles. e. A director must have a practical understanding of business in general and of the business of the Company, in particular. f. The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.
(iii) Independent Directors	As prescribed by the Company's By-laws, all members of the BOD are elected by the shareholders during the AGM meeting.	<ul style="list-style-type: none"> a. Shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company.

	<p>The Nomination and Governance Committee (Nom&Gov) undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions and prepares the final lists of candidates which are made available to the SEC and to all stockholders through the filing and distribution of the Information Statements. Members of Nom&Gov are guided by the criteria set in the Company's Manual.</p>	<ul style="list-style-type: none"> b. Possesses college education or the skills needed to effectively carry out his functions as director. c. Possesses integrity/probity; and d. Has strong adherence to legal and moral principles. e. A director must have a practical understanding of business in general and of the business of the Company, in particular. f. The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto. g. The criteria under the Company's Revised Manual of Corporate Governance: The ID must be Independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgment in carrying out his responsibilities as a director in the Company and includes, among others, any person who: (a) Is not a director or officer of the Company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing; (b) Does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders; (c) Is not related to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister; (d) Is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement; (e) Has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last two (2) years; (f) Is not retained, either personally
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		<p>or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; (g) Has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and or through a firm of which he is a partner and/or a Company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial; (h) Is not the chairman emeritus or an ex-officio director/officer or a member of the advisory board of the Company, or otherwise appointed in a capacity to assist the Board of the Company in the performance of its duties and responsibilities within the last one (1) year; (i) Is not a director (other than an independent director) of the Company who resigned or whose term ended within the last two (2) years; and (j) Is not a securities broker-dealer or a person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.</p>
b. Re-appointment		
(i) Executive Directors	<p>As prescribed by the Company's By-laws, all members of the BOD are elected by the shareholders during the AGM meeting. The Nomination and Governance Committee (Nom&Gov) undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions and prepares the final lists of candidates which are made available to the SEC and to all stockholders</p>	<ul style="list-style-type: none"> a. Shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. b. Possesses college education or the skills needed to effectively carry out his functions as director. c. Possesses integrity/probity; and d. Has strong adherence to legal and moral principles. e. A director must have a practical understanding of business in general and of the business of the Company, in particular. f. The Nomination and Governance Committee may consider and

	through the filing and distribution of the Information Statements. Members of Nom&Gov are guided by the criteria set in the Company's Manual.	recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.
(ii) Non-Executive Directors	As prescribed by the Company's By-laws, all members of the BOD are elected by the shareholders during the AGM meeting. The Nomination and Governance Committee (Nom&Gov) undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions and prepares the final lists of candidates which are made available to the SEC and to all stockholders through the filing and distribution of the Information Statements. Members of Nom&Gov are guided by the criteria set in the Company's Manual.	<ul style="list-style-type: none"> a. Shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. b. Possesses college education or the skills needed to effectively carry out his functions as director. c. Possesses integrity/probity; and d. Has strong adherence to legal and moral principles. e. A director must have a practical understanding of business in general and of the business of the Company, in particular. f. The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.
(iii) Independent Directors	As prescribed by the Company's By-laws, all members of the BOD are elected by the shareholders during the AGM meeting. The Nomination and Governance Committee (Nom&Gov) undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions and prepares the final lists of candidates which are made available to the SEC and to all stockholders through the filing and distribution of the Information Statements. Members of Nom&Gov are guided by the criteria set in the Company's Manual.	<ul style="list-style-type: none"> a. Shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. b. Possesses college education or the skills needed to effectively carry out his functions as director. c. Possesses integrity/probity; and d. Has strong adherence to legal and moral principles. e. A director must have a practical understanding of business in general and of the business of the Company, in particular. f. The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto. g. The criteria under the Company's Revised Manual of Corporate Governance: The ID must be Independent of Management and

		<p>free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgment in carrying out his responsibilities as a director in the Company and includes, among others, any person who: (a) Is not a director or officer of the Company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing; (b) Does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders; (c) Is not related to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister; (d) Is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement; (e) Has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last two (2) years; (f) Is not retained, either personally or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; (g) Has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and or through a firm of which he is a partner and/or a Company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial; (h) Is not the chairman emeritus or an ex-officio director/officer or a member of the advisory board of the</p>
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		<p>Company, or otherwise appointed in a capacity to assist the Board of the Company in the performance of its duties and responsibilities within the last one (1) year; (i) Is not a director (other than an independent director) of the Company who resigned or whose term ended within the last two (2) years; and (j) Is not a securities broker-dealer or a person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.</p>
c. Permanent Disqualification		
(i) Executive Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board permanent disqualification of a director based on any of the criteria defined herein.</p>	<ul style="list-style-type: none"> a. Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC: b. an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts; c. any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; or d. having willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;

		<p>e. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (1) and (2) above.</p> <p>f. The disqualification shall also apply if such person: (1) is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; or (2) has otherwise been restrained to engage in any activity involving securities and banking or (3) is currently the subject or an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization.</p> <p>g. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;</p> <p>h. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; and</p> <p>i. Any person judicially declared as insolvent.</p>
(ii) Non-Executive Directors	The Nomination and Governance Committee may consider and recommend to the Board permanent disqualification of	<p>a. Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree</p>

	<p>a director based on any of the criteria defined herein.</p>	<p>or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:</p> <ul style="list-style-type: none"> b. an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts; c. any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; or d. having willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP; e. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (1) and (2) above. f. The disqualification shall also apply if such person: (1) is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or
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		<p>BSP, or under any rule or regulation issued by the SEC or BSP; or (2) has otherwise been restrained to engage in any activity involving securities and banking or (3) is currently the subject or an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization.</p> <p>g. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;</p> <p>h. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; and</p> <p>i. Any person judicially declared as insolvent.</p>
(iii) Independent Directors	The Nomination and Governance Committee may consider and recommend to the Board permanent disqualification of a director based on any of the criteria defined herein.	<p>a. Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:</p> <p>b. an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>c. any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; or</p> <p>d. having willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other</p>

		<p>law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;</p> <p>e. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (1) and (2) above.</p> <p>f. The disqualification shall also apply if such person: (1) is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; or (2) has otherwise been restrained to engage in any activity involving securities and banking or (3) is currently the subject or an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization.</p> <p>g. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;</p> <p>h. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; and</p> <p>i. Any person judicially declared as insolvent.</p>
d. Temporary Disqualification		

(i) Executive Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the criteria defined herein.</p> <p>Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.</p> <p>A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<ul style="list-style-type: none"> a. Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists. b. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election. c. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination. d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final. <p>The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.</p>
(ii) Non-Executive Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the criteria defined herein.</p> <p>Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be</p>	<ul style="list-style-type: none"> a. Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists. b. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.

	<p>approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.</p> <p>A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>c. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p> <p>e. The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.</p>
(iii) Independent Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the criteria defined herein.</p> <p>Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.</p> <p>A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or</p>	<p>a. Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists.</p> <p>b. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.</p> <p>c. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p> <p>e. The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.</p>

	refuses to do so for unjustified reasons, the disqualification shall become permanent.	
e. Removal		
(i) Executive Directors	The Board by majority vote of the members may remove or replace a director for just causes or when he possesses the disqualifications prescribed by law, rules or regulations.	<p>An executive director shall be removed from service to the Company, when during his term as a director, he:</p> <ul style="list-style-type: none"> (a) Ceases to own at least one (1) share of stock of the Company, standing in his name in the books of the Company; (b) Is convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC; (c) Commits an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts; (d) Commits any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; (e) Willfully violates, or willfully aids, abets, counsels, induces or procures the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP; (f) By reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or

		<p>administrative body of competent jurisdiction from: (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (1) and (2) above;</p> <p>(g) Becomes the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP;</p> <p>(h) Has otherwise been restrained to engage in any activity involving securities and banking;</p> <p>(i) Becomes the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization;</p> <p>(j) Is found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;</p> <p>(k) Is convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; or</p> <p>(l) Is declared as insolvent.</p>
(ii) Non-Executive Directors	The Board by majority vote of the members may remove or replace a director for just causes or when he possesses the disqualifications prescribed	<p>A non-executive director shall be removed from service to the Company, when during his term as a director, he:</p> <p>(a) Ceases to own at least one (1) share of stock of the Company, standing in his name in the books of the Company;</p>

	<p>by law, rules or regulations.</p> <p>(b) Is convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC;</p> <p>(c) Commits an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>(d) Commits any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them;</p> <p>(e) Willfully violates, or willfully aids, abets, counsels, induces or procures the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;</p> <p>(f) By reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (1) and (2) above;</p> <p>(g) Becomes the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any</p>
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		<p>registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP;</p> <p>(h) Has otherwise been restrained to engage in any activity involving securities and banking;</p> <p>(i) Becomes the subject or an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization;</p> <p>(j) Is found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;</p> <p>(k) Is convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; or</p> <p>(l) Is declared as insolvent.</p>
(iii) Independent Directors	The Board by majority vote of the members may remove or replace a director for just causes or when he possesses the disqualifications prescribed by law, rules or regulations.	<p>An independent director shall be removed from service to the Company, when during his term as a director, he:</p> <p>(a) Ceases to own at least one (1) share of stock of the Company, standing in his name in the books of the Company;</p> <p>(b) Is convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC;</p> <p>(c) Commits an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>(d) Commits any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises</p>

		<p>out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them;</p> <p>(e) Willfully violates, or willfully aids, abets, counsels, induces or procures the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;</p> <p>(f) By reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (1) and (2) above;</p> <p>(g) Becomes the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP;</p> <p>(h) Has otherwise been restrained to engage in any activity involving securities and banking;</p> <p>(i) Becomes the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization;</p>
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		<ul style="list-style-type: none"> (j) Is found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above; (k) Is convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; (l) Is declared as insolvent; or (m) Becomes an officer or employee of the Company.
f. Re-instatement		
(i) Executive Directors	The Board by majority vote of the members may re-instate a director for just causes as prescribed by law, rules or regulations.	<p>The Board may re-instate an executive director when an involvement in circumstances, such as, but not limited to the following, has been negated or a finding of involvement is overturned by a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:</p> <ul style="list-style-type: none"> (a) An offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts; (b) Any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; (c) Violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP; (d) Denied/Revoked/Suspended registration, license or permit issued to him under the Corporation Code, Securities Regulation

		<p>Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP;</p> <p>(e) Restriction to engage in any activity involving securities and banking; or</p> <p>(f) Suspension or expulsion from membership, participation or association with a member or participant of the said organization.</p>
(ii) Non-Executive Directors	<p>The Board by majority vote of the members may re-instate a director for just causes as prescribed by law, rules or regulations.</p>	<p>The Board may re-instate a non-executive director when an involvement to circumstances, such as, but not limited to the following, has been negated or a finding of involvement is overturned by a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:</p> <p>(a) An offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>(b) Any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them;</p> <p>(c) Violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;</p> <p>(d) Denied/Revoked/Suspended registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP;</p> <p>(e) Restriction to engage in any activity involving securities and banking; or</p>

		(f) Suspension or expulsion from membership, participation or association with a member or participant of the said organization.
(iii) Independent Directors	The Board by majority vote of the members may re-instate a director for just causes as prescribed by law, rules or regulations.	<p>The Board may re-instate an independent director when an involvement to circumstances, such as, but not limited to the following, has been negated or a finding of involvement is overturned by a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:</p> <ul style="list-style-type: none"> (a) An offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts; (b) Any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; (c) Violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP; (d) Denied/Revoked/Suspended registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; (e) Restriction to engage in any activity involving securities and banking; or (f) Suspension or expulsion from membership, participation or association with a member or participant of the said organization.
g. Suspension		

(i) Executive Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the criteria defined herein.</p> <p>Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.</p> <p>A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>The following are grounds for the temporary disqualification of an executive director:</p> <ol style="list-style-type: none"> Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final. The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.
(ii) Non-Executive Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the criteria defined herein.</p> <p>Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid</p>	<p>The following are grounds for the temporary disqualification of a non-executive director:</p> <ol style="list-style-type: none"> Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident.

	<p>and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.</p> <p>A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>The disqualification shall apply for purposes of the succeeding election.</p> <p>c. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p> <p>e. The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.</p>
(iii) Independent Directors	<p>The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the criteria defined herein.</p> <p>Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.</p> <p>A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or</p>	<p>The following are grounds for the temporary disqualification of an independent director:</p> <p>a. Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists.</p> <p>b. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.</p> <p>c. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p> <p>e. The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications</p>

	correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.	which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.
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Voting Result of the last Annual General Meeting (May 27, 2014)

Name of Director		Votes Received*
1.	Atty. Ray C. Espinosa	959,790,768
2.	Mr. James L. Go	959,745,507
3.	Mr. John L. Gokongwei, Jr.	960,049,415
4.	Mr. Lance Y. Gokongwei	959,998,408
5.	Mr. Jose Ma. K. Lim	959,781,064
6.	Ambassador Manuel M. Lopez	960,991,314
7.	Mr. Napoleon L. Nazareno	959,873,656
8.	(Ret.) Chief Justice Artemio V. Panganiban*	960,250,219
9.	Mr. Manuel V. Pangilinan	960,434,192
10.	Mr. Oscar S. Reyes	960,352,311
11.	Mr. Pedro E. Roxas*	959,741,490
*Independent Director		
For the Voting Results in the 2014 AGM, please see: http://corporate-downloadables-highlights-and-minutes-of-agm-2014.s3.amazonaws.com/58b00e5561eaefc532cb0d978efe95f5.pdf		

5) ORIENTATION AND EDUCATION PROGRAM

Disclose details of the company's orientation program for new directors, if any.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
James L. Go	January 13, 2014	Orientation for New Directors with following topics: 1. Meralco's Business and Overall Structure 2. Overview of the Power Industry and Industry Regulation – Industry Structure – Regulatory Agencies – Regulatory Framework – Regulatory Management	Conducted in-house

		3. Corporate Governance <ul style="list-style-type: none"> – Board Structure, Duties and Responsibilities – Board Committees – CG Policies 	
Lance Y. Gokongwei	January 13, 2014	Orientation for New Directors with following topics: <ol style="list-style-type: none"> 1. Meralco's Business and Overall Structure 2. Overview of the Power Industry and Industry Regulation <ul style="list-style-type: none"> – Industry Structure – Regulatory Agencies – Regulatory Framework – Regulatory Management 3. Corporate Governance <ul style="list-style-type: none"> – Board Structure, Duties and Responsibilities – Board Committees – CG Policies 	Conducted in-house
John L. Gokongwei, Jr.	April 2, 2014	Orientation for New Directors with following topics: <ol style="list-style-type: none"> 1. Meralco's Business and Overall Structure 2. Overview of the Power Industry and Industry Regulation <ul style="list-style-type: none"> – Industry Structure – Regulatory Agencies – Regulatory Framework – Regulatory Management 3. Corporate Governance <ul style="list-style-type: none"> – Board Structure, Duties and Responsibilities – Board Committees – CG Policies 	Conducted in-house
Note: Mr. Napoleon L. Nazareno did not attend the Orientation for New Director since he already attended such training during his term as Director of the Company during the period May 2009 until May 2012.			

(b) State any in-house training and external courses attended by Directors and Senior Management² for the past three (3) years:

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Manuel V. Pangilinan	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 19, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	December 08, 2011	Board Governance Responsibilities: Risks, Culture and Leadership conducted by PLDT's CG education program	Mr. Steven John Priest, Senior Advisor -Global Compliance Services, Inc. USA
Ray C. Espinosa	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	December 08, 2011	Board Governance Responsibilities: Risks, Culture and Leadership conducted	Mr. Steven John Priest, Senior Advisor -Global Compliance

² Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

		by PLDT's CG education program	Services, Inc. USA
Jose Ma. K. Lim	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 19, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	July 20, 2012	Meralco Orientation for New Director	Meralco Corporate Governance, Human Resources and Regulatory Management Office
	December 08, 2011	Performance, Principles and People: A Discussion with the PLDT Board of Directors	Mr. Steven John Priest, Senior Advisor -Global Compliance Services, Inc. USA
Oscar S. Reyes	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	April 1, 2014	Corporate Governance Requirements	Atty. Ma. Lourdes C. Rausa-

		Under US Laws and Regulations and the Foreign Corrupt Practices Act of 1977	Chan Chief Governance Officer PLDT Corporate Governance
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 19, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECOA)
	December 08, 2011	Board Governance Responsibilities: Risks, Culture and Leadership conducted by PLDT's CG education program	Mr. Steven John Priest, Senior Advisor -Global Compliance Services, Inc. USA
Artemio V. Panganiban	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 19, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	December 08, 2011	Board Governance Responsibilities: Risks, Culture and Leadership conducted by PLDT's CG education program	Mr. Steven John Priest, Senior Advisor -Global Compliance Services, Inc. USA

Pedro E. Roxas	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
Lance Y. Gokongwei	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	January 13, 2014	Orientation for New Directors	Meralco Key Officers
	December 22-23, 2003	Corporate Governance and Risk Management	Ateneo-BAP Institute of Banking
James L. Go	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	January 13, 2014	Orientation for New Directors	Meralco Key Officers
	December 5, 2011	Corporate Governance Seminar	Sycip, Gorres, Velayo & Co. and Knowledge Institute
John L. Gokongwei, Jr.	June 17, 2014	Corporate Governance Seminar	Sycip, Gorres, Velayo & Co.
	November 13, 2012	Accounting Standards Updates Tax Updates	Sycip, Gorres, Velayo & Co.

Napoleon L. Nazareno	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	December 2, 2013	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group, Makati Shangri-La
	November 20, 2012	Navigating the New World of Business	Speaker: Dr. Thomas Donaldson, PhD
	August 29, 2012	Effective Risk Management and Internal Controls	Presented by: Mr. Tim Clough, Mr. Keith Stephenson and Mr. Wong Hung Han Risk & Controls Solutions, PriceWaterhouseCoopers
	August 29, 2012	Corporate Governance Practices for Listed Company's Directors Under the New Listing Rules	Presented by: Ms. Cecelia Ng
	February 2-3, 2012	Future Proofing Our Business	Facilitated by: Mr. Karl Ronn and Mr. Bob Johansen
Manuel M. Lopez	September 15, 2014	Corporate Governance Seminar	Sycip, Gorres, Velayo &Co.
Ricardo V. Buencamino*	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business

	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong
Roberto R. Almazora	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society, Meralco Theater
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECO)
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Alfredo S. Panlilio	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative

	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson , The Wharton School of Business
Ramon B. Segismundo	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter , Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 19, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong
	December 01, 2011	Corporate Governance Orientation Program	Rex C. Drilon II, President and CEO, Institute of Corporate Directors (ICD)
Betty C. Siy-Yap	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker

	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECO)
	December 01, 2011	Corporate Governance Orientation Program	Rex C. Drilon II, President and CEO, Institute of Corporate Directors (ICD)
Rafael L. Andrada	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and	Gretchen A. Winter

		Techniques	Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECOA)
Ruben B. Benosa	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong

	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECOA)
Helen T. de Guzman	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong
	December 01, 2011	Corporate Governance Orientation	Good Governance Advocates and Practitioners of the Philippines (GGAPP)
	July 01, 2011	Corporate Governance Orientation	International Finance Corporation and Institute of Corporate Directors
Ivanna G. dela Peña	March 31, 2014	ASEAN Corporate Governance	Ricardo Nicanor B. Jacinto,

		Orientation	President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	December 01, 2011	Corporate Governance Orientation Program	Rex C. Drilon II, President and CEO, Institute of Corporate Directors (ICD)
William S. Pamintuan	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	November 26, 2013	Handling Ethical Dilemmas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society, Meralco Theater
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum:	Aldrin Monsod Managing, Director, Corporate

		Marching Towards Economic Sustainability	Governance Asia Hong Kong
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECO A)
Marthyn S. Cuan	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 15, 2012	Corporate Governance Asia's First Philippine International CG Forum: Marching Towards Economic Sustainability	Aldrin Monsod Managing, Director, Corporate Governance Asia Hong Kong
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECO A)
	January 27, 2012	Corporate Governance Orientation for Subsidiaries	SMART Corporate Governance Office/Meralco Investment Planning and Monitoring
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of

Raymond B. Ravelo			Corporate Directors
	March 8, 2013	First Pacific Companies: Lifting the Hood	Mr. Roger Fisk, President Obama's Aide and Operative
	November 20, 2012	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School of Business
	August 10, 2012	Corporate Responsibility in the Changing Global Landscape (with PLDT/MVP Group of Companies)	Keith T. Darcy, Executive Director Ethics & Compliance Officer Association (ECO)
	January 27, 2012	Corporate Governance Orientation for Subsidiaries	SMART Corporate Governance Office/Meralco Investment Planning and Monitoring
* Retired effective June 30, 2014			

(a) Continuing education programs for Directors (and Senior Management/Officers): programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Manuel V. Pangilinan	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
Ray C. Espinosa	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors

Jose Ma. K. Lim	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Oscar S. Reyes	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	April 1, 2014	Corporate Governance Requirements Under US Laws and Regulations and the Foreign Corrupt Practices Act of 1977	Atty. Ma. Lourdes C. Rausa-Chan Chief Governance Officer PLDT Corporate Governance
Artemio V. Panganiban	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors

Pedro E. Roxas	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Lance Y. Gokongwei	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
	January 13, 2014	Orientation for New Directors	Meralco Key Officers
James L. Go	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	January 13, 2014	Orientation for New Directors	Meralco Key Officers
John L. Gokongwei, Jr.	June 17, 2014	Corporate Governance Seminar	Sycip, Gorres, Velayo &Co.
Napoleon L. Nazareno	December 4, 2014	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
Manuel M. Lopez	September 15, 2014	Corporate Governance Seminar	Sycip, Gorres, Velayo &Co.
Roberto R. Almazora	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New

			York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Alfredo S. Panlilio	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Ramon B. Segismundo	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Betty C. Siy-Yap	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Rafael L. Andrada	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance	Ricardo Nicanor B. Jacinto,

		Orientation	President/CEO, Institute of Corporate Directors
Ruben B. Benosa	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Helen T. de Guzman	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Ivanna G. dela Peña	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
William S. Pamintuan	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors

Marthyn S. Cuan	December 1, 2014	21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices	Mr. Chris Lowney, Former Managing Director of JP Morgan and Company (Tokyo, Singapore, London, and New York), Author and Public Speaker
	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
Raymond B. Ravelo	March 31, 2014	ASEAN Corporate Governance Orientation	Ricardo Nicanor B. Jacinto, President/CEO, Institute of Corporate Directors
* Retired effective June 30, 2014			

B. CODE OF BUSINESS CONDUCT & ETHICS

1) POLICIES

Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

All directors, senior management and employees are required to comply with the Company's Code of Ethics. The details of the Company's Code of Ethics and policies are discussed in the table below.

The Corporate Governance Office monitors the implementation and compliance to the Code of Ethics. All directors, senior management and employees are required to submit duly accomplished Full Business Interest Disclosure (FBID) Form and Conflict of Interest (COI) Form annually. They are also required to disclose gifts they have 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 violation of the directors, senior management and employees of the Company's Code of Ethics.

The Company's Internal Audit Office conducts audit on the compliance of directors, officers and employees to the Code of Ethics and other corporate governance related policies, including required Company disclosures. The results of the Internal Audit review and findings are reported

to the Audit Committee responsible for reviewing the process for communicating the code of conduct to all employees and monitoring their compliance to the code.

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	<p>The Company's Conflict of Interest (COI) Policy approved by the Board of Directors on July 30, 2012, requires directors to submit Full Business Interest Disclosure Form and immediately disclose any actual or potential COI situations.</p> <p>Please refer to Annex B for full COI policy.</p>	<p>The Company's COI Policy approved by the Board of Directors on July 30, 2012, requires Senior Management to submit Full Business Interest Disclosure Form and immediately disclose any actual or potential COI situations.</p> <p>Please refer to Annex B for full COI policy.</p>	<p>The Company's COI Policy approved by the Board of Directors on July 30, 2012, requires Senior Management to submit Full Business Interest Disclosure Form and immediately disclose any actual or potential COI situations.</p> <p>Please refer to Annex B for full COI policy.</p>
(b) Conduct of Business and Fair Dealings	<p>The Company's Revised Insider Trading Policy requires the directors to report their dealings in Company shares within two (2) business days for due disclosure of the Compliance Officer to the SEC, PSE and PDEX.</p> <p>The Company's Revised Insider Trading Policy requires the directors to refrain from trading the Company's shares within a blackout period (10 trading days before the scheduled date of release to the public of information that has possible impact and repercussions to the Company's share price to the</p>	<p>The Company's Revised Insider Trading Policy requires the key officers or senior management to report their dealings in Company shares within two (2) business days for due disclosure of the Compliance Officer to the SEC, PSE and PDEX.</p> <p>The Company's Revised Insider Trading Policy requires the key officers to refrain from trading the Company's shares within a blackout period (10 trading days before the scheduled date of release to the public of information that has possible impact and repercussions to the Company's share price to the public and 2 trading</p>	<p>The Company's Revised Insider Trading Policy requires the employees, with access to material non-public information that have possible impact and repercussions to the Company's share price, to refrain from any trading transaction of the shares within a blackout period (10 trading days before the release of such information to the public and 2 trading days after).</p> <p>The Company's Revised COE approved by the Board of Directors in September 27, 2010 outlines the ethical behavior that employees of the Company should manifest while performing their duties and responsibilities and dealing with</p>

	<p>public and 2 trading days after such date).</p> <p>The Company's Revised Code of Ethics (COE) approved by the Board of Directors in September 27, 2010 outlines the ethical behavior that Directors of the Company should manifest while performing their duties and responsibilities and dealing with different stakeholders.</p> <p>Fair Dealing is one of the ethical standards included in the Revised COE, which Directors, Officers, and employees should observe through the following:</p> <ol style="list-style-type: none"> 1. Rendering adequate, reliable and efficient service at fair and reasonable cost to all customers. 2. Avoid taking undue advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other form of deceptive practice. 3. All stakeholders are treated with respect and be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, 	<p>days after such date).</p> <p>The Company's Revised COE approved by the Board of Directors in September 27, 2010 outlines the ethical behavior that Senior Management of the Company should manifest while performing their duties and responsibilities and dealing with different stakeholders.</p> <p>Fair Dealing is one of the ethical standards included in the Revised COE, which Directors, Officers, and employees should observe through the following:</p> <ol style="list-style-type: none"> 1. Rendering adequate, reliable and efficient service at fair and reasonable cost to all customers. 2. No discrimination treating employees and applicants for employment. 3. Selection, engagement and compensation of consultants, contractors and other service providers are based on qualification and labor and performance standards. 4. Avoid taking undue advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other form of 	<p>different stakeholders.</p> <p>Fair Dealing is one of the ethical standards included in the Revised COE, which Directors, Officers, and employees should observe through the following:</p> <ol style="list-style-type: none"> 1. Rendering adequate, reliable and efficient service at fair and reasonable cost to all customers. 2. No discrimination treating employees and applicants for employment. 3. Selection, engagement and compensation of consultants, contractors and other service providers are based on qualification and labor and performance standards. 4. Avoid taking undue advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other form of deceptive practice. 5. All stakeholders are treated with respect and be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, creditors, competitors and employees. <p>Please refer to Annex C for the full Revised COE.</p>
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	<p>creditors, competitors and employees.</p> <p>Please refer to Annex C for the full Revised COE.</p>	<p>deceptive practice.</p> <p>5. All stakeholders are treated with respect and be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, creditors, competitors and employees.</p> <p>Please refer to Annex C for the full Revised COE.</p>	
(c) Receipt of gifts from third parties	<p>Directors are refrained from putting themselves in situations or acting in a manner that could significantly affect the fair, objective, independent, and/or effective performance of their duties and responsibilities in the Company while transacting with third parties. As such, they are prohibited from soliciting or gifts from Third Party entities.</p> <p>When allowed, all gifts received by Directors from Third Parties are required to be disclosed.</p> <p>Please refer to Annex D for the full Policy on Solicitation and Acceptance of Gifts.</p>	<p>Senior Management are refrained from putting themselves in situations or acting in a manner that could significantly affect the fair, objective, independent, and/or effective performance of their duties and responsibilities in the Company while transacting with third parties. As such, they are prohibited from soliciting or gifts from Third Party entities.</p> <p>When allowed, all gifts received by Senior Management from Third Parties are required to be disclosed.</p> <p>Please refer to Annex D for the full Policy on Solicitation and Acceptance of Gifts.</p>	<p>Employees are refrained from putting themselves in situations or acting in a manner that could significantly affect the fair, objective, independent, and/or effective performance of their duties and responsibilities in the Company while transacting with third parties. As such, they are prohibited from soliciting or gifts from Third Party entities.</p> <p>When allowed, all gifts received by employees from Third Parties are required to be disclosed.</p> <p>Please refer to Annex D for the full Policy on Solicitation and Acceptance of Gifts.</p>
(d) Compliance	The Company's Revised COE	The Company's Revised COE requires	The Company's Revised COE requires all

with Laws & Regulations	<p>requires all Directors of the Company to comply with all laws, rules and regulations governing the business operations of the Company.</p> <p>Please refer to page 3 of Annex C.</p>	<p>all Senior Management of the Company to comply with all laws, rules and regulations governing the business operations of the Company.</p> <p>Please refer to page 3 of Annex C.</p>	<p>employees of the Company to comply with all laws, rules and regulations governing the business operations of the Company.</p> <p>Please refer to page 3 of Annex C.</p>
(e) Respect for Trade Secrets/ Use of Non-public Information	<p>The Company's Revised COE requires Directors of the Company to maintain and safeguard the confidentiality of information entrusted to them.</p> <p>They are likewise required to:</p> <ol style="list-style-type: none"> 1. Respect and uphold the confidential and proprietary information of other companies such as, knowingly appropriate, infringe or make an unauthorized use of a valid trademark, patent, trade secret or proprietary technology belonging to our Company or to another person or entity. 2. Maintain the integrity of all information, data, books, records, files and other documents entrusted by our Company to us by reason of our office and protect them against unauthorized or improper alteration, forgery, falsification, 	<p>The Company's Revised COE requires Senior Management of the Company to maintain and safeguard the confidentiality of information entrusted to them.</p> <p>They are likewise required to:</p> <ol style="list-style-type: none"> 1. Respect and uphold the confidential and proprietary information of other companies such as, knowingly appropriate, infringe or make an unauthorized use of a valid trademark, patent, trade secret or proprietary technology belonging to our Company or to another person or entity. 2. Maintain the integrity of all information, data, books, records, files and other documents entrusted by our Company to us by reason of our office and protect them against unauthorized or improper alteration, forgery, falsification, tampering, 	<p>The Company's Revised COE requires Employees of the Company to maintain and safeguard the confidentiality of information entrusted to them. This specific standard found on page 4 of the Revised COE, "Confidentiality of Information and Proper use of Property", prescribed the following:</p> <ol style="list-style-type: none"> 1. Confidential information includes any non-public information that might be of use to competitors, or harmful to our Company if disclosed. 2. The confidentiality obligation shall survive upon separation from our Company due to retirement, resignation, termination, expiration of term of office, or expiration or termination of contract, or any other cause. 3. No undue advantage of material non-public information by dealing in the securities of our Company while in possession of such information. Material non-public information

	<p>tampering, concealment, or destruction.</p> <p>3. Confidential information includes any non-public information that might be of use to competitors, or harmful to our Company if disclosed.</p> <p>4. The confidentiality obligation shall survive upon separation from our Company due to retirement, resignation, termination, expiration of term of office, or expiration or termination of contract, or any other cause.</p> <p>5. No undue advantage of material non-public information by dealing in the securities of our Company while in possession of such information. Material non-public information refers to any information that is likely to affect the market price of our Company's securities and is not yet publicly disclosed.</p> <p>The Company's Anti-insider Trading Policy prohibits directors from trading the Company's shares within a specified period prior to disclosure</p>	<p>concealment, or destruction.</p> <p>3. Confidential information includes any non-public information that might be of use to competitors, or harmful to our Company if disclosed.</p> <p>4. The confidentiality obligation shall survive upon separation from our Company due to retirement, resignation, termination, expiration of term of office, or expiration or termination of contract, or any other cause.</p> <p>5. No undue advantage of material non-public information by dealing in the securities of our Company while in possession of such information. Material non-public information refers to any information that is likely to affect the market price of our Company's securities and is not yet publicly disclosed.</p> <p>The Company's Anti-insider Trading Policy prohibits senior management from trading the Company's shares within a specified period prior to disclosure of non-public material information about the Company.</p>	<p>refers to any information that is likely to affect the market price of our Company's securities and is not yet publicly disclosed.</p> <p>The Company's Anti-insider Trading Policy prohibits employees from trading the Company's shares within a specified period prior to disclosure of non-public material information about the Company.</p>
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	of non-public material information about the Company.		
(f) Use of Company Funds, Assets and Information	<p>The Company's Revised COE prohibits all Directors, Officers and Employees from using Company property, funds, assets and information for personal use or gain.</p> <p>They are required to protect these against loss, damage, misuse, abuse or theft.</p> <p>Directors are also prohibited from using the Company's non-public, confidential or proprietary information for his or another person's gain or advantage, including the purchase or sale of securities of the Company and/or in a business the Company is interested in acquiring, selling, establishing or terminating business relations with.</p>	<p>The Company's Revised COE prohibits Senior Management from using Company property, funds, assets and information for personal use or gain.</p> <p>They are required to protect these against loss, damage, misuse, abuse or theft.</p> <p>Senior Management is also prohibited from using the Company's non-public, confidential or proprietary information for his or another person's gain or advantage, including the purchase or sale of securities of the Company and/or in a business the Company is interested in acquiring, selling, establishing or terminating business relations with.</p>	<p>The Company's Revised COE prohibits all employees from using Company property, funds, assets and information for personal use or gain.</p> <p>They are required to protect these against loss, damage, misuse, abuse or theft.</p> <p>Employees are also prohibited from using the Company's non-public, confidential or proprietary information for his or another person's gain or advantage, including the purchase or sale of securities of the Company and/or in a business the Company is interested in acquiring, selling, establishing or terminating business relations with.</p>
(g) Employment & Labor Laws & Policies	<p>The Company's Revised COE requires all Directors of the Company to comply with all laws, rules and regulations governing the business operations of the Company, including employment and labor laws and policies.</p> <p>Fair Dealing is one of the ethical</p>	<p>The Company has always been compliant with Employment and Labor Laws and Policies and the same are applied to Senior Management in so far as the same are applicable. Senior Management oftentimes enjoys more than the standard compensation and benefits prescribed by our Labor Standard Laws. The</p>	<p>The Company has always been compliant with Employment and Labor Laws and Policies and the same are applied to employees in so far as the same are applicable. All employees oftentimes enjoy more than the standard compensation and benefits prescribed by our Labor Standard Laws. The Company likewise abides with the stipulations</p>

	<p>standards included in the Revised COE, which Directors, Officers, and employees should observe through the following provisions related to employment and labor:</p> <ol style="list-style-type: none"> 1. We treat our employees and applicants for employment fairly and will not discriminate on account of gender, religion, age, nationality, family status, or any other reasons prohibited by law. We hire, develop, and compensate employees, officers, based on qualification, merit and performance. 2. Our Company shall foster harmonious relations among its employees based on mutual understanding, trust and respect. 3. We treat everyone with respect and shall be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, creditors, competitors and employees. <p>Please refer to page 3 of <i>Annex C</i>.</p>	<p>Company likewise abides with the stipulations contained in the Collective Bargaining Agreements with the rank-and-file and supervisory labor unions and no violations thereof are committed. Occupational health and safety standards are likewise observed with a full time Safety and Environment office overseeing the same.</p> <p>Fair Dealing is one of the ethical standards included in the Revised COE, which Directors, Officers, and employees should observe through the following provisions related to employment and labor:</p> <ol style="list-style-type: none"> 1. We treat our employees and applicants for employment fairly and will not discriminate on account of gender, religion, age, nationality, family status, or any other reasons prohibited by law. We hire, develop, and compensate employees, officers, based on qualification, merit and performance. 2. Our Company shall foster harmonious relations among its employees based on mutual understanding, trust and respect. 	<p>contained in the Collective Bargaining Agreements with the rank-and-file and supervisory labor unions and no violations thereof are committed. Occupational health and safety standards are likewise observed with a full time Safety and Environment office overseeing the same.</p> <p>Fair Dealing is one of the ethical standards included in the Revised COE, which Directors, Officers, and employees should observe through the following provisions related to employment and labor:</p> <p>Fair Dealing is one of the ethical standards included in the Revised COE, which Directors, Officers, and employees should observe through the following provisions related to employment and labor:</p> <ol style="list-style-type: none"> 1. We treat our employees and applicants for employment fairly and will not discriminate on account of gender, religion, age, nationality, family status, or any other reasons prohibited by law. We hire, develop, and compensate employees, officers, based on qualification, merit and performance. 2. Our Company shall foster harmonious relations among its employees based on mutual understanding, trust and respect.
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		<p>3. We treat everyone with respect and shall be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, creditors, competitors and employees.</p> <p>Please refer to page 3 of Annex C.</p> <p>The Company's Code on Right Employee Conduct (COREC) prohibits the following, among others, on employee behavior:</p> <p>Sexual harassment; immoral conduct during working time and/or within company premises, including exhibition or distribution of pornographic materials.</p>	<p>3. We treat everyone with respect and shall be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, creditors, competitors and employees.</p> <p>Please refer to page 3 of Annex C.</p> <p>The Company's Code on Right Employee Conduct (COREC) prohibits the following, among others, on employee behavior:</p> <p>Sexual harassment; immoral conduct during working time and/or within company premises, including exhibition or distribution of pornographic materials.</p>
(h) Disciplinary action	<p>The Revised Manual of Corporate Governance provides for the following disciplinary actions for directors:</p> <p>1. Temporary disqualification – refusal to comply with Company's disclosure requirements, unexcused absences of more than 50% of all regular and</p>	<p>The Company's Code on Right Employee Conduct (COREC) prescribes the proper and correct conduct of Senior Management of the Company.</p> <p>The policy includes a guide in imposing disciplinary actions to employees and Senior Management with sanctions and penalties ranging from verbal counseling, written reprimand,</p>	<p>The Company's Code on Right Employee Conduct (COREC) prescribes the proper and correct conduct of employees of the Company.</p> <p>The policy includes a guide in imposing disciplinary actions to employees and Senior Management with sanctions and penalties ranging from verbal counseling, written reprimand, suspension or</p>

	<p>special meetings of the Board, dismissal or termination for a cause as director in any corporation covered by Governance Code, among others.</p> <p>2. Permanent Disqualification – if convicted or adjudged guilty of any offenses or crimes, decree or order issued by a judicial or administrative body or the SEC or BSP.</p> <p>Please refer to Part I., Section 6.0 Disqualification of a Director of Annex A.</p>	<p>suspension or dismissal, depending on the gravity of the offense committed.</p> <p>Please refer to Annex E for the full COREC.</p>	<p>dismissal, depending on the gravity of the offense committed.</p> <p>Please refer to Annex E for the full COREC.</p>
(i) Whistle Blower	<p>The Company's Whistleblowing policy called "E-Report Mo" encourages the reporting and disclosure of any malpractice or misconduct committed by its Directors, Officers and Employees such as:</p> <ol style="list-style-type: none"> 1. Violation of the Corporate Governance Rules; 2. Violation of the Code of Ethics and Company Code on Employee Discipline or other Company related codes; and 3. Financial malfeasance including those relating to financial fraud, questionable accounting and 	<p>The Company's Whistleblowing policy called "E-Report Mo" encourages the reporting and disclosure of any malpractice or misconduct committed by its Directors, Officers and Employees such as:</p> <ol style="list-style-type: none"> 1. Violation of the Corporate Governance Rules; 2. Violation of the Code of Ethics and Company Code on Employee Discipline or other Company related codes; and 3. Financial malfeasance including those relating to financial fraud, questionable accounting and auditing matters. 	<p>The Company's Whistleblowing policy called "E-Report Mo" encourages the reporting and disclosure of any malpractice or misconduct committed by its Directors, Officers and Employees such as:</p> <ol style="list-style-type: none"> 1. Violation of the Corporate Governance Rules; 2. Violation of the Code of Ethics and Company Code on Employee Discipline or other Company related codes; and 3. Financial malfeasance including those relating to financial fraud, questionable accounting and auditing matters.

	<p>auditing matters.</p> <p>This IRR likewise covers the procedures in reporting these malpractices and misconducts, including those reported by Third Party, such as customers and suppliers. All reports must be made in good faith, substantiated by evidence and not intended for one's personal gain. Malicious reporting is prohibited and subject to the appropriate disciplinary action after due process. The policy likewise requires the Company to provide protection of the reporting person or witness against retaliation or harassment.</p> <p>Dedicated reporting channels, such as emails, hotlines, phones are clearly specified and disseminated to all concerned. Likewise, a facility is provided in the company website to accept report from Third Party and will be immediately directed to the Corporate Governance Office who is in-charged of handling whistleblowing report.</p>	<p>This IRR likewise covers the procedures in reporting these malpractices and misconducts, including those reported by Third Party, such as customers and suppliers. All reports must be made in good faith, substantiated by evidence and not intended for one's personal gain. Malicious reporting is prohibited and subject to the appropriate disciplinary action after due process. The policy likewise requires the Company to provide protection of the reporting person or witness against retaliation or harassment.</p> <p>Dedicated reporting channels, such as emails, hotlines, phones are clearly specified and disseminated to all concerned. Likewise, a facility is provided in the company website to accept report from Third Party and will be immediately directed to the Corporate Governance Office who is in-charged of handling whistleblowing report.</p>	<p>This IRR likewise covers the procedures in reporting these malpractices and misconducts, including those reported by Third Party, such as customers and suppliers. All reports must be made in good faith, substantiated by evidence and not intended for one's personal gain. Malicious reporting is prohibited and subject to the appropriate disciplinary action after due process. The policy likewise requires the Company to provide protection of the reporting person or witness against retaliation or harassment.</p> <p>Dedicated reporting channels, such as emails, hotlines, phones are clearly specified and disseminated to all concerned. Likewise, a facility is provided in the company website to accept report from Third Party and will be immediately directed to the Corporate Governance Office who is in-charged of handling whistleblowing report.</p>
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2) DISSEMINATION OF CODE

Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

(j) Conflict Resolution	<p>The Company abides by a guiding principle in dispute settlement.</p> <p>The intention and purpose of the parties is to establish a means for the prompt disposition and amicable settlement of all grievances. The parties shall endeavor to resolve all disputes through friendly negotiations as their mutual commitment to ensure the continuity of work; that an open conflict, in any form, involves losses to the parties and therefore, every effort in this direction shall be exerted to avoid such conflict.</p>	<p>The Company abides by a guiding principle in dispute settlement.</p> <p>The intention and purpose of the parties is to establish a means for the prompt disposition and amicable settlement of all grievances. The parties shall endeavor to resolve all disputes through friendly negotiations as their mutual commitment to ensure the continuity of work; that an open conflict, in any form, involves losses to the parties and therefore, every effort in this direction shall be exerted to avoid such conflict.</p>	<p>The Company abides by a guiding principle in dispute settlement.</p> <p>The intention and purpose of the parties is to establish a means for the prompt disposition and amicable settlement of all grievances. The parties shall endeavor to resolve all disputes through friendly negotiations as their mutual commitment to ensure the continuity of work; that an open conflict, in any form, involves losses to the parties and therefore, every effort in this direction shall be exerted to avoid such conflict.</p>
(k) Related Party Transaction	<p>It is the policy of Meralco (the "Company") that all transactions between the Company and Related Parties are done in "fair and at arm's length" terms and inures to the benefit and best interest of the Company and its shareholders as a whole, considering relevant circumstances. All transactions of Directors with Related Parties shall be conducted in accordance with the principles of transparency and fairness, and in this regard shall be properly approved and disclosed in accordance with this Policy.</p> <p>Directors shall disclose their</p>	<p>It is the policy of Meralco (the "Company") that all transactions between the Company and Related Parties are done in "fair and at arm's length" terms and inures to the benefit and best interest of the Company and its shareholders as a whole, considering relevant circumstances. All transactions of Senior Management with Related Parties shall be conducted in accordance with the principles of transparency and fairness, and in this regard shall be properly approved and disclosed in accordance with this Policy.</p>	<p>It is the policy of Meralco (the "Company") that all transactions between the Company and Related Parties are done in "fair and at arm's length" terms and inures to the benefit and best interest of the Company and its shareholders as a whole, considering relevant circumstances. All transactions of employees with Related Parties shall be conducted in accordance with the principles of transparency and fairness, and in this regard shall be properly approved and disclosed in accordance with this Policy.</p> <p>Employees shall disclose their interest in transactions and any other conflict of</p>

	<p>interest in transactions and any other conflict of interest. They shall abstain and/or inhibit themselves in participating in discussions or a particular agenda when they are conflicted.</p> <p>The Company does not grant loans or any special assistance to directors.</p>	<p>Senior Management shall disclose their interest in transactions and any other conflict of interest. They shall abstain and/or inhibit themselves in participating in discussions or a particular agenda when they are conflicted.</p>	<p>interest. They shall abstain and/or inhibit themselves in participating in discussions or a particular agenda when they are conflicted.</p>
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YES. The Code of Ethics was presented to and approved by the BOD on September 27, 2010. Corporate-wide roadshows to Senior Management and employees immediately followed to explain the contents of the code, clarify questions and ensure its understanding. All employees committed in writing to comply with the Code and the behavioral standards and norms set forth therein. Last July 2012, the Company implemented its Corporate Governance Disclosure Facility to expedite and facilitate Senior Management and employees' compliance to Corporate Governance and Code of Ethics.

Copies of the Code of Ethics are likewise disseminated to all employees annually, to guide them. A signed Commitment to Corporate Governance and Code of Ethics is required annually from all directors, officers and employees of the Company.

3) COMPLIANCE WITH CODE

Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Corporate Governance Office monitors the implementation and compliance to the Code of Ethics. All directors, senior management and employees are required to submit duly accomplished Full Business Interest Disclosure (FBID) Form and Conflict of Interest (COI) Form annually. They are also required to disclose gifts they have 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 violation of the directors, senior management and employees of the Company's Code of Ethics.

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

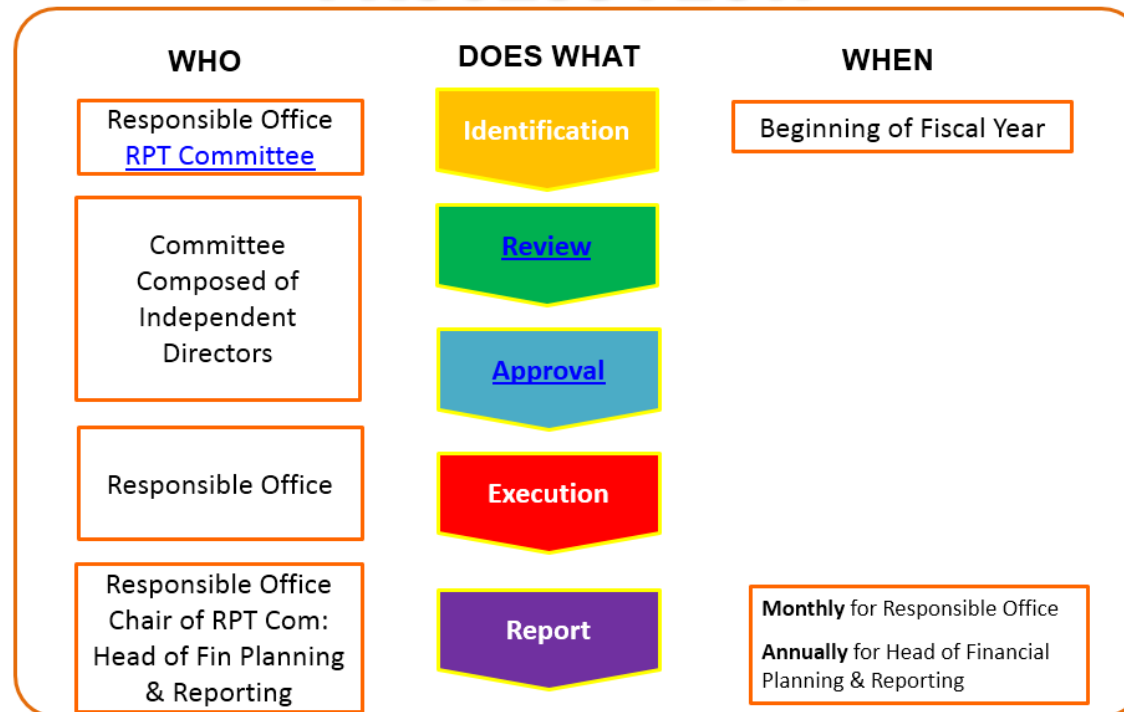
4) RELATED PARTY TRANSACTIONS

(a) **Policies and Procedures**

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

The Company's Related Party Transactions (RPT) Policy requires a committee composed of independent directors to review and approve material/significant RPTs to determine whether they are in the best interest of the Company and shareholders. All RPTs of the Company are conducted in fair and at arms' length terms.

PROCESS FLOW



Related Party	Policies and Procedures
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Transactions	
(1) Parent Company	<p>The Company has no Parent Company, given the shareholder structure as of end of December 31, 2014 http://www.meralco.com.ph/about-us/meralco-shareholding-structure http://corporate-downloadables-sec-filings.s3.amazonaws.com/1426239108.eb995eb7ed7e828ccc40ce3d1fdf7999.pdf</p>
(2) Joint Ventures	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than Php 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p> <p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the consolidated financial statements and annual report within prescribed schedules.</p> <p>Please refer to Note 24 of Notes to Consolidated Financial Statements for the details of RPTs for 2013.</p>
(3) Subsidiaries	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than Php 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p> <p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The</p>

	<p>nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the consolidated financial statements and annual report within prescribed schedules.</p> <p>Please refer to Note 24 of Notes to Consolidated Financial Statements for the details of RPTs for 2013.</p>
(4) Entities Under Common Control	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than PhP 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p> <p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the consolidated financial statements and annual report within prescribed schedules.</p> <p>Please refer to Note 24 of Notes to Consolidated Financial Statements for the details of RPTs for 2013.</p>
(5) Substantial Stockholders	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than PhP 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p> <p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the</p>

	<p>consolidated financial statements and annual report within prescribed schedules.</p> <p>Please refer to Note 24 of Notes to Consolidated Financial Statements for the details of RPTs for 2013.</p>
(6) Officers including spouse/children/siblings/parents	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than PhP 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p> <p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the consolidated financial statements and annual report within prescribed schedules.</p> <p>The Company's COI Policy approved by the Board of Directors on July 30, 2012, requires Officers and Senior Management to submit Full Business Interest Disclosure Form and immediately disclose any actual or potential COI situations involving their relatives.</p> <p>Relatives refer to persons related up to the third degree, by consanguinity, affinity or legal adoption, including the spouse, parents, children (and their spouses) siblings, (and their spouses), nieces and nephews (limited to children of brothers or sisters) [and their spouses], grandparents, and aunts and uncles (limited to sisters or brothers of parents); and the common-law spouse and/or his relatives of up to the third degree, by consanguinity, affinity or legal adoption. For purposes hereof, Relatives shall include first cousins.</p>
(7) Directors including spouse/children/siblings/parents	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than PhP 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p>

	<p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the consolidated financial statements and annual report within prescribed schedules.</p> <p>The Company's COI Policy approved by the Board of Directors on July 30, 2012, requires Officers and Senior Management to submit Full Business Interest Disclosure Form and immediately disclose any actual or potential COI situations involving their relatives.</p> <p>Relatives refer to persons related up to the third degree, by consanguinity, affinity or legal adoption, including the spouse, parents, children (and their spouses) siblings, (and their spouses), nieces and nephews (limited to children of brothers or sisters) [and their spouses], grandparents, and aunts and uncles (limited to sisters or brothers of parents); and the common-law spouse and/or his relatives of up to the third degree, by consanguinity, affinity or legal adoption. For purposes hereof, Relatives shall include first cousins.</p>
(8) Interlocking director relationship of Board of Directors	<p>The Related Party Transactions (RPT) Policy of the Company prescribes that all RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company's Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than PhP 50 Million, shall be reviewed and endorsed by the AuditCom whose members are two independent directors and is Chaired by an independent director, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.</p> <p>The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.</p> <p>Any dealing with a related party is likewise done at an arm's-length basis in a manner similar to the transactions with third parties. The Company fully discloses its related party transactions (RPT) in accordance with the revised PFRS. The nature, extent and other material information of these transactions are disclosed to the SEC and PSE through the consolidated financial statements and annual report within prescribed schedules.</p>

(b) **Conflict of Interest**

(i) **Directors/Officers and 5% or more Shareholders**

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

The related directors inhibited themselves from approval of the following transactions, which were done above board and at arm's length.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	None.
Name of Officer/s	None.
Name of Significant Shareholders Beacon Electric Asset Holdings, Inc. JG Summit Holdings, Inc. Metro Pacific Investments Corporation	The Company sells electricity, in the ordinary course of business, to related party shareholder Beacon Electric Asset Holdings, JG Summit Holdings, Inc., and Metro Pacific Investments Corporation and their respective subsidiaries, and affiliates for the latter's facilities within the Company's franchise area. The rates charged to related parties are the same ERC-mandated rates applicable to customers within the franchise area.

(ii) **Mechanism**

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	The Company's Conflict of Interest (COI) Policy provides that 1. As soon as a Director, Officer, or Employee becomes aware of an actual or potential conflict of interest situation where he is involved in, he must disclose this in writing to the appropriate Clearance Authority to seek clearance or advice.

	<p>2. He shall likewise inhibit from being involved at any stage of the transaction and cannot sign any document related to the transaction.</p> <p>3. All Directors, Officers and Employees shall annually sign and submit a Conflict of Interest Disclosure Statement not later than January 31 of each year</p> <p>4. It shall be the responsibility of every Director, Officer, and Employee to take immediate and appropriate action when they become aware of any violations or potential violations of other Directors, Officers or Employees, and to disclose the same to the Clearance Authority for appropriate action.</p>
Group	<p>The Group's Conflict of Interest (COI) Policy provides that</p> <p>1. As soon as a Director, Officer, or Employee becomes aware of an actual or potential conflict of interest situation where he is involved in, he must disclose this in writing to the appropriate Clearance Authority to seek clearance or advice.</p> <p>2. He shall likewise inhibit from being involved at any stage of the transaction and cannot sign any document related to the transaction.</p> <p>3. All Directors, Officers and Employees shall annually sign and submit a Conflict of Interest Disclosure Statement not later than January 31 of each year</p> <p>4. It shall be the responsibility of every Director, Officer, and Employee to take immediate and appropriate action when they become aware of any violations or potential violations of other Directors, Officers or Employees, and to disclose the same to the Clearance Authority for appropriate action.</p>

5) FAMILY, COMMERCIAL AND CONTRACTUAL RELATIONS

- (a) Indicate, if applicable, any relation of a family,³ commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders*	Type of Relationship*	Brief Description of the Relationship*
Metro Pacific Investments Corporation (MPIC) and Beacon Electric Asset Holdings, Inc.	Commercial/Business	MPIC owns 50% equity of Beacon Electric Asset Holdings, Inc.**
* Based on Meralco's Public Ownership Report as of December 31, 2014 http://corporate-downloadables-sec-		

³ Family relationship up to the fourth civil degree either by consanguinity or affinity.

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** Based on MPIC's Corporate Structure

<http://www.mpic.com.ph/site/corpstructure.php>

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders*	Type of Relationship*	Brief Description of the Relationship*
Metro Pacific Investments Corporation (MPIC) and Beacon Electric Asset Holdings, Inc.	Commercial/Business	MPIC owns 50% equity of Beacon Electric Asset Holdings, Inc.**
<p>* Based on Meralco's Public Ownership Report as of December 31, 2014 http://corporate-downloadables-sec-filings.s3.amazonaws.com/1426239108.eb995eb7ed7e828ccc40ce3d1fdf7999.pdf</p> <p>** Based on MPIC's Corporate Structure http://www.mpic.com.ph/site/corpstructure.php</p>		

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the Company

Name of Shareholders	% of Capital Stock affected(Parties)	Brief Description of the Transaction
None to Meralco's knowledge	None to Meralco's knowledge	None to Meralco's knowledge

6) ALTERNATIVE DISPUTE RESOLUTION

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

	Alternative Dispute Resolution System
Corporation & Stockholders	The Company has created the office of Stockholder Affairs in assisting shareholders to resolve issues affecting their concerns.

Corporation & Third Parties	<p>The Company complies with all relevant rules and regulations promulgated by the Energy Regulatory Commission (ERC) on the settlement of disputes between the Company and its customers.</p> <p>Pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA), the ERC shall handle consumer complaints and ensure the adequate promotion of consumer interests. Similarly, the ERC shall have the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed by the ERC in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector.</p> <p>To assist the ERC in the handling of consumer complaints and to provide maximum efforts to resolve these matters amicably, the ERC, under its Resolution No. 42, series of 2006, set minimum standards for frontline customer services of Distribution Utilities (DUs) and other electric service providers. Pursuant thereto, the Company has established a Consumer Welfare Desk (CWD) in its branches as well as a Consumer Assistance Office (CAO) at the Pacific Center Building, San Miguel Avenue, Ortigas City. The CWD desk and the CAO are manned by CWD Officers who have undergone relevant training and are able to assist the customers with their complaints. CWD Officers are likewise required to be familiar with the operations of the Company and with ERC laws, rules, regulations, decisions and policies. The primary responsibilities of the CWD Officer include entertaining complaints by consumers against the Company as well as queries on its services and ERC decisions, orders, resolutions, laws, rules and regulations. They help serve as the initial contact person of consumers before complaints are lodged with the ERC to assist in resolving matters amicably.</p> <p>For disputes in connection with matters concerning the Philippine Electricity Market Corporation, the Company complies with the dispute resolution mechanism provided in the Wholesale Electricity Spot Market (WESM) Manual.</p>
Corporation & Regulatory Authorities	The Company has adopted the policy of proactively and amicably engaging the ERC, SEC, DOE and other agencies in resolving issues affecting the Company and the concerned agencies.

C. BOARD MEETINGS & ATTENDANCE

1) SCHEDULE OF MEETINGS

Are Board of Directors' meetings scheduled before or at the beginning of the year?

YES. Board and Board Committee Meetings are scheduled before the start of the year. The schedule of [2015 Board Meetings was approved by the](#)

Board on November 24, 2014 as follows:

MERALCO BOARD MEETING 2015 SCHEDULE
January 26
February 23
March 23
April 27
May 26 (Tuesday) (Regular Board, Annual Stockholders' Meeting or Annual General Meeting (AGM), Organizational Meeting)
June 29
July 27
August 24
September 28
October 26
November 23
December 14
Regular meeting is held last Monday of the month at 10:00 A.M. unless re-scheduled due to holidays. As per the Company's By-Laws, the Annual Stockholders' Meeting or Annual General Meeting (AGM) is held every last Tuesday of May.

2) DETAILS OF ATTENDANCE OF DIRECTORS

The Board met 13 times in 2014.

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Manuel V. Pangilinan ¹	27-May-14	13	12	92%
Member	Oscar S. Reyes	27-May-14	13	13	100%
Member	Lance Y. Gokongwei	27-May-14	13	13	100%
Member	Ray C. Espinosa ²	27-May-14	13	12	92%
Member	James L. Go	27-May-14	13	12	92%

Member	John L. Gokongwei**	27-May-14	10	9	90%
Member	Jose Ma. K. Lim	27-May-14	13	11	85%
Member	Napoleon L. Nazareno**	27-May-14	10	7	70%
Member	Estelito P. Mendoza*	27-May-14	3	1	33%
Member	Manuel M. Lopez	27-May-14	13	9	69%
Member	Ramon S. Ang*	27-May-14	3	0	0%
Independent Director	Pedro E. Roxas ³	27-May-14	13	11	85%
Independent Director	Artemio V. Panganiban ⁴	27-May-14	13	13	100%

¹ Chairman, Remuneration and Leadership Development Committee

² Chairman, Finance Committee

³ Chairman, Nomination and Governance Committee

⁴ Chairman, Audit Committee

* Messrs. Ramon S. Ang and Estelito P. Mendoza resigned effective March 31, 2014.

** Messrs. John L. Gokongwei, Jr. and Napoleon L. Nazareno were elected on March 31, 2014.

3) SEPARATE MEETING OF NON EXECUTIVE DIRECTORS

Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

In 2014, the Company's non-executive directors met 14 times without the presence of the executive director, Mr. Oscar S. Reyes. Among the items discussed in these meetings were the operations and financial reports presented by Management, corporate governance policies and reports of compliance to such, reports of the external auditors and performance assessment of the President/CEO.

Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

YES. Based on the 2014 Board Meeting attendance records, more than two-thirds of the BOD were present at every meeting for board decisions. The quorum adopted by the Board is in accordance with the Philippine Corporation Code and the Company's Amended By-Laws.

4) ACCESS TO INFORMATION

(a) How many days in advance are board papers⁴ for board of directors meetings provided to the board?

Materials and related supporting documents to be used in the meetings of the board and board committees are given at least five (5) business days in advance, to give sufficient time for the directors to read and understand them.

(b) Do board members have independent access to Management and the Corporate Secretary?

YES. Board members are free to contact and discuss with Management and Corporate Secretary issues or matters that need clarification or information that they may need in the discharge of their board functions.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

The Corporate Secretary is tasked to provide adequate and reasonable assistance to the BOD and its members thereby playing a significant role in supporting the BOD in the discharge of its functions. Among the duties of the Corporate Secretary are the following: a) schedule Board meetings and give prior notice to all BOD of such meeting and other related activities; b) provide the necessary board papers associated with items on the meeting agenda at least five business days ahead of the BOD meetings; c) provide ready and reasonable access to information that directors may need for their deliberation on issues listed on the agenda of the Board; d) conduct orientation for new members of the BOD regarding the Company's organizational structures and business operations; e) attend all board meetings and maintain records of the same ensuring proper safekeeping of all records; f) ensure that all board procedures, rules and regulations are faithfully followed; g) submit required reports and disclosures to SEC, PSE and other regulatory agencies; h) assist the Board in making business judgment in the performance of their duties; and i) keep directors updated regarding any relevant statutory and regulatory changes.

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

YES. The Corporate Secretary, Atty. Simeon Ken Ferrer, who was reappointed as Corporate Secretary for 2015, meets the following qualifications and skills, all of which are required of the Company's Corporate Secretary:

- a) resident Filipino citizen of good moral character;
- b) with adequate legal, administrative, basic accountancy, company secretarial and interpersonal skills;
- c) with continuing education and regular update of the laws, rules and regulations necessary for his position; and

⁴ Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

d) with working knowledge of the operations of the Company and loyal to the Company mission, vision and objectives.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ☒

No ☐

Committee	Details of the procedures
Executive	<p>The Revised Manual of Corporate Governance mandates that all directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.</p> <p>The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.</p> <p>Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.</p>
Audit	<p>The Revised Manual of Corporate Governance mandates that all directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.</p> <p>The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.</p> <p>Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.</p>
Nomination	<p>The Revised Manual of Corporate Governance mandates that all directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge</p>

	<p>their duties. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.</p> <p>The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.</p> <p>Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.</p>
Remuneration	<p>The Revised Manual of Corporate Governance mandates that all directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.</p> <p>The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.</p> <p>Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.</p>
Others (specify) Finance	<p>The Revised Manual of Corporate Governance mandates that all directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.</p> <p>The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.</p> <p>Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.</p>

5) EXTERNAL ADVICE

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
The Revised Manual of Corporate Governance provides that the directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.	<p>Revised Manual of Governance, Part II. SUPPLY OF INFORMATION</p> <p>All directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties...</p> <p>B. The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board...</p>
Board Committees are allowed to appoint one or more persons to serve as advisor(s) to their Committee such as specified in their board committee charters. Advisors shall have the rights to attend and speak at any meeting of the Committee they belong, but shall have no right to vote in respect of any action of the Committee.	<p>Audit and Risk Committee Adviser and Finance Committee</p> <p>Anabelle L. Chua, 52, Filipino</p> <p>She has over 20 years of experience in the areas of corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998.</p> <p>Finance Committee</p> <p>Ferdinand K. Constantino, 62, Filipino</p> <p>He holds over 14 years of track record in senior management positions in the field of corporate finance in both local and international companies.</p>

6) CHANGE/S IN EXISTING POLICIES

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
Manual of Corporate Governance	The definition of terms and the scope of responsibility was extended beyond shareholders	To comply with the changes prescribed by the SEC Memo Circular No. 9 Series of 2014 and to reflect all changes that have transpired since the last version (March 28, 2011) of the Company's Revised Manual of Corporate Governance.

	to all other stakeholders	
Insider Trading Policy	Provided definition of terms, aligned blackout period duration with common practice of 10 trading days before and 2 trading days after, and 2 trading days after for non-structured disclosures, specified the general rules that should be observed to facilitate compliance and included possible penalties for non-compliance.	To rename and align the policy with the contemporary standards of regulators and international companies.

D. REMUNERATION MATTERS

1) REMUNERATION PROCESS

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	Based on periodic salary review and market competitiveness policy and as guided by the Remuneration and Leadership Development Committee and the Board.	Based on periodic salary review and market competitiveness policy and as guided by the Remuneration and Leadership Development Committee and the Board.
(2) Variable remuneration	Based on periodic salary review and market competitiveness policy and as guided by the Remuneration and Leadership Development Committee and the Board.	Based on periodic salary review and market competitiveness policy and as guided by the Remuneration and Leadership Development Committee and the Board.
(3) Per diem allowance	None, except per diem as a concurrent director.	None
(4) Bonus	Based on periodic review and market competitiveness policy and as guided by the Remuneration and	Based on periodic review and market competitiveness policy and as guided by the Remuneration and Leadership

	Leadership Development Committee and the Board.	Development Committee and the Board.
(5) Stock Options and other financial instruments	None	None
(6) Others (specify)	None	None

2) REMUNERATION POLICY AND STRUCTURE FOR EXECUTIVE AND NON-EXECUTIVE DIRECTORS

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

Independent directors receive per diem fees bases on their attendance to Board and Board Committee meetings. They do not receive options, performance shares or bonuses as these are schemes used in remuneration of management and may impair their independence.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	<p><i>{as disclosed – Board Remuneration, page 121 of the Meralco Annual Report, SEC Form 17-A}</i></p> <p>The Company's directors receive a per diem for their attendance in the Board and Board Committee meetings.</p> <p>In 2013, the shareholders approved an additional remuneration for the Board, which could be in the form of a fixed retainer, bonus or stock grant or a combination thereof, as may be approved by the Board. The total value of such additional</p>	<p>Per Diem</p> <p>Additional remuneration approved in 2013:</p> <p>Performance-based remuneration in the form of a Stock Grant ("Grant")</p>	<p>Per Diem</p> <ul style="list-style-type: none"> Board Meeting - of One Hundred Twenty Thousand Pesos (Php 120,000.00) per attendance Each member or advisor the different committee (Nom&Gov, Rem&LD, Audit&Risk and Finance) was entitled to a fee of Twenty Thousand Pesos (Php 20,000.00) for every committee meeting attended. <p>Additional remuneration approved in 2013:</p> <p>Performance-based remuneration in</p>

	<p>compensation, in whatever form so given, shall not exceed one percent (1%) of the income before tax of the Company during the preceding year. The rationale of such additional remuneration of directors is to recognize the invaluable services rendered by the Company's directors in profitably steering the business affairs of the Company, which has produced record highs in financial performance over the past four years. The role and responsibility of directors is critical in the success, accomplishments, and profitability of the Company. It is for this reason that the approval for additional remuneration for directors was sought.</p> <p>In line with the said rationale, during its 25 October 2013 meeting, the Board approved the provision of additional and performance-based remuneration in the form of a Stock Grant ("Grant").</p>		<p>the form of a Stock Grant ("Grant") of 15,000 common shares of the Company, spread over a three-year period, or 5,000 shares per year, to be received at the end of the three-year term. The executive director may opt instead to receive the cash equivalent of the stocks at the rate of PHP 1.5 million a year.</p>
Non-Executive Directors	<p><i>{as disclosed – Board Remuneration, page 121 of the Meralco Annual Report, SEC Form 17-A}</i></p> <p>The Company's directors receive a per diem for their attendance in the Board and Board Committee meetings.</p>	<p>Per Diem of Each Director</p> <ul style="list-style-type: none"> • Board Meeting - of One Hundred Twenty Thousand Pesos (Php 120,000.00) per attendance • Each member or advisor the different committee (Nom&Gov, Rem&LD, Audit&Risk and Finance) was entitled 	<p>Per Diem of Each Director</p> <ul style="list-style-type: none"> • Board Meeting - of One Hundred Twenty Thousand Pesos (Php 120,000.00) per attendance • Each member or advisor the different committee (Nom&Gov, Rem&LD, Audit&Risk and Finance)

	<p>In 2013, the shareholders approved an additional remuneration for the Board, which could be in the form of a fixed retainer, bonus or stock grant or a combination thereof, as may be approved by the Board. The total value of such additional compensation, in whatever form so given, shall not exceed one percent (1%) of the income before tax of the Company during the preceding year. The rationale of such additional remuneration of directors is to recognize the invaluable services rendered by the Company's directors in profitably steering the business affairs of the Company, which has produced record highs in financial performance over the past four years. The role and responsibility of directors is critical in the success, accomplishments, and profitability of the Company. It is for this reason that the approval for additional remuneration for directors was sought.</p> <p>In line with the said rationale, during its 25 October 2013 meeting, the Board approved the provision of additional and performance-based remuneration in the form of a Stock Grant ("Grant").</p>	<p>to a fee of Twenty Thousand Pesos (Php 20,000.00) for every committee meeting attended.</p>	<p>was entitled to a fee of Twenty Thousand Pesos (Php 20,000.00) for every committee meeting attended.</p>
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Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Remuneration Scheme	Date of Stockholders' Approval
<p>YES.</p> <p>In 2013, the shareholders approved an additional remuneration for the executive director, which could be in the form of a fixed retainer, bonus or stock grant, or a combination thereof, as may be approved by the Board. The total value of such additional compensation, in whatever form so given, shall not exceed one percent (1%) of the income before tax of the Company during the preceding year. The rationale of such additional remuneration is to recognize the invaluable services rendered by the Company's executive director in profitably steering the business affairs of the Company, which has produced record highs in financial performance over the past four years. The role and responsibility of the executive director is critical in the success, accomplishments, and profitability of the Company. It is for this reason that the approval for additional remuneration was sought.</p>	May 28, 2013

3) AGGREGATE REMUNERATION

Complete the following table on the aggregate remuneration accrued during the most recent year:

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	None, as a director	None	None
(b) Variable Remuneration	None, as a director	None	None
(c) Per diem Allowance* (in PhP, net of tax)	1,560,000.00	12,210,000.00	3,820,000.00
(d) Bonuses	None, as a director	None	None
(e) Stock Options and/or other financial instruments	None, as a director	None	None
(f) Others (Specify)	None, as a director	None	None
Total	1,560,000.00	12,210,000.00	3,820,000.00

* Aggregate grossed up amount is PhP17,590,000 (net of equivalent taxes)

Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances	None, as a director	None	None
2) Credit granted	None, as a director	None	None
3) Pension Plan/s Contributions	None, as a director	None	None
(d) Pension Plans, Obligations incurred	None, as a director	None	None
(e) Life Insurance Premium	None, as a director	None	None
(f) Hospitalization Plan	None, as a director	None	None
(g) Car Plan	None, as a director	None	None
(h) Others (Specify)	None, as a director	None	None
Total	None, as a director	None	None

Note: Above figures include remuneration for Directors only

4) STOCK RIGHTS, OPTIONS AND WARRANTS

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
None	None	None	None	None

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
None	None	None

5) REMUNERATION OF MANAGEMENT

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Name of Officer/Position	Total Remuneration* (in million PhP)
REYES, OSCAR S./President and CEO	Salaries – Php 133¹ Performance-based Pay – Php 52²
BUENCAMINO, RICARDO V./ Head, Networks	
PANLILIO, ALFREDO S./ Head, CRS	
SIY-YAP, BETTY C./Head, Finance	
SEGISMUNDO, RAMON B./ Head, HR & Corporate Services	
<i>*As disclosed in the SEC Form 20-IS – 2015 Definitive Information Statement</i> http://corporate-downloadables-sec-filings.s3.amazonaws.com/1428388714.df27e5244bf9c615448295ac542f30af.pdf	
¹ Guaranteed compensation including government mandated pay-out.	
² Includes performance-based pay and results driven incentives.	
³ Comprised of the following: Oscar S. Reyes, President & Chief Executive Officer; Alfredo S. Panlilio, Senior Vice President & Head of Customer Retail Services & Corporate Communication; Betty C. Siy-Yap, Senior Vice President & Chief Finance Officer; Ramon B. Segismundo, Senior Vice President & Head of Human Resources & Corporate Services; Atty. William S. Pamintuan, First Vice President & Head of Legal.	

E. BOARD COMMITTEES

1) NUMBER OF MEMBERS, FUNCTIONS AND RESPONSIBILITIES

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members	Committee	Functions	Key Responsibilities	Power
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	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)	Charter			
Executive	0	4	1	Please refer to Annex F for the Executive Committee Charter	<p>To exercise all the powers of the Board of directors in the management of the business and affairs of the corporation between sessions of the Board of Directors.</p> <p>Please refer to Annex G for the Amended By-Laws.</p>	<p>The committee is responsible for the management of the business and affairs of the corporation between sessions of the Board of Directors.</p> <p>Please refer to Annex G for the Amended By-Laws.</p>	<p>To act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it in the By-laws or on a majority vote of the Board, subject to the limitations provided by Section 35 of the Corporation Code</p> <p>Please refer to Annex A. It shall also have all the powers of the board of Directors in the management of the business and affairs of the Company and shall power to authorize the seal of the Company to all papers that may require it, subject to the limitations provided by Section 35 of Corporation Code.</p> <p>Please refer to Annex F.</p>
Audit	0	3	2	Please refer to Annex H for the	To assist the Board of Directors in	The committee has key responsibilities with respect to financial reporting processes,	With respect to internal and external audit, it has the power to review and

				Audit Committee Charter	<p>fulfilling its oversight for the financial reporting process, the system of internal control, the audit process, and the company's process of monitoring compliance with laws and regulations.</p>	<p>internal audit, external audit, enterprise risk management and Compliance.</p> <p>With respect to financial reporting process and internal control system, the committee is responsible for:</p> <p>(a) advising management and the external auditors that they are expected to provide a timely analysis of significant/critical financial reporting issues and practices particularly as they relate to the completeness, accuracy and fairness of the quarterly and annual financial statements before submission to the Board;</p> <p>(b) reviewing the results of the audit of the financial statements, including any difficulties encountered;</p> <p>(c) understanding the scope of internal and external auditors' review of internal control over financial reporting;</p> <p>(d) considering the effectiveness of the Company's internal control system;</p>	<p>confirm the independence of the external auditors and to take appropriate action to satisfy itself of the external auditor's independence, and ensuring that the external auditors or its lead audit partner of the external auditing firm assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations</p> <p>With respect to enterprise risk management, to require Management to provide a report and discuss with the Committee about the Company's significant or major risk exposures, if any, and the steps taken by Management to manage and monitor such risks.</p> <p>The committee also has the power to conduct or authorize an investigation into any matter that falls</p>
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						<p>(e) obtaining and considering of any reports or communications submitted to the Committee by the external auditors; and</p> <p>(f) reviewing the representation letter of management before submission to the external auditors.</p> <p>The committee has key responsibilities in the selection, appointment, evaluation and review of the Internal Audit Head and the External Auditor. Its primary responsibility is the recommendation on the appointment, and removal of the external auditor. The committee also has key responsibilities in the review and evaluation of the internal audit plan and internal audit charter, the external auditor's proposed scope and approach, and all audit and non-audit services to be performed by the external auditors, the disclosure of any non-audit services performed by the external auditor, the external auditor's fees, the reports, summaries and statements to be</p>	<p>within its scope of responsibilities, to develop related continuing education program for members of the Audit Committee in coordination with the Nomination and Governance Committee, to review and assess the adequacy of its Charter annually, and to request Board approval for proposed changes, and to ensure appropriate disclosure as may be required by law and regulation; to evaluate its performance on a regular basis; and to perform other activities related to this Charter as requested by the Board of Directors.</p>
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						<p>submitted by the chief audit executive, reviewing and confirming the independence of the external auditors and the taking of appropriate action to satisfy itself of the external auditor's independence, and ensuring that the external auditors or its lead audit partner of the external auditing firm assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations.</p> <p>With respect to enterprise risk management, the committee is responsible for overseeing the Company's:</p> <p>(a) risk management framework, the policies and processes adopted by Management with respect to risk identification and assessment, development of risk management strategies including the development and implementation of a Business Continuity Plan and monitoring of risk management performance;</p>	
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						<p>(b) framework for fraud prevention and detection including its whistle-blower program; and</p> <p>(c) risk management activities.</p> <p>With respect to Compliance, the committee is responsible for monitoring compliance and adherence by the Company with all applicable laws and regulations pursuant to which the Company conducts its operations and business activities; and obtaining regular updates from Management and Company's legal counsel regarding compliance matters. It is also responsible for the review the process for communicating the codes of conduct to employee personnel and management, and for monitoring compliance with said codes of conduct.</p>	
Risk Management	0	3	2	Please refer to Annex H for the Risk Management	To assist the Board of Directors in fulfilling its oversight for the risk management	<p>The committee has key responsibilities with respect to financial reporting processes, internal audit, external audit, enterprise risk management and Compliance.</p> <p>With respect to financial</p>	With respect to internal and external audit, it has the power to review and confirm the independence of the external auditors and to take appropriate action to satisfy itself of the

				Committee Charter	<p>process; to elevate risk oversight to the highest level in the company; to strengthen the quality of risk management; to inculcate a risk culture and risk-management environment to mitigate and manage risks effectively across the organization; to establish a platform for continuous assessment of risks in light of the changing internal and external environments; to improve communication among the board,</p>	<p>reporting process and internal control system, the committee is responsible for:</p> <p>(a) advising management and the external auditors that they are expected to provide a timely analysis of significant/critical financial reporting issues and practices particularly as they relate to the completeness, accuracy and fairness of the quarterly and annual financial statements before submission to the Board;</p> <p>(b) reviewing the results of the audit of the financial statements, including any difficulties encountered;</p> <p>(c) understanding the scope of internal and external auditors' review of internal control over financial reporting;</p> <p>(d) considering the effectiveness of the Company's internal control system;</p> <p>(e) obtaining and considering of any reports or communications submitted to the Committee by the external auditors; and</p>	<p>external auditor's independence, and ensuring that the external auditors or its lead audit partner of the external auditing firm assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations</p> <p>With respect to enterprise risk management, to require Management to provide a report and discuss with the Committee about the Company's significant or major risk exposures, if any, and the steps taken by Management to manage and monitor such risks.</p> <p>The committee also has the power to conduct or authorize an investigation into any matter that falls within its scope of responsibilities, to develop related continuing education program for</p>
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					<p>management, and other stakeholders about risk management; and to demonstrate to internal and external stakeholders the company's commitment to risk management</p>	<p>(f) reviewing the representation letter of management before submission to the external auditors.</p> <p>The committee has key responsibilities in the selection, appointment, evaluation and review of the Internal Audit Head and the External Auditor. The committee also has key responsibilities in the review and evaluation of the internal audit plan and internal audit charter, the external auditor's proposed scope and approach, and all audit and non-audit services to be performed by the external auditors, the disclosure of any non-audit services performed by the external auditor, the external auditor's fees, the reports, summaries and statements to be submitted by the chief audit executive, reviewing and confirming the independence of the external auditors and the taking of appropriate action to satisfy itself of the external auditor's independence, and ensuring that the external auditors or its lead audit partner of the external auditing firm</p>	<p>members of the Risk Management Committee in coordination with the Nomination and Governance Committee, to review and assess the adequacy of its Charter annually, and to request Board approval for proposed changes, and to ensure appropriate disclosure as may be required by law and regulation; to evaluate its performance on a regular basis; and to perform other activities related to this Charter as requested by the Board of Directors.</p>
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						<p>assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations.</p> <p>With respect to enterprise risk management, the committee is responsible for overseeing the Company's:</p> <p>(a) risk management framework, the policies and processes adopted by Management with respect to risk identification and assessment, development of risk management strategies including the development and implementation of a Business Continuity Plan and monitoring of risk management performance;</p> <p>(b) framework for fraud prevention and detection including its whistle-blower program; and</p> <p>(c) risk management activities.</p> <p>With respect to Compliance, the committee is responsible for monitoring compliance and adherence by the Company with</p>	
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						all applicable laws and regulations pursuant to which the Company conducts its operations and business activities; and obtaining regular updates from Management and Company's legal counsel regarding compliance matters. It is also responsible for the review the process for communicating the codes of conduct to employee personnel and management, and for monitoring compliance with said codes of conduct.	
Nomination & Governance	0	4	1	Please refer to Annex I for the Nomination & Governance Committee Charter	The committee undertakes the process of identifying the quality of directors aligned with the company's strategic directions. It functions as the body that screens, vets, recommends to the Board of Directors,	This Committee is composed of five 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 Committee has the power to review, endorse to the Board recommendations of the Compliance officer in relation to violations of provisions and requirements of the Revised Code of Corporate Governance and other corporate governance rules applicable to the Company, including the Company's Manual of Corporate Governance. With respect to the

					<p>qualified nominees for election as directors. It also functions to spearhead improvements in the Board's organization, procedures, mechanisms for evaluating the performance of the Board itself, its committees and Management, and the continuing education of the Board including that of individual Directors.</p>	<p>The Nom&Gov undertakes the process of identifying the quality 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.</p> <p>Nom&Gov has put in place a formal and transparent process for the appointment of new Directors to the Board.</p> <p>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.</p> <p>These candidates are sourced from the business network of Board members and from professional search firms such as</p>	<p>Board's committees, it has the power to review and recommend to the Board, changes to the committees' charters. It also has the power to recommend Committee assignments, including Committee Chairmanships and to recommend to the Board the development of corporate governance principles, structure, best practices and rules for adoption by the Company, and assist the Board in the implementation thereof. It has the power to design an orientation program for new Directors and related continuing education program for existing Directors and to review the prescribed Full Business Interest Disclosure of all incoming Directors and officers. Finally, it has the power to assess the effectiveness of the Board's processes and procedures in the election</p>
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						<p>the Institute of Corporate Directors (ICD) to search for candidates to the Board of Directors. 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.</p> <p>The shareholders will then elect the directors during the Annual General Meeting of Shareholders (AGM) held every last Tuesday of May.</p> <p>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.</p>	or replacement of Directors.
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Remuneration and Leadership Development	0	3	1	Please refer to Annex J for the Remuneration & Leadership Development Committee Charter	<p>The committee functions to assist and advice the Board of Directors with respect to the Company's compensation, retirement and key benefits, and leadership development of the Company as appointed in accordance with the Company's By-Laws, as well as executives with the rank of Assistant Vice-President and up.</p> <p>It exercises functional oversight on matters pertaining to</p>	To committee is responsible for guiding the Board in the formulation and development of a Remuneration Philosophy consistent with the Company's culture, strategy and business environment in which it operates; and, recommending approval thereof by the Board of Directors. It is also responsible for reviewing the effectiveness and appropriateness of the Company's Philosophy and strategy.	The committee has the power to review and endorse for Board ratification all promotions to the rank of Vice President up to Senior Executive Vice-President for positions below the CEO/COO/ CFO and to perform staff support functions as may be delegated by the Board in the performance evaluation, succession planning and remuneration for the CEO/COO/ CFO/Corp. Sec.
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					Remuneration and Leadership Development, specifically in the development and administration of Remuneration Programs and Leadership Development/ Succession Planning and Retention programs for executives and officers which include career development, promotions and performance evaluation.		
Finance	0	4	1	Please refer to Annex K for the Finance Committee Charter	The committee supports the Board of Directors through its review of the	The committee is responsible for reviewing, advising and recommending approval, decision or action on financial matters involving the management and operation of the Company, which include	It has the power to endorse to the Board recommendations with respect to the financial operations of the company, as it deems appropriate, and to

					financial operations of the Company and matters regarding the acquisition/ divestiture of or investments in companies, business or projects.	financial and treasury policies, all major financing transactions, issuance of shares, share repurchase, valuation of shares, and other such activities involving existing shares, corporate plans and budgets, major procurements and supply contracts and variations worth P50M and above, proposals for dividends and transfers to reserve, any actual, potential, major exception or occurrence of which has, or may have a major financial impact on the Company, capitalization of subsidiary or associated companies including guarantees, financial support, undertakings, and indemnities in respect of investments or liabilities. proposed Principal Agreements with Government, Joint Ventures and Shareholders' Agreement, Major Acquisitions, Divestments and Property Redevelopment, investments worth P50M and above except for investment transactions defined under the Investment Policy	approve actions within its delegated authority, and to address and deal with such other matters as maybe delegated by the Board to the Committee.
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2) COMMITTEE MEMBERS

Updated based on <http://corporate-downloadables-sec-filings.s3.amazonaws.com/1e218e2cddb185866ee97f67057737c.pdf> and

<http://corporate-downloadables-sec-filings.s3.amazonaws.com/784ca9c1ee3b19351c55676d7fd3d565.pdf> as disclosed on December 16, 2014 and May 27, 2014, respectively.

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED)	Manuel V. Pangilinan	26-May-09	2	2	100%	5 years and 7 months
Member (NED)	John L. Gokongwei, Jr.	27-May-14	1	0	0%	7 months
Member (NED)	Napoleon L. Nazareno	27-May-14	1	1	100%	7 months
Member (NED)	Lance Y. Gokongwei	16-Dec-13	2	2	100%	1 year
Member (NED)	Manuel M. Lopez	14-Apr-86	1	0	0%	28 years
Member (ID)	Artemio V. Panganiban	27-May-09	2	2	100%	5 years and 7 months

(b) Audit Committee

The committee has key responsibilities in the selection, appointment, evaluation and review of the Internal Audit Head and the External Auditor. Its primary responsibility is the recommendation on the appointment, and removal of the external auditor.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Artemio V. Panganiban	27-May-09	9	9	100%	5 years and 7 months
Member (NED)	Jose Ma. K Lim	29-May-12	9	5	56%	2 years and 6 months
Member (ID)	Pedro E. Roxas	25-May-10	9	7	78%	4 years and 7 months
Member (NED)	Lance Y. Gokongwei ²	16-Dec-13	9	7	78%	1 year

Member (NED)	James L. Go ²	16-Dec-13	9	8	89%	1 year
Member (Non-voting)	Anabelle L. Chua	25-May-10	9	6	67%	4 years and 7 months

Disclose the profile or qualifications of the Audit Committee members.

The Audit Committee (AuditCom) is appointed by the Board of Directors with an independent director as the Chairman. All members of the Committee have professional qualifications and have adequate background in business, finance, law, management and accounting.

The AuditCom consists of 2 independent directors, and 1 of them 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.

1. Artemio V. Panganiban, 77 – Independent Director and Chairman of Audit Committee (since May 27, 2009 - 5 years)

Justice Panganiban was a former Chief Justice of the Supreme Court of the Philippines. He was a Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. He is an Independent Director of Petron Corporation, Bank of the Philippine Islands, First Philippine Holdings Corporation, Philippine Long Distance Telephone Company, Metro Pacific Investments Corporation; Metro Pacific Tollways Corporation, Robinsons Land Corporation², GMA Network, Inc., GMA Holdings, Inc. and Asian Terminals, Inc.; Director of Jollibee Foods Corporation and a Senior Adviser of Metropolitan Bank and Trust Company. He is a columnist for the Philippine Daily Inquirer. He 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.

2. Jose Ma. K. Lim, 61 - Director (since May 29, 2012 – 2 years)

Mr. Lim is the President and Chief Executive Officer of Metro Pacific Investments Corporation. He is the Chairman of Davao Doctors Hospital, Asian Hospital Inc. and Riverside Medical Center in Bacolod City; President and Trustee of Metro Pacific Investments Foundation Inc.; President and Director of Beacon Electric Asset Holdings and Metro Strategic Infrastructure Holdings; member of the Board of Directors of Meralco PowerGen Corporation, Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Tollways Management Corporation, DMCI-MPIC Water Company, Inc., Maynilad Water Services, Inc., Medical Doctors, Inc., Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Central Luzon Doctors Hospital, Pacific Global Aviation Inc., Indra Philippines, and Neptune Stroika Holdings Inc. He is a Trustee of Davao Doctors Collage, Riverside Collage and Ideaspaces Foundation, Inc. He is a Founding Member and Treasurer of the Shareholders Association of the Philippines. Mr. Lim holds a Bachelor of Arts degree in Philosophy from the Ateneo de Manila University and a Masters in Business Administration from the Asian Institute of Management.

3. James L. Go, 74 - Director, (since December 16, 2013 - 1 year)

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

4. Lance Y. Gokongwei, 47- Director, (since December 16, 2013 - 1 year)

Lance Y. Gokongwei is the President and Chief Operating Officer of JG Summit Holdings, Inc.; President and Chief Executive Officer of Universal Robina Corp., Cebu Air, Inc. and JG Summit Petrochemicals; Vice-Chairman and Chief Executive Officer of Robinsons Land Corp.; Vice-Chairman of Robinsons Retail Holdings, Inc.; Chairman of Robinsons Bank Corp.; and member of the Board of Directors of Oriental Petroleum and Minerals Corporation, United Industrial Corporation Limited, Singapore Land Limited, and Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science where he graduated as Summa Cum Laude from the University of Pennsylvania.

5. Pedro E. Roxas, 57 - Independent Director (since May 25, 2010 - 4 years)

Mr. Roxas is the Chairman, President and Chief Executive Officer of Roxas and Company, Inc.; Chairman and President of Roxaco Land Corporation; Chairman of Roxas Holdings, Inc. and Club Punta Fuego, Inc. He is an Independent Director of Philippine Long Distance Telephone Company and BDO Private Bank. And a Director of Brightnote Assets Corporation. Mr. Roxas holds a Bachelor of Science degree in Business Administration from the University of Notre Dame in Indiana, USA.

Describe the Audit Committee's responsibility relative to the external auditor.

The Audit Committee reviews and evaluates procedures and criteria for the selection, appointment, performance evaluation and if appropriate, the termination of services of the external auditors and recommends the same to the Board and if required, to the Shareholders, for approval; reviews the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit; reviews and approves in consultation with the chief audit executive and the head of the Finance organization, all audit and non-audit services to be performed by the external auditors and the related fees to be paid for such services; ensures that non-audit services, if allowed or approved, are disclosed in the Company's annual report; reviews and confirms the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company (Statement of Independence) and evaluates any relationships or services disclosed in such Statement that may impact the objectivity, independence or quality of services of the external auditors and take appropriate action in response to such Statement to satisfy itself

of the external auditor's independence; and ensures that the external auditors or its lead audit partner of the external auditing firm assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations.

(c) Nomination and Governance Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Pedro E. Roxas	25-May-10	4	4	100%	4 years and 7 months
Member (NED)	Jose Ma. K Lim	29-May-12	4	3	75%	2 years and 6 months
Member (NED)	Napoleon L. Nazareno	27-May-14	3	3	100%	7 months
Member (NED)	Estelito P. Mendoza	26-Jan-09	1	0	0%	5 years and 2 months
Member (NED)	James L. Go	16-Dec-13	4	N/A	N/A	1 year
Member (NED)	Lance Y. Gokongwei	27-May-14	3	3	100%	7 months

(d) Remuneration and Leadership Development Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED)	Manuel V. Pangilinan	25-May-10	4	4	100%	4 years and 7 months
Member (NED)	Jose Ma. K Lim	29-May-12	1	0	0%	2 years
Member (NED)	Napoleon L. Nazareno	27-May-14	3	2	67%	7 months
Member (ID)	Pedro E. Roxas	25-May-10	4	3	75%	4 years and 7 months
Member (NED)	Lance Y. Gokongwei	16-Dec-13	4	4	100%	1 year

(e) Others (Specify) –

Provide the same information on all other committees constituted by the Board of Directors:

Risk Management Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Artemio V. Panganiban	27-May-09	9	9	100%	5 years and 7 months
Member (NED)	Jose Ma. K Lim	29-May-12	9	5	56%	2 years and 6 months
Member (ID)	Pedro E. Roxas	25-May-10	9	7	78%	4 years and 7 months
Member (NED)	Lance Y. Gokongwei ²	16-Dec-13	9	7	78%	1 year
Member (NED)	James L. Go ²	16-Dec-13	9	8	89%	1 year
Member (Non-voting)	Anabelle L. Chua	25-May-10	9	6	67%	4 years and 7 months

Finance Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Ray C. Espinosa	26-May-09	13	12	92%	5 years and 7 months
Member (NED)	Manuel M. Lopez	25-May-10	13	8	62%	4 years and 7 months
Member (ID)	Pedro E. Roxas	25-May-10	13	10	77%	4 years and 7 months
Member (NED)	James L. Go	16-Dec-13	13	12	92%	1 year
Member (NED)	John L. Gokongwei, Jr.	27-May-14	9	9	100%	7 months
Member (Non-voting)	Anabelle L. Chua	25-May-10	13	10	77%	4 years and 7 months
Member (Non-voting)	Ferdinand K. Constantino	01-Feb-09	3	1	33%	5 years

3) CHANGES IN COMMITTEE MEMBERS

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	<ul style="list-style-type: none"> • Messr. Eric O. Recto • Messr. Lance Y. Gokongwei • Messr. Ramon S. Ang • Messr. John L. Gokongwei, Jr. • Messr. Manuel M. Lopez • Messr. Napoleon L. Nazareno • Messr. Jose Ma. K Lim 	<p>Messr. Eric O. Recto resigned and was replaced by Messr. Lance Y. Gokongwei effective December 16, 2013.</p> <p>Messr. Ang resigned and was replaced by Messr. Gokongwei, Jr. effective March 31, 2014.</p> <p>Messr. Manuel M. Lopez was replaced by Messr. Napoleon L. Nazareno effective March 31, 2014</p> <p>Messr. Napoleon L. Nazareno was replaced by Messr. Jose Ma. K. Lim on May 27, 2014.</p>
Nomination and Governance	<ul style="list-style-type: none"> • Messr. James L. Go • Atty. Estelito P. Mendoza • Messr. Lance Y. Gokongwei • Messr. Napoleon L. Nazareno • Atty. Ray C. Espinosa 	<p>Messr. James L. Go was elected on December 16, 2013.</p> <p>Atty. Mendoza resigned and was replaced by Messr. Gokongwei effective March 31, 2014.</p> <p>Messr. Nazareno replaced Atty. Espinosa effective March 31, 2014.</p>
Remuneration and Leadership Development	<ul style="list-style-type: none"> • Messr. Eric O. Recto • Messr. Lance Y. Gokongwei • Messr. Jose Ma. K Lim • Messr. Napoleon L. Nazareno 	<p>Messr. Eric O. Recto resigned and was replaced by Messr. Lance Y. Gokongwei effective December 16, 2013.</p> <p>Messr. Lim was replaced by Messr. Nazareno effective May 27, 2014</p>
Others (specify) - Finance	<ul style="list-style-type: none"> • Messr. Eric O. Recto • Messr. James L. Go • Messr. Ferdinand K. Constantino • Messr. John L. Gokongwei, Jr. 	<p>Messr. Eric O. Recto resigned and was replaced by Messr. James L. Go effective December 16, 2013.</p> <p>Messr. Ferdinand K. Constantino was replaced by Messr. Gokongwei, Jr. effective March 31, 2014</p>

4) WORK DONE AND ISSUES ADDRESSED

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	<p>In 2014, the Executive Committee accomplished in its 2 meetings:</p> <ul style="list-style-type: none"> • Evaluation of power supply and demand outlook • Review of options regarding high Wholesale Electricity Spot Market (WESM) prices and Manual Load drops/Interruptible Load Program (ILP) • Approval to enter into and execute short-term Power Supply Agreements (PSAs) under mutually acceptable terms, takes effect upon ERC approval • Investment in a local power plant 	<p>No issues on compliance matters were required to be addressed by the Committee.</p>
Audit	<p>The AuditCom had 9 meetings in 2014 to discuss:</p> <ul style="list-style-type: none"> • Internal Control <ul style="list-style-type: none"> ○ 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 <ul style="list-style-type: none"> ○ 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 	<p>No issues on compliance matters were required to be addressed by the Committee.</p>

	<ul style="list-style-type: none"> ○ Recommended to the Board of Directors the approval of the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2014 and their consequent filing with the SEC and other regulatory bodies. ● Audit Process ○ Assessed the independence, performance and effectiveness of the External Auditors, SGV & Co., CPAs (SGV) 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 and dissected 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 Energy Regulatory Commission 	
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	(ERC), SEC and other regulators concerned with environment and safety, labor and others.	
Risk Management	<ul style="list-style-type: none"> • Reviewed management's top business risks and discussed on-going 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 to the Committee. 	No issues on compliance matters were required to be addressed by the Committee.
Nomination and Governance	<p>The Nom&Gov Comm had 4 meetings in 2014 to accomplish:</p> <ul style="list-style-type: none"> • Meralco's Official ASEAN Corporate Governance Scorecard (ACGS) • Review and Endorsement of Meralco's Consolidated Changes in Annual Corporate Governance Report (ACGR) for 2014 • Review of ACGS Results • Review Meralco's PSE CG Guidelines Disclosure Survey • Screening of Nominees to the Board of Directors • Notice on Resignations of Directors; Consideration of Admission of Replacements • Results of Board, Board Committee, and President/CEO assessment • Review and Approval of Amended Gifts Policy Disclosure Procedures • Review of 2014 ACGS Self-Assessment Results • Review and Approval of Annual Changes in Annual Corporate Governance Report (ACGR) • Review and approval of Revised Manual on CG pursuant to SEC Circular no. 9 	No issues on compliance matters were required to be addressed by the Committee.

	<ul style="list-style-type: none"> • Facilitation of Annual CG Enhancement and Continuing Education Programs • Review and Approval of Revised Insider Trading Policy • Review of 2014 ACGS Results 	
Remuneration and Leadership Development	<p>RLD had 4 meetings in 2014 to discuss:</p> <ul style="list-style-type: none"> • Review and approval of criteria for rank conferment • Approval of candidates for rank conferment of First Vice President and Senior Vice Presidents • Review and endorsement of Annual Bonus Plan for 2015 • Review of Toplighting Initiative's core actions and key objectives • Review of proposed Executive Rightsizing Policy • Review of performance evaluation plan results • Review of merit increase programs • Review of Annual Incentive Plan • Presentation and review of proposed succession planning programs • Performance evaluation of President/CEO (via presentation) 	No issue on compliance matters was required to be addressed by the Committee.
Finance	<p>In its 13 meetings in 2014, its major accomplishments were:</p> <ul style="list-style-type: none"> • Review and Approval of all supply contracts in excess of PhP 50M • Review and Approval Treasury Investment Policy • Review and Approval of Cash Optimization Strategy (allocation of cash to 2 portfolios) • Review of Investment and Accreditation Policy • Approval of creation of Investment Committee • Review and approval of PSA's and any changes or issues regarding their execution • Review of quarterly financial statements 	No issues on compliance matters were required to be addressed by the Committee.

	<ul style="list-style-type: none"> • Review and approval of 2015 budget and 2015-2019 Business plan and forecast • Review additional capital call, surety bonds, capital infusions for subsidiaries • Declaration of cash dividends • Authorization for tax debit memo • Review of special payment agreements • Review of Equity call • Review of investments • Review and endorsement of WESM surety bond for RES transactions 	
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5) COMMITTEE PROGRAM

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Conduct periodic review of its Charter to conform to any future rules or regulations promulgated by the SEC, PSE or other regulatory agencies.	To update the Committee's charter to comply with new rules and regulations.

Audit	<ul style="list-style-type: none"> • Develop continuing education program for members of the Audit Committee • Develop Audit Committee Toolkit for Committee Members • Perform reviews of the following- <ul style="list-style-type: none"> i. Company's framework for fraud prevention and detection including its whistleblowing program ii. Process for communicating the Code of Conduct to company personnel and management and for monitoring compliance therewith 	<ul style="list-style-type: none"> • Appropriate seminars or forum specifically designed for Audit committees are quite limited in the country. • Provide easy reference especially for new committee members not only to understand the committee's roles and responsibilities but also to develop and maintain necessary technical knowledge to discharge them. • Fulfill oversight responsibility as defined in the charter. Reviews were undertaken and discussed.
Risk Management	<ul style="list-style-type: none"> • Develop continuing education program for members of the Risk Management Committee • Develop Risk Management Committee Toolkit for Committee Members 	<ul style="list-style-type: none"> • Appropriate seminars or forum specifically designed for Risk Management committees are quite limited in the country. • Provide easy reference especially for new committee members not only to understand the committee's roles and responsibilities but also to develop and maintain necessary technical knowledge to discharge them. • Fulfill oversight responsibility as defined in the charter. Reviews were undertaken and discussed.
Nomination and Governance	<p>Following are some of the Committee plans and programs for the 2014:</p> <ul style="list-style-type: none"> • Review the Board and Committees composition and structure to determine areas for improvements. • Screen and shortlist candidates nominated for election as Directors. 	<p>Strengthening the weak areas in the Company's ASEAN Corporate Governance Scorecard and aim for higher compliance.</p>

	<ul style="list-style-type: none"> • Review and update the Board and Board Committee Performance assessment instrument and oversee the implementation of the performance assessment. • Review the corporate governance related policies and programs and recommends areas for improvement to improve directors and employees compliance. • Review corporate governance related reports and disclosures and ensure their timely submission to concerned regulators. 	
Remuneration and Leadership Development	<p>1. Incentive Pay</p> <ul style="list-style-type: none"> • To explore options that will make short-term and long-term incentive plans (i.e., Variable Incentive Plan for Non-Exempt employees, Annual Bonus Plan and Long-Term Incentive Plan for Exempt employees) more performance-based, leading to more strategic value to the Company. <p>2. Succession Management</p> <p>To review succession planning initiatives for key senior executive positions, ensuring the depth and breadth of the talent pool from which the Company's future top leaders will be sourced</p>	No issues on compliance matters are required to be addressed by the Committee.
Finance	Conduct periodic review of its Charter to conform to new rules on financial reporting as may be required by law.	Compliance to new financial accounting and reporting rules.

F. RISK MANAGEMENT SYSTEM

1) STATEMENT ON EFFECTIVENESS OF RISK MANAGEMENT SYSTEM

Disclose the following

(a) Overall risk management philosophy of the company;

The Company has an Enterprise Risk Management framework that establishes the process of identifying, prioritizing and measuring key risks, assigning accountability and responsibility for each identified risk, and a cascade process that ensures mitigating activities are embedded in the day to day activities of each and every employee. This enhances its ability to manage Business Risks.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The board reviews the company's material controls (including operational, financial and compliance controls) and risk management systems with the advice and recommendation of the Audit Committee, which in turn conducts a regular review of the Company's risk management activities. This is included in the accomplishment of the Board and the Risk Management Committee in 2014.

(c) Period covered by the review;

[Year 2014.](#)

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The Risk Management Committee oversees the conduct of the annual risk assessment and update on the risk mitigation activities for specific risks. These are reported to the Board by the Risk Management Committee.

(e) Where no review was conducted during the year, an explanation why not.

[The Company conducted a Risk Assessment in 2014.](#)

2) RISK POLICY

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Management Policy

The Enterprise Risk Management (ERM) policy aims to help Meralco grow shareholder value by comprehensively reviewing and improving its risk management infrastructure and culture to ensure that the relevant activities are aligned with the overall goals and strategies of Meralco.

This policy provides the framework for managing risks in Meralco. It contains the baseline policies to guide all Meralco personnel who are directly or indirectly involved in operations, including all members of the Board of Directors or *BOD*, and Committees of the *BOD*, in taking appropriate actions and decisions pertaining to the management of Meralco's portfolio of risks.

Risk Exposure	Risk Management Policy	Objective
Cash Flow Interest Rate Risk	Manage the interest rate exposure using a mix of fixed and variable rate debts	<ul style="list-style-type: none"> • Achieve a more efficient leverage ratio • Attain a reasonably lower effective cost based on market conditions
Credit Risk	<p>Meralco – Trade Receivables</p> <ul style="list-style-type: none"> • Meralco and CEDC have specific connection and disconnection policies, duly approved by the Energy Regulatory Commission. • A bill deposit equivalent to an average month's consumption, consistent with the DSOAR is required from customers to secure the credit and the consumption after the meter reading cut-off date. • Electricity bills do not cumulate. • A disconnection notification and implementation policy is in place <p>Meralco Subsidiaries and Non-trade accounts of Meralco</p> <ul style="list-style-type: none"> • The Meralco Group trades only with recognized, creditworthy third parties supported by the following processes: • Credit verification process • Accreditation evaluation based on liquidity and solvency ratios 	Reduce exposure to bad debts and other potential losses thru the credit quality review process
Liquidity Risk	<ul style="list-style-type: none"> • Preparation of daily cash flows • Monitoring cash flows in consideration of future payments of obligations and the collection of trade receivables <p>Sufficient and approval credit lines are available that can be drawn from anytime</p>	Payment of obligations are made as they fall due
Investment Risk	All matters regarding acquisition and/or divestment of	Increase shareholder value through: a) direct impact

	investments, businesses and ventures are subject to the review and approval of the Finance Committee	to net profit, b) synergies in operation, c) Savings to Meralco
Regulatory and Political Risk	<ul style="list-style-type: none"> Proactive engagement with regulators and relevant agencies to align with recent developments Systematic monitoring of compliance 	<ul style="list-style-type: none"> Timely filling of substantive and sound arguments for cases filed with the ERC and with the court aimed towards positive decisions. Maintain listening posts stationed in ERC, in Congress, and other relevant government agencies to scout for plans or information which may potentially affect the Company.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
The subsidiary companies implement the same ERM policy and Framework as that of the parent company Meralco.	The subsidiary companies implement the same ERM policy and Framework as that of the parent company Meralco.	The subsidiary companies implement the same ERM policy and Framework as that of the parent company Meralco.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

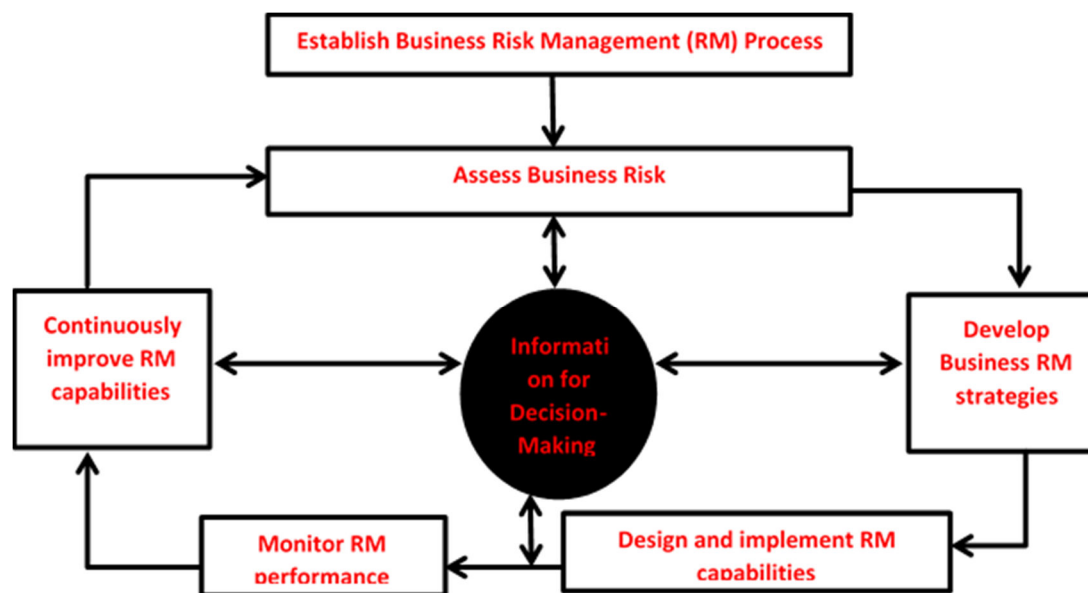
Risk to Minority Shareholders
The Company has no single controlling shareholder and therefore the risk to minority shareholders is non-existent.

3) CONTROL SYSTEM SET UP

Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

The control systems set up to assess, manage and control the main issues and risks faced by the Company is as follows:



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.

Reference: Enterprise Risk Management Policy (page 13) posted in the Company website:

<http://corporate-downloadables-articles-of-incorporation-and-by-laws.s3.amazonaws.com/129a4de0e7092451f9f33935d15d0ebe.pdf>

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Key Risks	Annual Risk Identification through Risk and Control Assessment	1. Interview with Risk owners 2. Filtering of Risks 3. Risk Rating and Ranking 4. Assignment of Risk Owner 5. Risk Owner Monitoring and Report
Operational Risk	Risk and Control Self-Assessment	Assessment of risks and controls by employees supported by one common

	or <i>RCSA</i>	<p>methodology which draws collective knowledge and insights of the organization regarding business risks and internal control effectiveness.</p> <p>Steps in the RCSA process:</p> <ol style="list-style-type: none"> 1. Revisit goals & objectives 2. Identify barriers/risks to the goals 3. Rate the risks in terms of likelihood and impact 4. Determine business process affecting the goals 5. Determine & rate the controls in place 6. Determine necessary risk response or control measures 7. Reporting/monitoring of risks
Operational Risk	Hazard Identification , Risk Assessment and Control or <i>HIRAC</i>	<p>HIRAC Process</p> <ol style="list-style-type: none"> 1. Identify processes (scope) 2. Formulate/update database 3. Identify Hazards 4. Assess the Risks 5. Determine Controls 6. Set objectives, targets and programs 7. Integrate in ESH Management System 8. Review and update
Operational Risk	Failure Mode and Effects Analysis or <i>FMEA</i>	<p>FMEA includes review of the following:</p> <ol style="list-style-type: none"> 1. Identify assets that are critical to the electric distribution system 2. Determine failure modes (what could go wrong) and effects of the failure to the system 3. Identify failure causes 4. Assess the risk (probability and severity of failure) 5. Determine corrective and preventive action <p>The resultant level of risk will be used as a basis for setting up the Maintenance Policy and prioritization of planned maintenance activities.</p>
Operational Risk	Use of ISO 27000 Standard as a guide to assess Information	<ol style="list-style-type: none"> 1. Define scope and boundaries of ISMS (<i>Information Security Management System</i>)

	Security Risks	<ol style="list-style-type: none"> 2. Define ISMS Policy 3. Define risk assessment approach 4. Identify the Risks 5. Analyze and evaluate the risks 6. Identify and evaluate options for the treatment of risks 7. Select control objectives and controls for the treatment of Risks 8. Obtain Management Approval of the proposed residual risks 9. Obtain Management authorization to implement and operate ISMS 10. Prepare a statement of applicability
Operational Risk	For process improvement (Six Sigma Project), use of Root Cause Analysis and Risk Management Techniques	<ol style="list-style-type: none"> 1. Risk identification 2. Risk prioritization (severity of effect, frequency of occurrence and strength of detection) 3. Risk treatment planning
Operational Risk	For Development: Establish process/procedure in managing the risks for energy sourcing	

Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Key Risks	Annual Risk Identification through Risk and Control Assessment	<ol style="list-style-type: none"> 1. Interview with Risk owners 2. Filtering of Risks 3. Risk Rating and Ranking 4. Assignment of Risk Owner 5. Risk Owner Monitoring and Report
Operational Risk	Risk and Control Self-Assessment or RCSA	Assessment of risks and controls by employees supported by one common methodology which draws collective knowledge and insights of the organization

		<p>regarding business risks and internal control effectiveness.</p> <p>Steps in the RCSA process:</p> <ol style="list-style-type: none"> 1. Revisit goals & objectives 2. Identify barriers/risks to the goals 3. Rate the risks in terms of likelihood & impact 4. Determine business process affecting the goals 5. Determine & rate the controls in place 6. Determine necessary risk response or control measures 7. Reporting/monitoring of risks
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Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Board of Directors (Risk Management Committee)	<p>Oversight with meetings with Risk Management Committee scheduled at least once every quarter to cover the following:</p> <ol style="list-style-type: none"> 1. Discussion of Management's annual risk assessment 2. Update on risk management activities 	<ol style="list-style-type: none"> 1. Reviews and approves risk management policies, strategies and risk appetite; 2. Sets clear directions on the management of critical risks; 3. Receives and reviews reports from the Mancom with regard to the risk management activities across Meralco; and 4. Reviews and evaluates the overall effectiveness of Meralco's risk management process.
Chief Executive Officer/Chief Operating Officer	Comprehensive Risk Executives	<ol style="list-style-type: none"> 1. Comprehensive and Overall Risk Executive – ultimately responsible for ERM priorities, including strategies, tolerances, policies and resource allocation; 2. Chairs the Mancom Risk Management Sub-Committee (MRMSC), sets the direction and leads the decision-making processes as they relate

		<p>to:</p> <ol style="list-style-type: none"> 3. Identification of risk priorities; 4. Alignment of business risk strategies and policies; and 5. Resolution of conflicts with regard to risk management strategies.
ManCom Risk Management Sub-Committee or <i>MRMSC</i>	Coordinated Decision Making	<ol style="list-style-type: none"> 1. Approves Meralco's ERM policy and any revisions thereto; 2. The MRMSC should be composed of Meralco's Mancom; 3. Makes recommendations to the Board on matters pertaining to ERM; 4. Ensures the sufficiency and effectiveness of the relevant infrastructure (e.g., policies, processes, management reports, people, methodologies, and systems and data) for managing specific risks; 5. Designates risk owners for each identified risk area; 6. Approves risk responsibilities and accountabilities; 7. Approves risk measurement methodologies; 8. The champion of ERM across Meralco; 9. Oversees the entire business risk management process across Meralco; 10. Monitors the proper performance of specific risk management functions by the EWRM office, other respective risk management units, and BU/department heads of each business unit within Meralco through the semi-annual risk monitoring reporting process; 11. Ensures that each Meralco business unit's risks are integrated with the rest of the critical parent company level risks through review of the consolidated risk information and analysis across Meralco presented by EWRM office; 12. Ensures that all initiatives pertaining to ERM are continuously monitored and regularly reported to the appropriate members of the organization including the CEO and Meralco Mancom through the regular reporting process; and 13. Develops monitoring procedures to facilitate efficient monitoring activities. Monitoring consists of both formal and informal processes performed by senior management, process/risk owners, as well as internal auditors.
Internal Audit	Independent Validation	<ol style="list-style-type: none"> 1. Conducts periodic audit to ensure compliance with approved risk

Group		<p>management policies; and</p> <p>2. Makes recommendations for improvement in the risk management function to the Mancom and the Board.</p>
Enterprise Wide Risk Management or EWRM Office	Enable Collect, Analyze, Synthesize and Report	<p>1. Accountable for managing and coordinating with the Business Risk Owners/Representatives of Meralco;</p> <p>2. Works with the MRMSC in planning, deploying and monitoring risk management activities;</p> <p>3. Monitors and reports progress of work to the MRMSC;</p> <p>4. Ensures ERM objectives are met;</p> <p>5. Ensures quarterly reports are received from Business Risk Owners, consolidated and reported to the MRMSC and/or the Audit & Risk Committee on a regular basis;</p> <p>6. Ensures risk assessment exercises are conducted with results reported to the MRMSC at least on an annual basis; and</p> <p>7. Prepares and finalizes all annual ERM reports and materials for presentation to the Board subject to the review and approval of the CRO.</p>
Business Risk Owner (i.e., Heads of each business unit in Meralco)	Manage and Report	<p>1. Has overall accountability for and ownership of the assigned risk;</p> <p>2. Recommends risk tolerances and limits along with measurement methodologies for approval by the Mancom (MRMSC);</p> <p>3. Coordinates with the various risk management unit representatives from the different departments within the business unit to ensure that required risk management activities are carried out;</p> <p>4. Reviews and validates the risk management strategies, action plans and other risk management outputs/reports developed by the different departments within the business unit;</p> <p>5. Ensures the adequacy and continual application of risk management programs;</p> <p>6. Ensures that quarterly status of risks is submitted to EWRM on time;</p> <p>7. Reviews new and emerging risks identified by the respective departments within the business unit and coordinates the disposition of these risks with the risk management unit;</p> <p>8. Ensures that the risk management function/activities form part of the</p>

		<p>performance measures of the members of his business unit and corresponding risk management unit representative:</p> <ul style="list-style-type: none"> a. Develops alternative risk management strategies and evaluates the best management options following the overall risk management policies of Meralco; and b. Identifies required capabilities to achieve the desired level of risk management proficiency and implements necessary actions to close the identified capability gaps.
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G. INTERNAL AUDIT AND CONTROL

1) STATEMENT ON EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

As provided in its Revised Manual of Corporate Governance, the control environment of the Company consists of:

- i. The Board which ensures that the Company is properly managed and effectively supervised;
- ii. The Management that actively manages and operates the Company in a sound and prudent manner;
- iii. The organization and procedural controls supported by effective management information and risk management reporting systems; and,
- iv. An independent audit mechanism to monitor the adequacy and effectiveness of the Company's financial reporting, governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, confidential information, and compliance with laws, rules, regulations and contracts.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

As provided in the "Audit Committee Report to the Board", the directors:

- i. Discussed and reviewed the results of the audit findings and recommendations of the internal and independent auditors and their assessment of the Company's internal controls and the overall quality of the financial reporting process.
- ii. Reviewed the reports of the internal auditors and regulatory agencies, where applicable, ensuring that management is taking timely and appropriate corrective actions, including those addressing internal control and compliance issues.

(c) Period covered by the review;

Year 2014.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system;

The review of internal controls are conducted annually by the directors based on the reports of the Management. Internal and external auditors.

(e) And where no review was conducted during the year, an explanation why not.

A review was conducted in 2014.

2) INTERNAL AUDIT

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Independent and objective assurance provider to the Board and top management	Internal control performance, risk management performance and governance process performance	In-house and occasionally co-source selected special engagements	Helen T. de Guzman	Internal Audit reports functionally to the Audit Committee of the Board and administratively to the CEO

(b) Appointment/Removal of Internal Auditor

Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

YES. The appointment and/or removal of the Internal Auditor requires the approval of the Company's Audit Committee and confirmation by the Board of Directors.

(c) Reporting Relationship with the Audit Committee

Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Internal Auditor reports functionally to the Audit Committee of the Board and administratively to the CEO. Internal Auditor has unrestricted access to all functions, records, property, and personnel for the specific purpose of the audit and has full access to the Audit Committee. The Internal Auditor has full and free access to the Audit Committee.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Arjay B. Balane	Resignation due to employment overseas
Ma. Clarissa L. Santos	Resignation to pursue graduate studies
Ramon Nonato B. Vizconde	Transferred to Meralco's System Control Department

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.
The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.

Progress against Plans	<ul style="list-style-type: none"> • 2014 Risk-based Audit Plan was reviewed and approved by Management and the Audit Committee • As of year-end 2014, following status/progress was reported: <ul style="list-style-type: none"> - Completed 78% (21/27) of the planned audit engagements - Completed 100% (5/5) of unplanned/requested audits - Completed all “maintenance” audits - 96% acceptance of audit recommendations - 100% accomplishment in the monitoring and quarterly reporting of status of audit recommendations to the Audit Committee
Issues	<ol style="list-style-type: none"> i. Compliance ii. Updating of established processes or development of new processes iii. Segregation of function
Findings	<ol style="list-style-type: none"> i. Exceptions noted on employee compliance to established policies & procedures for certain policies and processes. ii. With the on-going transformation and conversion to new information systems, formalizing and institutionalizing new policies and procedures are still work in progress. iii. Segregation of custodial function for new stocks and salvaged/scrap materials for implementation.
Examination Trends	Adoption of continuous auditing.

(f) **Audit Control Policies and Procedures**

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
Internal Audit Policies and Procedures Manual	Updates/enhancements to be incorporated in 2015
Conflict of Interest Disclosure	Implemented
Internal Audit Approach to Fraud	For enhancement and formalization in 2015

(g) **Mechanism and Safeguards**

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Internal Audit Charter	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>

<ul style="list-style-type: none"> • Annual disclosure of conflict of interest • Annual declaration of independence • “Blackout Policy” on trading of stocks 	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>
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(h) Full Compliance

State the officers (preferably the Chairman and the CEO) who will have to attest to the company’s full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The following attest to the Company’s full compliance with the SEC Code of Corporate Governance.

- Chairman
- President and Chief Executive Officer
- Compliance Officer

H. ROLE OF STAKEHOLDERS

Disclose the company’s policy and activities relative to the following:

	Policy	Activities
Customer's Welfare	<p>Our true measure of success is serving the customers better.</p> <p>The Customers are our reason for being, and therefore, they should always be treated with dignity. The Company must be fully responsive to their needs.</p> <p>A priority is also on preparing for the approaching "green agenda" where customers will become "prosumers" - consumers who can locally generate and manage electricity from renewable sources and who will commute by electric transportation.</p> <p>Commitment is to pursue the journey of business and technology innovation to effectively address the country's increasing challenges of energy supply, security and affordability, electric grid performance improvement, consumer empowerment and environmental protection.</p> <p>In particular, the Company has the responsibility to:</p>	<p>The Company never wavers on our commitment to deliver excellent customer service to satisfy our 5.36 M customers. This year, we succeeded in bringing customer satisfaction to the next level.</p> <p>We did this by knowing the customers through continuous review of customer segments, customer analytics and insighting and conducting marketing intelligence research on customer preferences and needs.</p> <p>We streamlined our process to facilitate faster processing.</p> <ul style="list-style-type: none"> Continuing support to customers thru Accredited Meralco Contractors Program which provide resources to assist the customer in their technical requirements in applying for electric service. This made application easier so the customer can focus more on the business and his family <p>We also implemented effective customer communication thru targeted customer engagements:</p> <ul style="list-style-type: none"> Luminaries Awards – given to Industrial, Commercial and LGU customers showcasing the stellar partnerships between Meralco and its key customers. Conducted Strategic Planning with 15 Major Accounts – we proactively engage customers early in their planning stage to guide them and facilitate timely construction of facilities and energization of service.

	<ul style="list-style-type: none"> • Provide the customers with the highest quality products and services, consistent with their requirements and comparable with international standards; • Treat the customers fairly, courteously and with integrity in all of its business transactions; • Act promptly on their immediate concerns and be receptive to their long-term needs and interests; and • Make every effort to ensure that the health, safety and general well-being of its customers are enhanced by its products and services. 	<ul style="list-style-type: none"> ○ Filinvest ○ Century Park ○ Villar Group of Companies ○ Rockwell Land ○ DPWH ○ Federal Land ○ Jollibee ○ Resorts World ○ DOTC ○ Indophil ○ Aseana ○ Eton, to name a few. • Launched the SME Awareness Program in November thru “Kape Tayo” whose aim is to provide venue for a future SME applicant to talk to Meralco even at the start of the project instead of at the point of energization. • A total of 18 Power-up forums were conducted to update our corporate and government customers on company policies and industry developments customized based on industry-specific concerns and timely topics such as RCOA, generation charge and other developments. • Extended channel partnership programs beyond the technical organizations by including industrial associations, industrial parks, property managers, financial organizations and educational institutions. • Reinforced the Company’s online presence through our website and proactive communication via social media (Facebook, Twitter, etc) and enhancement of the MoVE app. On June 20, the app ranked as top 3 downloads in the Appstore as offshoot of the Meralco advisory.
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		<ul style="list-style-type: none"> • Release of TV, radio and print ads that showcased Meralco's existing and future products and service offerings. (Prepaid, HANA, EV) • Value for Money Campaigns <ul style="list-style-type: none"> ○ highlighted by the Monthly Meralco advisory, a breakthrough program launched in June to inform customers on electricity rates and how to help them manage electricity consumption; ○ Bright Ideas – communicates energy efficiency ideas to the customer to help them manage their electricity and promote safety. ○ Typhoon Watch – we released typhoon safety tips and timely power outage updates whenever a storm/typhoon would hit the franchise. • Provided Effective customer communication is evidenced by numerous awards and citations from leading business communication bodies: 7 Anvil Awards, 35 Quill Awards, including Company of the Year; the highest number of awards so far. <p>The improvement in customer service delivery and forging of closer customer engagements and communications with the customer, we were able to hit the all-time high in Customer Satisfaction (CSI) rating as we posted 7.79 well above the stretch goal of 7.75 and narrowly missing the aspiration goal of 7.80. We achieved this feat as we put our resolve to have a clear focus on the customers' needs, anticipating their expectations and ensuring effective communication.</p> <p>But beyond improving communications and customer engagements, Meralco strived to enhance customer service experience thru Innovations. We looked for ways to</p>
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		<p>leverage on technology to respond to the customers' evolving needs and expectations.</p> <p>Smart Grid – in 2013, the Smart Grid roadmap was presented to ERC while the business case was developed and presented to the Smart Grid Steering Comm.</p> <p>Advanced Metering Infrastructure (AMI) – Postpaid plus project concept was developed; Home Area Network (HANA) project concept and business strategy were formulated, technical pilot was conducted at Angono, Market research was conducted to measure market response; end to end testing of meter integration was conducted and activation of loading centers (Bayad Center, 7-Eleven, Smart, Generika); Prepaid Electricity pilot was conducted for non-residential customers.</p> <p>Electric Vehicle (EV). – Charging station was launch in Jul; eTrike market research was conducted; e-Bike Sharing Program was piloted in Dec; integrated business case was formulated for e-Trike and e-Bike; and EV Leasing model was developed with MSERV.</p> <p>Providing standardized services to home and micro businesses, small and medium enterprises and corporate business groups.</p> <p>Standardization of policies, work processes related to customers at all business centers and public information of the services and rates offered by the Company such as the monthly Meralco Advisory.</p> <p>Communicating significant operational plans and holding</p>
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		<p>appreciation events such as Meralco Luminaries with customers at least once a year.</p> <p>Undertaking surveys on customers' level of satisfaction to improve the Company's service standards.</p> <p>Promoting safety as a way of life by providing safe and healthy work environment to prevent accidents, injuries and other illnesses.</p> <p>Taking action and responsibility on climate change by preventing pollution through the optimization of the use of natural resources, minimizing waste generated by processes and being an active partner in reforestation.</p> <p>Pursuant to Energy Regulatory Commission (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.</p>
Supplier/contractor selection practice	<p>The Company's suppliers are required to undergo an accreditation process. Part of the requirements for accreditation is the supplier's written commitment the Company's Suppliers Business Conduct (SBC) policy. Only accredited suppliers will be considered for inquiry and award. The selection of suppliers is done through competitive and transparent bidding process.</p> <p>Vendors must set an appointment with the concerned Meralco group or representative in advance in order to ensure a more efficient</p>	<p>A sourcing plan is prepared for all purchases, indicating the criteria and sourcing method to be used for the selection of the supplier, and the same passes through the Procurement hierarchy for approval. A pre-bid conference is conducted with prospective bidders, in coordination with the end-user, to enable prospective bidders to determine site conditions and other requirements that may not be apparent in the bid documents.</p> <p>Corporate Audits conducts a regular random audit to determine compliance with the bidding process.</p> <p>Application for Vendor Accreditation</p>

	<p>process. Appointments may be made via phone, letter, or email to our procurement office.</p> <p>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 ability, adequate equipment and facilities, good service performance, or any other measures that will ensure quality and reliability in every purchase made.</p> <p>The Vendor Accreditation Program will cover all new vendors applying for accreditation and existing vendors of Meralco who seek to augment their existing product lines.</p> <p>To help realize the company's vision of becoming a world-class organization and to fulfill its mission and objectives, Meralco strives to enrich the corporate culture and institutionalize quality systems and processes to meet or exceed its customer requirements and expectations. Meralco's quest for quality service is also affected by the quality of products and services that it acquires from its vendors. Thus, Meralco wishes to extend these principles of quality to its vendors.</p> <p>Continuous quality improvement exists when specific methods or processes that inherently and effectively bring out ongoing improvement are in place. These methods should; (a) prevent</p>	<p>New Vendor must check if Meralco needs its product by clicking "List of Products Needed" link (http://corporate-downloadables-vendor-accreditation.s3.amazonaws.com/ab04b5fe85dc482a5aa00f33fa7068f0.pdf). Only applications for the supply of products included in the list are accepted. If product is needed, please click "On-line Application" icon and follow instructions indicated. 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.</p> <p>Bid Documents The bid documents are:</p> <ul style="list-style-type: none"> • The letter Request for Bid • Specifications for commodity or service being purchased • Terms and conditions governing the bid <p>Invitation to Bid Bids are solicited for goods or services through the issuance of Letter Requests for Bids which serves as the bid invitation. The bidder will be informed by the Procurement Office through telephone or e-mail. The bid invitations are available and distributed at the reception area of the Procurement Office.</p>
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	<p>the occurrence of defects or errors, and; (b) promote customer feedback internally as well as externally. The attitude of constantly aiming for perfection, by continuously striving for small incremental improvements, is a part of Meralco's culture that it would also like to instill in its vendors.</p>	<p>In case of international competitive bidding, bid invitations may be published in a newspaper of general circulation for at least two (2) days.</p> <p>Meralco reserves the right not to invite a vendor who has previously failed to complete contracts of similar nature.</p> <p>Pre-Bid Conferences</p> <p>Pre-bid conferences are held to familiarize the vendor with the requirements specified by Meralco. It gives Meralco the opportunity to discuss with the bidders the details of the requirements, to clear out other bidding issues, and allow bidders to make clarifications on technical or commercial matters regarding the bid.</p> <p>Attendance in almost all of the pre-bid meetings is mandatory. If not attended, it will prevent the vendor's firm from bidding.</p> <p>Mandated or not, we would advise all vendors to attend the pre-bid conference in order to obtain further information about the requirements and hear the queries of other vendors first-hand.</p> <p>Addenda may be issued to the bid based on the discussions that took place during these meetings.</p> <p>Delivery Preference</p> <p>As a matter of preference, vendors will quote FOB Meralco site (in Philippine peso) for items acquired locally; Indent items will be quoted in C&F, CIF Manila or DDU Meralco site.</p> <p>Delivery Dates</p> <p>Unless already specified, the bidder should always state the definite number of days for delivery. The time required for delivery is an important factor in determining who will be awarded the bid.</p> <p>Submission of Bids</p>
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<p>Environmentally friendly value-chain</p>	<p>The Company is committed to the cause of protecting the environment and mitigating the adverse impact of climate change.</p> <p>The Company has adopted an Environment Safety and Health (ESH) Policy that ensures environmentally-friendly value chain and compliance with all pertinent environmental laws.</p> <p>The Company strictly monitors its business activities and operations to ensure sustainable development and safeguard the quality of life of society, communities, and the environment in the areas where it operates.</p> <p>Sustainable, reliable, secure and cost effective energy supply is, and will continue to be, an essential enabler of economic performance, market competitiveness and societal prosperity at a community, country and regional level.</p> <p>An Environment, Safety and Health (ESH) Office was specifically created to design and oversee the implementation of the above ESH policy.</p>	<p>Specific programs such as solid waste management, water conservation, air pollution control, and wastewater management have been implemented by the Company to ensure compliance with environmental laws and preservation of the natural resources throughout its franchise area.</p> <p>In partnership with the Department of Environment and Natural Resources, One Meralco Foundation honored 41 schools with the Meralco Energy Leadership Award during the National Search for Eco-Friendly and Sustainable Schools.</p> <p>The program aims to highlight schools which model energy-efficient and sustainable environment programs. Over 200 elementary, high-school and colleges joined the search.</p> <p>Nine Distribution Sectors, Subtransmission Services, and Safety and Environment Management were successful in implementing the integrated Environmental Management System (EMS-ISO 14001) and the Occupational Health and Safety Assessment System (OHSAS 18001).</p> <p>Sta. Rosa Sector, situated in the southern area of the franchise and Balintawak Sector located in the northern part, gained milestone achievements by reaching 10-years and 5-years of Zero Lost Time Incidents, respectively.</p> <p>Regular safety meetings were re-established in various organizations situated in the Head Office and Business Centers.</p>
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Community interaction	The Company, through One Meralco Foundation (OMF), actively interacts with the communities	1. Community Electrification- The program develops feasible electrification alternatives through workable

	<p>located within and outside its franchise area. The community interaction is principally focused on the following pillars:</p> <ol style="list-style-type: none"> 1) <i>Community Electrification</i> 2) <i>Grassroots Partnerships</i> 3) <i>Youth and Sports Advocacy</i> 4) <i>Emergency Preparedness and Disaster Response</i> 	<p>socialized schemes for various community beneficiaries such as (1) informal settlers in certain public lands or private properties; (2) portions of resettlement areas where informal settlers such as families formerly residing along the Pasig River, railroad tracks and privatized government properties; (3) isolated communities; and (4) families unable to meet the minimum legal requirements to apply for and secure legal electricity connections, in partnership with Local Government Units (LGUs), Non- Government Organizations (NGOs), and other community institutions. The following are some of the major projects under this program:</p> <ol style="list-style-type: none"> a. Household Electrification Program which provides affordable and safe electric service in organized depressed communities. To date, the program has benefited more than 9,000 families. b. Communal Infrastructure Electrification Program which energized communal infrastructures such as streetlights, farms, youth centers and rural health centers. So far, over 7,000 households now have access to electricity in their localities. c. School Electrification Program which is focused on energizing off-grid schools through the use of solar PV systems. 1,000 students from six public elementary schools in the island community of Isla Verde, Batangas were the first beneficiaries of the program. d. Electric & Safety Inspection of Public Schools which is done during the annual Brigada Eskwela, involves electrical and safety audit or assessment, inspection of service wires and tree trimming for selected public
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		<p>schools. The program has assessed more than 6,000 public schools.</p> <p>2. Grassroots Partnerships - we pursue our commitment towards strong partnerships with local government and barangays by providing appropriate support for certain local community needs such as health, sanitation, environmental protection, sports and education. Through these partnerships, the Foundation is able to nurture public safety, promote responsible stewardship among residents and spur growth and development in communities. The following are the major projects under this program:</p> <p><i>a. Community Grants Program</i> which involves the provision of financial grants to support the livelihood programs of recipient marginalized communities. Since its implementation, over 800 families have benefited from the program.</p> <p><i>b. Bio Intensive Gardening (BIG)</i> is an initiative aimed at sharing backyard farming techniques to the community for their food sustenance as well as livelihood opportunities for each household.</p> <p><i>c. Support Program</i> to the various relationship-building initiatives of Meralco Business Centers, Sectors and Offices with their respective communities. To date, over 20 community relations projects were implemented.</p> <p>3. Youth and Sports Advocacy – We believe 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,</p>
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		<p>the Foundation hope to make the youth self-sufficient as they reach their full potential as persons and be productive citizens of the country.</p> <p><i>a. Meralco Basketboys Program consists of a basketball clinic and values integration session which develops the basketball skills of disadvantaged youth, and for them to understand values such as leadership, teamwork, and a winning attitude. Since 2011, over 1,000 marginalized boys and girls have been trained under the program.</i></p> <p><i>b. Meralco Chess Campus Tour Workshop which includes lectures and simultaneous chess exhibitions that will help build strategizing and problem-solving skills of the youth. This program, which is in partnership with the employee-organized Meralco Chess Club, has trained 372 boys and girls from public schools.</i></p> <p><i>c. MVP Academic Assistance Awards is the provision of financial aid to deserving sons and daughters of Meralco Group employees to support their education expenses for the current school year. 280 brilliant Meralco dependents have been recognized under this program.</i></p> <p><i>d. Support to Scholarship Programs aims to provide quality education to bright Filipinos who lack the necessary resources to enter the top schools in the country. The program has supported the One La Salle Scholarship Program for public school students of the De La Salle University, and the Project Light-a-Dream for out-of-school-youth and underserved adults of the Miriam College Foundation.</i></p> <p>4. Emergency Preparedness and Disaster Response – we</p>
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		<p>lend our experience and resources in emergency and disaster preparedness to support other utilities and communities. This sharing of expertise and resources aims to further harness response to major emergency situations, natural calamities and disasters.</p> <p><i>a. Disaster Relief Operations</i> which are activities organized by Meralco Group employees where they donate food and clothing to victims of calamities. The Foundation has extended assistance to over 50,000 families in various provinces struck by disasters.</p> <p><i>b. Electrical Facilities Rehabilitation Program</i> lends knowledge, expertise and resources to other utilities and communities in response to calamities. As part of its assistance to the Typhoon Pablo-stricken towns of Cateel and Boston in Davao Oriental, Meralco, the Foundation, and the Davao Oriental Electric Cooperative worked together to restore power and giving light to 7,626 households in the area.</p> <p><i>c. Youth First Aid Challenge</i> which is a competition-based program in partnership with Philippine Red Cross aiming to promote safety awareness to students under the Red Cross Youth program. This has trained over 2,500 youth first-aiders.</p> <p>5. <i>Employee Volunteerism</i> - employees of the Meralco Group have a hand in nation-building through the Makabayan Volunteerism Program (MVP). The program which 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 <i>malasakit</i> and <i>makabayan</i>. At present, the Foundation has</p>
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		<p>engaged over 4,000 Meralco employees under the program making a meaningful contribution to many communities where our CSR programs were implemented.</p> <p>A more comprehensive report on the Company's Corporate Social Responsibility (CSR) website www.oneMeralcofoundation.org and in the separate publication of One Meralco Foundation's 2013 Annual Report, which is available for perusal and reference of stakeholders.</p>
Anti-corruption programmes and procedures	<p>BE RIGHT (Open Communication) Policy & Anti-Corruption Program</p> <p>The Company has adopted the <i>BE RIGHT</i> Communication Policy, which promotes responsible and free interaction between Management and its stakeholders, including its employees.</p> <p>E-Report Mo is an online facility which encourages the reporting of any violation of the Company's COE, COI or other CG policies, questionable accounting or auditing matters, and other malfeasance, including corrupt practices that may have been 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 Corporate Governance Office (CGO).</p>	<p>Launched in July 2010; conducted awareness campaign through posters, desktop wallpapers, and orientation sessions; enhanced communication channels through online reporting.</p> <p>Employees, suppliers, customers, other stakeholders and the general public can use the E-Report Mo reporting channels, prominently displayed in the Company website and stated below. The Corporate Governance Office immediately acts on the reports received through E-report channel. The full details of this program are also available in the Company website.</p>

	<p>The CGO, which functionally reports to the Board's Nominations and Governance Committee, is primarily tasked to investigate and submit its findings on any whistle blower report that it receives.</p> <p>The Company provides appropriate protection to an employee/stakeholder who reports illegal/unethical/corrupt behaviour from any retaliation.</p> <p>In the event of retaliation, the reporting person or witness may report the same to the CGO by filling out a Retaliation Protection Report Form for appropriate action by the Company.</p> <p>In 2014, the Company resolved 82% (9 out of 11) of the reports it received from whistle blowers and investigations are on-going on the remaining cases.</p>	<p>Corporate Governance Office Manila Electric Company (Meralco) 8th Floor, Lopez Building Meralco Compound, Ortigas Avenue Pasig City, Philippines Direct Line: (632) 1622 2798 Mobile: (63) 918 948 3662 E-mail: cgo.staff@meralco.com.ph</p>
Safeguarding creditors' rights	<p>The Company respects the rights of creditors and strictly abides by its obligations to all its creditors.</p> <p>The Company strictly complies with its credit agreements through timely loan and interest payments, and adherence to loan covenants. It competently operates the business to assure creditors of the Company's financial standing and credit rating.</p>	<p>The Company provides prompt and accurate reports of its financial standing to creditors on its Consolidated Financial Statements, Management's Discussion and Analysis and Notes to the Consolidated Financial Statements.</p> <p>The Company discloses its quarterly and annual financial reports in a timely manner.</p> <p>The Company manages the risk of being unable to meet its payment obligations when these fall due through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables.</p>

		The Company strictly respects loan agreements with creditors; avoids using these loans to cause damage to the Company; ensures timely payment of these loans; and efficiently operates the business to assure creditors of the Company's healthy financial standing and loan payment capabilities.
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1) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

YES. A more comprehensive report on the Company's CSR efforts is found on the Company's 2013 Annual Report (<http://corporate-downloadables-annual-reports.s3.amazonaws.com/9d3e35dc8b3d67e2cb6f945849d0a849.pdf>) and in a separate publication of One Meralco Foundation's 2013 Annual Report (<http://www.onemeralcofoundation.org/uploads/files/2013-One-Meralco-Foundation-Annual-Report.pdf>), available for perusal and reference of stakeholders. The 2014 Annual Reports of the Company and One Meralco Foundation, as of this month, are currently being finalized for printing and distribution to all stakeholders on the AGM on May 26, 2015.

Other Corporate Responsibility/Sustainability Reports/Sections may be found at http://www.onemeralcofoundation.org/index.php/about/annual_reports

2) Performance-enhancing mechanisms for employee participation.

The Company permits the development of performance-enhancing mechanisms for employee participation. Performance enhancing mechanisms for participation benefits companies directly as well as indirectly through the readiness by employees to invest in firm specific skills, or skills/competencies that are related to production technology and/or organizational aspects that are unique to Meralco.

Mechanisms for employee participation in Meralco include: employee representation on senior management committee, board and board committee meetings; work committees and councils that consider employee viewpoints in certain key decisions such as the Meralco Rescue Team, Anti-Sexual Harassment Committee, First Line Association of Meralco Supervisory Employees and Meralco Employees and Workers Association. Other performance enhancing mechanisms in Meralco are employee stock purchase plans (ESPP) and other profit sharing mechanisms. Details of the same are discussed below.

(a) What are the company's policy for its employees' safety, health, and welfare?

MERALCO implements its Environment, Safety and Health policy by committing to the promotion of the safety and health of its employees and stakeholders along with the protection of the environment.

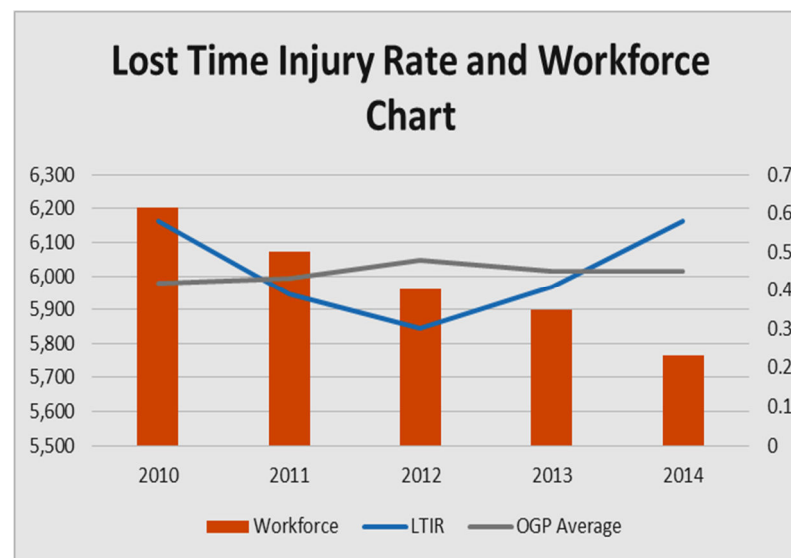
As such, MERALCO will:

- Promote safety as a way of life by providing safe and healthy working conditions to prevent accidents, injuries and work-related illnesses.
- Take action and responsibility on climate change by preventing pollution through the optimization of the use of natural resources, minimizing wastes generated by processes and being an active partner in reforestation.
- Continuously improve the ESH management system to be at par with global best practice.
- Effectively comply with ESH laws, regulations and other requirements subscribed to by the MERALCO.

(b) Show data relating to health, safety and welfare of its employees.

Updated based on 2014 ANNUAL SAFETY & ENVIRONMENT PERFORMANCE REPORT

(<http://www.meralco.com.ph/files/view/aece74ca3f67e4c>)



	2010	2011	2012	2013	2014
LTIR	0.58	0.39	0.3	0.41	0.58
Workforce	6,203	6,071	5,960	5,898	5,766
OGP	0.42	0.43	0.48	0.45	0.45

Average					
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The Lost Time Injury Rate represents the number of Lost Time Injuries per 1,000,000 of worked man-hours.

Improvements in Occupational Safety and Health Management practices continue as the company works together for an integrated ISO 18001 & 14001 certification. Meralco is working towards achieving a better LTI Rate than the global average of International Association of Oil and Gas Producers.

- (c) State the company's training and development programmes for its employees. Show the data.

Updated based on 2014 TRAINING METRICS

<http://www.meralco.com.ph/files/view/d80934c2adc8bae>

The Company is committed to the development and welfare of its employees. Training programs and other developmental interventions are implemented to enable employees to acquire the technical and leadership competencies to effectively perform their jobs for their professional growth. We use a globally-accepted training and development metrics relevant to value creation for business and society. Learning and development initiatives are delivered using the strategic framework of 70-20-10: 70% on-the-job learning, 20% from coaching and feedback and 10% formal training. The training metrics below show data on formal training and electronic learning module availment of employees and exclude data on development interventions such as coaching and on-the-job immersion.

Average Training Hours per Employee Annually

	Rank and File	Supervisory	Managerial /Executive	Employee Population
Training Hours	<u>96,219</u>	<u>72,984</u>	<u>49,584</u>	<u>218,787</u>
Employees	1,274	3,438	1,054	5,766
Average Training Hours	76	21	47	38

All training and development programs are communicated to the employees through a general internal announcement and are posted in the Company's website.

The Company sustains high level of engagement with employees through programs such as the Leaders Briefing, One Meralco: Cool-tural Festival, MVP Olympics and Orange Fit. Employee communication is facilitated with regular updates through the new HR Online – *Usapang M3*. This keeps employees well informed on significant developments. Employees are likewise encouraged to give feedback and suggestions to Management to further improve corporate and operational performance, thereby promoting employee accountability and empowerment.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

To drive higher levels of employee performance, Meralco employs both short-term and long-term incentives in accordance with the following major principles and objectives: The main aim is to attract, retain and motivate Meralco's employees. The compensation philosophy of the Company is communicated to all employees.

The Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets; provides for long term incentives such as pay based on Meralco Group'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. The Company provides for schemes that account for performance beyond short term financial measures such as the Employee Stock Purchase Plan (ESPP) and balanced scorecard schemes.

It also provides for short term incentives through variable pay to reward individual and team performance that contribute to the achievement of corporate goals and objectives. Short-term incentives such as Annual Performance-Based Bonuses (APB) are implemented to engage employees of Meralco to collaborate and work towards the achievement of corporate goals and targets.

Further, as part of Meralco's performance management process, employee performance is assessed 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, and this drives the Company's merit and incentive pay programs.

1) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

E-Report Mo, the Company's whistle-blowing program, provides a comprehensive channel for reporting illegal and unethical behavior of the

Company's directors, officers, employees and suppliers. Any stakeholder can use the E-Report Mo reporting channels: hotline, e-mail, fax and the Company website. The Corporate Governance Office immediately acts on the reports received through these E-report channels. Confidentiality and anonymity of the identity of the reporting person is maintained. In case of an unauthorized disclosure of the identity of the reporting person or witness, appropriate disciplinary action shall be enforced on the responsible employee.

All reports must be referred to CGO for preliminary validation. CGO will refer reports to the Assisting Investigation Unit whenever necessary. Concerned Line Heads shall be provided a copy of the report for appropriate action. The Company may provide appropriate protection. The Corporate Governance Office (CGO) shall serve as the default office in the event that reporting to a line head is not feasible. The reporting person may file a report to the CGO through the different media (e-mail, mail, fax, etc.). All organizations are required to act immediately on the reports referred to them, in accordance with the existing relevant procedures. The reporting person should be provided with feedback within thirty (30) working days. The Company shall act expeditiously and conduct immediate investigation of the report, impose appropriate penalties/sanctions once proven, and provide feedback to the reporting person, if known. Resolution of the report shall be within a 60-day period from receipt thereof. In the event however that a longer period is needed to resolve a case due to its complexity and/or circumstances the concerned AIU shall notify CGO in writing citing the justification for the extension not later than three days before the expiration of the period within which to resolve the report.

Retaliation is prohibited and is dealt with in accordance with the pertinent Company policies, rules and applicable laws. Through E-Report Mo, the Company provides appropriate protection from retaliation. In the event of retaliation, the reporting person or witness shall report to CGO by filling out a Retaliation Protection Report Form.

Protection from retaliation will be granted, upon endorsement of CGO, reviewed by the Management Disciplinary Committee or the relevant Board Committee for approval of the CEO, his designated representative or the Chairman of the Board. Protection from retaliation includes, but is not limited to, protection from retaliation in the form of an adverse employment action such as termination, compensation decreases, or poor work assignments and threats of physical harm. These requests shall be processed expeditiously.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
Institutional Investors and Public Float	213,809,560	18.97%	Institutional Investors and Public Float

Beacon Electric Asset Holdings, Inc.	506,769,106	44.96%	Beacon Electric Asset Holdings, Inc.
JG Summit Holdings, Inc.	305,689,397	27.12%	JG Summit Holdings, Inc.
Metro Pacific Investments Corporation	56,354,936	5.00%	Metro Pacific Investments Corporation

* Based on the Disclosure: Public Ownership Level for quarter ended December 31, 2014 at
<http://corporate-downloadables-sec-filings.s3.amazonaws.com/1426239108.eb995eb7ed7e828ccc40ce3d1fdf7999.pdf>

Name of Senior Management*	Number of Direct shares**	Number of Indirect shares / Through (name of record owner)**	% of Capital Stock (1,127,098,705)**
Simeon Ken Ferrer	767	0	0.00%
Roberto R. Almazora	93,082	0	0.01%
Alfredo S. Panlilio	668	0	0.00%
Ramon B. Segismundo	6,500	0	0.00%
Betty C. Siy-Yap	0	0	0.00%
Rafael L. Andrada	20,000	0	0.00%
Ruben B. Benosa	30,492	0	0.00%
Helen T. de Guzman	26,093	0	0.00%
Ivanna G. dela Peña	26,731	0	0.00%
William S. Pamintuan	0	0	0.00%
Antonio M. Abuel, Jr.	10,427	0	0.00%
Ireneo B. Acuña	18,355	0	0.00%
Ronnie L. Apercho	14	0	0.00%
Angelita S. Atanacio	1,000	0	0.00%
Bennette D. Bachoco	0	0	0.00%
Edgardo V. Carasig	0	0	0.00%
Marthyn S. Cuan	2,150	0	0.00%
Manolo C. Fernando	35,730	0	0.00%
Ferdinand O. Geluz	13,877	0	0.00%

Victor Emmanuel S. Genuino	0	0	0.00%
Nixon G. Hao	2,791	0	0.00%
Ernie G. Imperial	460	0	0.00%
Dexter C. Lee	0	0	0.00%
Fortunato C. Leynes	6,000	0	0.00%
Redentor L. Marquez	22,116	0	0.00%
Raymond B. Ravelo	0	0	0.00%
Jose Rainier A. Reyes	0	0	0.00%
Nestor P. Sarmiento	323	0	0.00%
Liza Rose G. Serrano Diangson	38,983	0	0.00%
Manuel Lorenzo L. Tuason	22,180	0	0.00%
Jose Antonio T. Valdez	0	0	0.00%
TOTAL	378,739		0.01%
<p>* Based on the Disclosure: Public Ownership Level for quarter ended December 31, 2014 at http://corporate-downloadables-sec-filings.s3.amazonaws.com/1426239108.eb995eb7ed7e828ccc40ce3d1fdf7999.pdf</p>			

Does the Annual Report disclose the following:

Key risks	Yes
Corporate objectives	Yes
Financial performance indicators	Yes
Non-financial performance indicators	Yes
Dividend policy	Yes
Details of whistle-blowing policy	Yes
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	Yes
Training and/or continuing education programme attended by each director/commissioner	Yes
Number of board of directors/commissioners meetings held during the year	Yes
Attendance details of each director/commissioner in respect of meetings held	Yes

Details of remuneration of the CEO and each member of the board of directors/commissioners	Yes
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Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

The Annual Report discloses all of the above information.

External Auditor's Fee

Name of auditor	Audit Fee (in million PhP)	Non-audit Fee
SyCip, Gorres, Velayo & Co. (SGV)	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 2014.
* As at December 31, 2014, exclusive of VAT		

Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

External Modes of Communication

- Company website
- SMS
- Quarterly Publication (Power Club)
- SEC/PSE Disclosures
- Tri-media Announcements/Releases
- Social Networking Media

Internal Modes of Communication

- Corporate Newsletter (SPARK)
- Intranet (myMeralco) Portal
- Electronic News (eMeralco) Bulletin
- Special publications which may be released internally within the Company

2) Date of release of audited financial report: April 1, 2015

3) Company Website www.meralco.com.ph

Does the company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	Yes
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

The Company website discloses all the foregoing information.

4) Disclosure of RPT

RPT	Relationship	Nature	Value
Philippine Long Distance Telephone Company (PLDT)	Related Party Shareholder Group	Pole Attachment Contract MERALCO's Pole Attachment Contract with PLDT is similar to third party pole attachment contracts of MERALCO with other telecommunication companies. Under the Pole Attachment Contract, PLDT shall use the contacted cable position exclusively for its telecommunication cable network facilities.	PhP250,000,000
PLDT and respective subsidiaries	Related Party Shareholder Group	Sale of electricity under various service contracts MERALCO sells electricity to related party shareholder groups such as PLDT, Metro	PhP1,941,000,000

and affiliates		Pacific, SMC, JG Summit and their respective subsidiaries, and affiliates for the latters' 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.	
Metro Pacific and respective subsidiaries and affiliates	Related Party Shareholder Group	<p>Sale of electricity under various service contracts</p> <p>MERALCO sells electricity to related party shareholder groups such as PLDT, Metro Pacific, SMC, JG Summit and their respective subsidiaries, and affiliates for the latters' 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.</p>	PhP179,000,000
SMC and respective subsidiaries and affiliates	Related Party Shareholder Group	<p>Sale of electricity under various service contracts</p> <p>MERALCO sells electricity to related party shareholder groups such as PLDT, Metro Pacific, SMC, JG Summit and their respective subsidiaries, and affiliates for the latters' 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.</p>	PhP-
JG Summit and respective subsidiaries and affiliates	Related Party Shareholder Group	<p>Sale of electricity under various service contracts</p> <p>MERALCO sells electricity to related party shareholder groups such as PLDT, Metro Pacific, SMC, JG Summit and their respective subsidiaries, and affiliates for the latters' 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.</p>	PhP3,263,000,000
PLDT and Subsidiaries	Related Party Shareholder Group	<p>Purchase of Telecommunication Services from PLDT and Subsidiaries</p> <p>The MERALCO Group's primary telecommunications carriers are PLDT for its wireline and SMART for its wireless services. MERALCO also purchases its wireline services from Digitel Mobile Philippines, Inc., which became a subsidiary of PLDT in 2011. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the MERALCO Group.</p>	PhP58,000,000
Indra Philippines	Affiliate	Purchase of IT Services	PhP821,000,000
GEPMICI	Affiliate	Purchase of meters and devices	PhP312,000,000
FPM Power	Affiliate	Advances to FPM POWER	On March 22, 2013, FPM Power

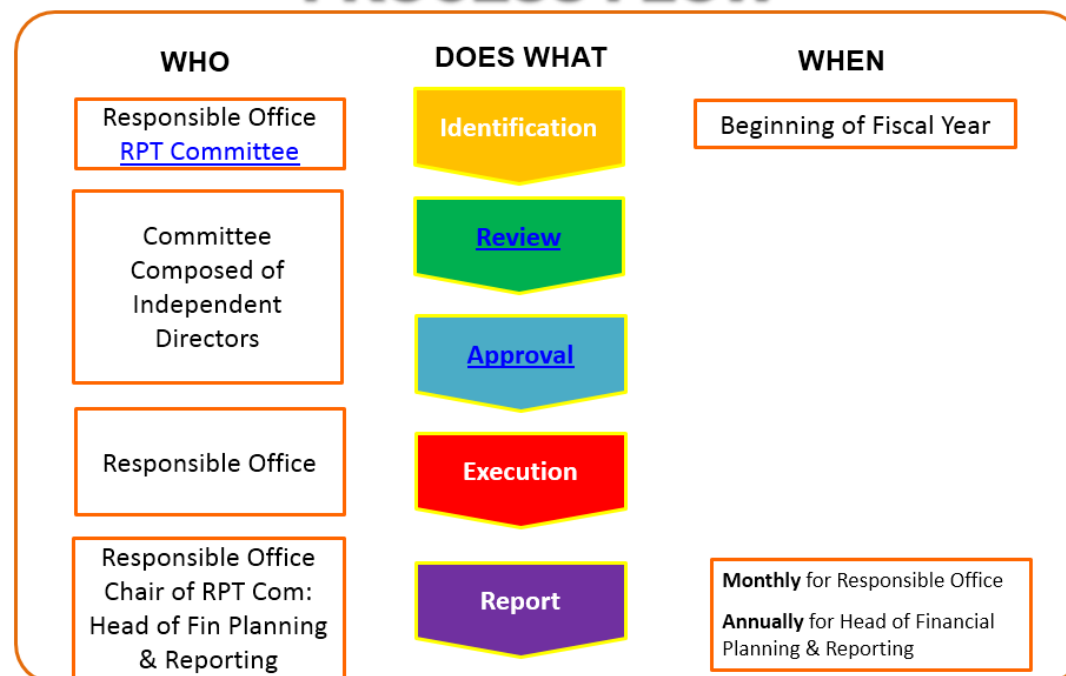
			<p>availed a loan from MPG Asia amounting to US\$110,000,000, which is payable on demand. The loan is outstanding as at December 31, 2014.</p>
MERALCO Pension Fund	Pension Fund	Transaction with MERALCO Pension Fund	<p>Meralco Pension Fund holds 6,000 common shares of RP Energy at PhP100 par value per share, with total carrying amount of PhP600,000 or an equivalent 3% equity interest in RP Energy (a subsidiary of MERALCO's 100%-owned subsidiary, MGEN).</p> <p>As at December 31, 2014, the fair value of the total assets being managed by MERALCO Pension Fund amounted to PhP 36.4 billion.</p>
MERALCO Key Management Personnel	Key Management Personnel	Compensation of Key Management Personnel	<p>PhP583,000,000</p> <p>Components:</p> <p>Short-term employee benefits: PhP538,000,000</p> <p>Long-term employee and retirement benefits: PhP45,000,000</p>

MERALCO Board of Directors (BOD)	BOD	Compensation of BOD	<p>Per diem of Php120,000 – net of tax per BOD meeting attended</p> <p>Php20,000 – net of tax per Board Committee (Audit and Risk, Remuneration and Leadership Development, Finance, Nomination and Governance) meeting attended</p> <p>In line with the amendment of the By Laws and the approval of the shareholders in the AGM on May 28, 2013, an increase in compensation through a stock grant based on a pre-approved number of shares for each director. The total value shall not exceed 1% of the net income before tax of MERALCO during the preceding year.</p>
MERALCO Employees	Employees	Benefits upon termination of employment or retirement	<p>Pension Plan for employees hired up to December 31, 2003; Voluntary Provident Plan for employees hired after January 1, 2004.</p>
San Miguel Energy Corporation (SMEC), a subsidiary of San Miguel	Related Party Shareholder Group	Power Supply Agreement (PSA)	<p>On June 26, 2012, MERALCO BOD approved the grant of authority to MERALCO to enter into a PSA with SMEC for a period of seven years, extendable for three years</p>

Corporation (SMC)			upon agreement of the parties.
South Premier Power Corporation (SPPC) , a subsidiary of SMC	Related Party Shareholder Group	Power Supply Agreement (PSA)	MERALCO entered into a PSA with SPPC on December 12, 2011, for a period of seven years, extendable for three years upon agreement of the parties.
San Buenaventura Power Ltd. Co. (SBPL)	Affiliate	Power Supply Agreement (PSA)	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 the first supercritical highly fuel efficient, reliable and environmental friendly pulverized coal-fired power plant in the country. The PSA will be subject to the approval of the ERC. MERALCO is now awaiting for the ERC decision on the application.

The Company's Related Party Transactions (RPT) Policy requires a committee composed of independent directors to review and approve material/significant RPTs to determine whether they are in the best interest of the Company and shareholders. All RPTs of the Company are conducted in fair and at arms' length terms.

PROCESS FLOW



When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

A Board Committee Composed of Independent Directors review and approve these material/significant RPTs, which are done above board and at arm's length terms.

J. RIGHTS OF STOCKHOLDERS

Updated based on 2014 Notice of AGM (<http://corporate-downloadables-notice-of-agm-and-detailed-agenda.s3.amazonaws.com/fc2e48ef1b842647c271c2606593f28d.pdf>), **Voting Results** (<http://corporate-downloadables-highlights-and-minutes-of-agm-2014.s3.amazonaws.com/58b00e5561eaefc532cb0d978efe95f5.pdf>) and **AGM Minutes** (<http://corporate-downloadables-highlights-and-minutes-of-agm-2014.s3.amazonaws.com/3057abca5e863b3ac1b496359018d9dc.pdf>).

1) RIGHT TO PARTICIPATE EFFECTIVELY IN AND VOTE IN ANNUAL/SPECIAL STOCKHOLDERS' MEETINGS

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	Majority of the outstanding capital stock
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(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	An automated system, Stockholders' Meeting System (SMS), developed by the Company.
Description	The conduct of the registration, proxy handling, balloting and canvassing of shareholders votes during the AGM were facilitated by the use of an automated system, Stockholders' Meeting System (SMS), developed by the Company. All resolutions at the AGM are voted through ballots casted by the shareholders which were counted using SMS for accuracy and greater transparency. The poll voting results, in addition to the proxy voting results, were immediately used and reported to the shareholders during the AGM.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights not in The Corporation Code
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(and Manual of Corporate Governance)	
1. Voting right 2. Pre-emptive right 3. Right of inspection 4. Right to information 5. Right to dividends <i>(Section 43 of the Corporation Code of the Philippines states that dividends may be declared out of unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders on the basis of outstanding stock held by them.)</i> 6. Appraisal right	Right to transparent and fair conduct of Stockholders' Meeting

Dividends

Declaration Date	Record Date	Payment Date
February 23, 2015	March 23, 2015	April 15, 2015
July 28, 2014	August 25, 2014	September 18, 2014
March 17, 2014	April 15, 2014	May 8, 2014

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<p>The Company facilitates the exercise of ownership rights by all shareholders, including institutional investors. It is the Company's policy to encourage shareholders including institutional investors to attend the general meetings/AGM of the Company.</p> <p>At the 2014 Annual Stockholders' Meeting, stockholders were given the opportunity to ask questions or raise issues, subject to the following procedure:</p> <ol style="list-style-type: none"> 1. Only questions relevant to the particular item in the agenda being discussed shall be allowed. Hence, questions not relevant to the agenda shall be considered "out-of-order"; 2. A maximum of three (3) questions shall be entertained for each item on the agenda; 3. Questions about the Company and its operations will be entertained after report of the President and Chief Executive Officer; 4. To give equal chance to everyone, a stockholder can ask one (1) main question and, if needed, a follow-up question; and 5. If due to time constraints there are questions which could not be entertained on the floor, the Company officers will be available for consultation after the meeting. 6. All concerns should be raised by way of a question so these can be properly addressed; and 7. All questions raised by shareholders, and answers thereto, shall be recorded for inclusion in the minutes of the meeting. 	<p>On April 16, 2014, notices of the AGM with detailed agenda and the Definitive Information Statement were released to all shareholders and institutional investors to encourage their attendance to the May 27, 2014 AGM.</p> <p>These were communicated through the following:</p> <ol style="list-style-type: none"> a. printed copies distributed to their registered addresses b. posted on the Company website c. public disclosure to the Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), and Philippine Dealing and Exchange Corporation (PDEX) <p>At the start of the 2014 Annual Stockholders' Meeting, the Corporate Secretary read the ground rules to be observed during the meeting to ensure the conduct of fair, orderly, and efficient proceedings and to protect the rights of all the shareholders.</p>

State the company policy of asking shareholders to actively participate in corporate decisions regarding:

- a. Amendments to the company's constitution**
- b. Authorization of additional shares**
- c. Transfer of all or substantially all assets, which in effect results in the sale of the company**

Shareholders are encouraged to actively participate in the annual meetings to discuss and approve items a-c.

Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders

are taken up?

YES. The Company actually observed 35 business days (55 calendar days) for giving out notices to the AGM. The notices to the 2015 AGM to be held on May 26, 2015 were released on April 1, 2015.

Date of sending out notices: April 1, 2015

Date of the Annual/Special Stockholders' Meeting: May 26, 2015

State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

Shareholders are given the opportunity to raise questions to the Board and propose resolutions, subject to reasonable limitations.

The Chairman opened the floor and gave the stockholders the opportunity to ask questions and/or raise issues. Stockholders with technical or customer service concerns were advised to approach the Customer Desk near the Registration Area.

Ms. Carmencita Santos commended the Company for the banner year 2013 and requested for clarification on the declining shareholder returns figure on the Financial Highlights presented on the 2013 Annual Report of the Company. The Chief Finance Officer, Ms. Betty C. Siy-Yap replied that the shareholder returns were due to the increase in market capitalization and share price.

Mr. Ed Dulalia then took the floor and congratulated the Board and Management for the Company's good performance in 2013 despite economic and political crises. In this connection, he proposed that the Directors and employees be given a bonus.

Thereafter, Mr. Guillermo Gili raised a point regarding the right of stockholders where shares are lodged with brokers. He mentioned that as beneficial owners of the shares, the right to vote belongs to them. The Chairman noted the point raised by Mr. Gili.

In as much as there has been sufficient discussion, Ms. Shiela Marie Granados moved to close the discussion and to proceed to the next item on the agenda. Mr. Paul Soriño seconded the motion.

Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of the Minutes of the Annual Meeting of Stockholders	960,042,921	668	6,979

held on May 29, 2013			
Approval of the 2013 Audited Financial Statements	951,039,365	9,000,668	8,921
Approval of Amendment to Section 3 of the Articles of Incorporation to comply with SEC Memorandum Circular No. 6, Series of 2014	960,028,695	1,773	14,992
Ratification of acts of the Board of Directors and Management	960,016,354	5,233	4,388
Election of Directors	<ol style="list-style-type: none"> 1. Atty. Ray C. Espinosa 959,790,768 2. Mr. James L. Go 959,745,507 3. Mr. John L. Gokongwei, Jr. 960,049,415 4. Mr. Lance Y. Gokongwei 959,998,408 5. Mr. Jose Ma. K. Lim 959,781,064 6. Ambassador Manuel M. Lopez 960,991,314 7. Mr. Napoleon L. Nazareno 959,873,656 8. (Ret.) Chief Justice Artemio V. Panganiban* 960,250,219 9. Mr. Manuel V. Pangilinan 960,434,192 10. Mr. Oscar S. Reyes 960,352,311 11. Mr. Pedro E. Roxas* 959,741,490 	0	14,262

Appointment of External Auditor: (SyCip Gorres Velayo & Co. or SGV & Co.)	960,065,006	6,310	10,283
* Independent Director			

2. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

May 28, 2014, the next working day after the AGM (May 27, 2014).

(a) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None	None

(b) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Prior to the 2014 AGM, all shareholders were given the opportunity to submit their views on any issue that they deemed fit for inclusion in the agenda, as well as to propose qualified candidates for directors. A "Call for Nomination" was posted in the Company website last January 30, 2014 calling for the submission of the proposed agenda and nomination of qualified candidates on or before March 10, 2014.

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person*	% of SH in Proxy*	Total % of SH attendance*
Annual	1. Mr. Manuel V. Pangilinan - Chairman 2. Mr. Oscar S. Reyes – President & CEO 3. (Ret.) Chief Justice Artemio V. Panganiban – Chairman of Audit Committee, Independent Director	27-May-14	Issues to be resolved by the shareholders are resolved through voting by poll. Ballots given to the shareholders during	0.30%	84.93%	85.23%

	<p>4. Atty. Ray C. Espinosa</p> <p>5. Mr. Napoleon L. Nazareno</p> <p>6. Ambassador Manuel M. Lopez</p> <p>7. Mr. Manuel V. Pangilinan</p> <p>8. Mr. Vicente L. Panlilio</p> <p>9. Mr. Eric O. Recto</p> <p>10. Mr. Oscar S. Reyes</p> <p>11. Mr. Pedro E. Roxas</p>		<p>registration already reflect the issues to be voted upon. Ballot boxes are placed at the registration area where stockholders may drop their accomplished ballots.</p> <p>All votes received are tabulated by the Office of the Corporate Secretary and results thereof are validated by an independent third party. As each item in the agenda is taken up, the Corporate Secretary will report on the votes received and tabulated as of about 9:00 a.m.</p> <p>Each common stockholder shall be entitled to one vote for each share while a preferred stockholder is generally not entitled to vote.</p> <p>The items in the agenda require the affirmative vote of stockholders</p>			
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			<p>entitled to.</p> <p>In the election of directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the Corporation Code of the Philippines.</p> <p>Voting and counting of votes shall be by balloting.</p> <p>All votes received shall be tabulated by the Office of the Corporate Secretary and auditors. Inspectors from an independent third party appointed by the Board will also be present to canvass and inspect ballots. The Corporate Secretary shall report the results of voting during the meeting.</p>			
Special	None	None	None	None	None	None
<p>* These numbers were extracted from the Company's Stockholders Meeting System (SMS) information database for the May 27, 2014 AGM. The percentages are based on total expected shares of 1,127,098,705 as of record date. Out of all the expected, 960,661,330 attended the 2014 AGM. Stockholders holding 3,401,072 attended in person, those holding 957,260,258 attended in proxy.</p>						

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

YES. All votes received were tabulated by the Office of the Corporate Secretary and results thereof were validated by an independent third party: the auditing firm, Reyes and Tacandong, which was duly appointed to act as such for the 2014 Annual Stockholders' Meeting.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

YES. The Company's common shares carry one vote for one share. Each common stockholder shall be entitled to one vote for each share while a preferred stockholder is generally not entitled to vote.

The items in the agenda require the affirmative vote of stockholders entitled to.

In the election of directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the Corporation Code of the Philippines.

Voting and counting of votes shall be by balloting.

All votes received shall be tabulated by the Office of the Corporate Secretary and auditors. Inspectors from an independent third party appointed by the Board will also be present to canvass and inspect ballots. The Corporate Secretary shall report the results of voting during the meeting.

(c) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	<p>Proxies shall be in writing and signed by the stockholder and submitted to the Office of the Corporate Secretary before the meeting.</p> <p>The By-laws of the Company require submission of proxies with the Office of the Corporate Secretary not later than twenty (20) business days prior to the scheduled stockholders meeting (Section 3, Article I)</p>

Notary	Proxies need not be notarized.
Submission of Proxy	The By-laws of the Company require submission of proxies with the Office of the Corporate Secretary not later than twenty (20) business days prior to the scheduled stockholders meeting (Section 3, Article I, By-laws)
Several Proxies	<p>The Rules for Validation of Proxies adopted by the Company in 2009 (Proxy Rules) provides:</p> <p>Where the same stockholder gives two (2) or more proxies, the latest one given is to be deemed to revoke all former proxies.</p> <p>Where the Company receives through the mails more than one (1) proxy from the same stockholder and they are all undated, the postmark dates shall be considered. If the proxies are mailed on the same date, the one bearing the latest time of day of postmark is counted. If the proxies are not mailed, then the time of their actual presentation is considered. That which is presented last will be recognized [SRC Rule 20(11)(b)(ix)]. The latest proxy shall be determined on the basis of the date and time the proxy is received at the Office of the Corporate Secretary, which shall be stamped on the face of the proxy and signed by the Corporate Secretary or his attorney-in-fact.</p> <p>Where the Company receives more than one (1) proxy designation different attorneys-in-fact of the same stockholder and the proxies are all of the same date and time, but indicate the specific number of shares to be represented by each, all the proxies shall be counted for purposes of attendance and voting.</p> <p>Where the Company receives more than one proxy designating different attorneys-in-fact of the same stockholder and the proxies are all of the same date and time but do not indicate the specific number of shares represented by each, the total shares shall be distributed equally among all the proxies.</p>
Validity of Proxy	<p>The Proxy Rules further provides:</p> <p>A proxy must be in writing, subscribed by any stockholder of record as of record date.</p> <p>A proxy executed by a corporation shall be in the form of a board resolution duly certified by the Corporate Secretary or in a proxy form executed by a duly authorized corporate officer accompanied by a Corporate Secretary's certificate quoting the board resolution authorizing the said corporate officer to execute the said proxy.</p>

	<p>No member of the Stock Exchange and no broker/dealer shall give any proxy, consent or authorization, in respect of any security carried for the account of a customer to a person other than the customer, without the express written authorization of such customer. The proxy executed by a broker shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.</p> <p>No particular form or words are necessary to constitute a proxy. All that is necessary is that the writing shall show an intention to empower the person to whom it is given to act as an agent in voting the stock and to enable the election of officers to know that it is authorized.</p>
Proxies executed abroad	Proxies executed abroad shall be duly authenticated by the Philippines Embassy or Consular Office.
Invalidated Proxy	Proxies invalidated by the Special Committee of Inspectors shall not be included for quorum and voting purposes.
Validation of Proxy	The Board shall schedule the validation of proxies. The scheduled is indicated in the Notice of Meeting and Information Statement.
Violation of Proxy	If the instruction of the stockholder as to manner is not followed, then the proxy vote shall not be honored.

(d) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Notices of Annual/Special Stockholders' Meeting, including proxy forms, detailed agenda and explanatory circulars, shall be released at least 28 business days before Annual Stockholders' Meeting or AGM.	Notices of AGM are sent through courier service, disclosed to SEC and PSE and posted on the Company website.

(e) Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	46,367*
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Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	April 1, 2015
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	April 1, 2015
State whether CD format or hard copies were distributed	YES, requesting stockholders were provided with the Definitive Information Statement and Management Report and Other Materials in both CD format and hard copies.
If yes, indicate whether requesting stockholders were provided hard copies	YES, requesting stockholders were provided hard copies.
* Based on the disclosure of List of Stockholders' of Meralco as of March 24, 2015 to PSE and SEC: http://corporate-downloadables-sec-filings.s3.amazonaws.com/03252015_List_of_Stockholders.pdf	

(f) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	Yes
The auditors to be appointed or re-appointed.	Yes
An explanation of the dividend policy, if any dividend is to be declared.	Yes
The amount payable for final dividends.	Yes
Documents required for proxy vote.	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

All the foregoing information are disclosed.

2) TREATMENT OF MINORITY STOCKHOLDERS

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
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<p>The Company's shareholders, including those in the minority, are given the opportunity to exercise their basic rights with respect to the following:</p> <ul style="list-style-type: none"> a) A director shall not be removed without cause if it will deny minority shareholders representation in the Board. b) Changes and/or amendments to the company's Articles of Incorporation and By-laws; c) Sale, purchase and/or transfer of a significant share of corporate assets, that may result in a change in the character of the Company; d) Authorization for the issuance of additional shares of the Company; e) Opportunity to nominate candidates for membership in the BOD. f) Opportunity to elect individually the members of the BOD. The Notice of AGM, being sent to all shareholders include the profiles of all nominees for seats in the Board of Directors such as age, qualifications and experience, date of first appointment to the Board of the company, and directorships in other publicly listed corporations (or subsidiaries, whether listed or non-listed, within our group of companies) Non-controlling shareholders are also encouraged to exercise their right to vote and elect the Company's BOD. g) Approval of the remuneration of all non-executive Directors (members of the Board). h) Appointment of the external auditor. The Notice of AGM clearly identifies the external auditor seeking appointment and the same were duly appointed by the shareholders. <p>For the further protection of the rights of the minority shareholders, the following are also provided:</p> <ul style="list-style-type: none"> i) Right to information j) Pre-emptive right k) Right of inspection l) Appraisal right m) Right to dividends 	<p>Cumulative voting is used by the Company in the election of the Board of Directors.</p> <p>All information pertinent to shareholders in the exercise of their duties are made available in the website, in the disclosures to SEC, PSE and PDEx, and through other means of communication with them.</p> <p>The rights stated in the Company's Revised Manual of Corporate Governance are followed.</p>
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(b) Do minority stockholders have a right to nominate candidates for board of directors?

YES. The Company provides minority shareholders a right to nominate candidates for board of directors/commissioners, since the Company has no single controlling shareholders. In preparation for the 2014 AGM, we posted in our Company website a notice of "Call for Nominations" last February 3, 2015, to encourage all shareholders, specially minority shareholders, to send their propose agenda items and submit nominations to the Board with a deadline of March 9, 2015. The notice also include date, time and place of the 2015 Annual Stockholders Meeting and

downloadable copies of the Proxy forms. The issues/agenda requiring votes of stockholders are already reflected in the Proxy Form, giving an option to stockholder to vote in absentia.



K. INVESTORS RELATIONS PROGRAM

- 1) **Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.**

Our Corporate Communications Office is in charge of managing, crafting and disseminating information about the Company, its directors, officers and employees. Two offices handle Meralco's external and internal communications.

External Communications Office handles media events and releases intended for our investors, shareholders, customers, suppliers, creditors and the public. Information is usually disseminated through press releases, newspaper prints, TV, radio and electronic media (Internet, Twitter, Facebook and other social networking media), and the Meralco website. News and information are released through these media as they happen.

Internal Communications Office handles communications and publications covering internal/employee communication, investor and customer communications. Employees are immediately informed of relevant Company events in print and digital/new media, including myMeralco Portal and eMeralco Bulletin; the Meralco SPARK (the Company's corporate newsletter); and, in special publications which may be released internally

within Meralco or within the Metro Pacific Group. The Company also conceptualized a magazine for key officers and corporate clients known as “Power Club.” The quarterly magazine, provides updates to customers on our latest products, services and relevant Company events.

Mr. Alfredo Panlilio is the Head of the Corporate Communications Office, who reviews and approves the releases of above information. He coordinates with concerned groups including the Board, the President and CEO and other Key Officers to get approval for the disclosure of the information pertaining to their group/offices.

- 2) Describe the company’s investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.**

	Details
(1) Objectives	To communicate relevant and timely information about the company to both current and potential investors, analysts, fund managers, potential business partners and the general public.
(2) Principles	<ol style="list-style-type: none"> 1) Excellence – to ensure that the information is relevant and communicated in a professional, clear and orderly manner 2) Integrity – to ensure that the acts of the company with regard to investor relations are performed within the rules and regulations of its governing bodies (company, SEC, PSE, Philippine government); and that the information communicated is accurate, relevant and timely
(3) Modes of Communications	<ol style="list-style-type: none"> 1) Quarterly Results Briefing (Media and Analysts / Investors) 2) Annual Stockholders’ Meeting 3) Regular Company Disclosures 4) Investor Relations Meetings 5) Conferences and road shows 6) Responding to calls and emails
(4) Investors Relations Officer	<p>Investor Relations Team:</p> <ol style="list-style-type: none"> 1) Investor Relations Management Team: <ol style="list-style-type: none"> a. Mr. Oscar S. Reyes, President and Chief Executive Officer b. Ms. Betty C. Siy-Yap, Senior Vice President and Chief Finance Officer c. Mr. Rafael L. Andrada, First Vice President and Treasurer 2) Investor Relations Office: <ol style="list-style-type: none"> a. Ms. Michele N. Tan, Investor Relations Head

	<p>b. Mr. Randwil Dinbo U. Macaranas, Investor Relations Analyst</p> <p>Contact Details:</p> <p>a. Email : investor.relations@meralco.com.ph</p> <p>b. Tel No. : (632) 632-8095</p> <p>c. Fax: (632) 1622-2950</p>
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3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

In acquisitions and mergers, the Company functions in an efficient and transparent manner. The Company appoints an independent third party to evaluate the fairness of the transaction price. The rules and procedures are clearly articulated and disclosed by the Company so that investors understand their rights and recourse. Transactions occur at transparent prices and under fair conditions that protect the rights of all shareholders and stakeholders.

Furthermore, a management committee composed of top corporate executives is tasked to study and endorse such cases to the Finance Committee (Board Committee) for review. The Finance Committee after passing review, in turn endorses the matter for approval by the Board of Directors.

Independent directors present at the Finance Committee, Audit Committee and the Board provide the oversight as to the fairness of the transaction pricing.

The Audit Committee (as per SEC Memo Circular 4, Series of 2012, Audit Committees of Companies Listed on the Exchange) exercises oversight on financial reporting, disclosures and management of risks related to such transactions.

4) Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

In acquisitions and mergers, the Company appoints an independent third party to evaluate the fairness of the transaction price. No acquisition and merger transpired in 2014.

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary	
Community Electrification Program 22 Communities 3,079 Households 22 Public Schools 5,330 Students 171 Teachers 36 Farming Families 29 Households Household Electrification (Provision of affordable, reliable and safe electric service to households in depressed communities.)	1. Villa Cuana Phase 3, Sandoval Avenue, Pinagbuhatan, Pasig City, MM (Pasig BC - Central) 2. Gawad Kalinga Disiplina Village, Cuadra Street, Brgy. Ugong, Valenzuela City, MM (Valenzuela BC - North) 3. Block 22, Welfareville Compound, Brgy. Addition Hills, Mandaluyong City, MM (Mandaluyong BC, Central) 4. Residents of ISG Village Phase 1,2 and 3, ISG Village, Pinagsama, Taguig City, MM (Makati BC, Central) 5. Residents of PANAM Village Phase 1, 2 and 3, PANAM Village, Pinagsama, Taguig City, MM (Makati BC, Central) 6. Stella Mariz, Mauban, Quezon (Lucena BC, South) 7. Sitio Quezon City, Mauban, Quezon (Lucena BC, South) 8. Patamaba HOA, Brgy. San Vicente, Angono, Rizal (Angono BC, Central) 9. Sambahayang Project A, B and C, 252 Moriones St., Tondo, MM (Tutuban BC, Central) 10. Residents of F. Carlos, F. Carlos St., Apolonio Samson, Quezon City, MM (Balintawak BC, North) 11. Isla Noah Residents, Isla Noah, Brgy. Damayang Lagi, Quezon City, MM (Kamuning BC, Central) 12. Residents of Dinalupihan St., 1268 Dinalupihan St., Manuguit, Tondo, MM (Tutuban BC, Central BC) 13. Residents of Old Capitol Site (Lirio St.), Lirio Sts., Brgy. Old Capitol Site, Quezon City, MM (Kamuning BC, Central) 14. Residents of Old Capitol Site (Dahlia St.), Dahlia Sts., Brgy. Old Capitol Site, Quezon City, MM (Kamuning BC, Central) 15. Brgy. Vasra A, Yakal Vasra, Bago Bantay, Quezon City, MM (Kamuning BC, Central) 16. Brgy. Vasra B, Cypress Vasra, Bago Bantay, Quezon City, MM (Kamuning BC, Central) 17. Brgy. Vasra C, Palanas Area, Brgy. Vasra, Quezon City,	120 Households 96 Households 67 Households 235 Households 187 Households 416 Households 89 Households 50 Households 139 Households 59 Households 45 Households 72 Households 31 Households 7 Households 40 Households 54 Households 19 Households

	<p>MM (Kamuning BC, Central)</p> <p>18. Bistekville Phase 3 and 4, Quezon City, MM (Novaliches BC, North)</p> <p>19. Kapit Kamay of Block 38, Block 38, Welfareville Compound, Brgy. Addition Hills, Mandaluyong City, MM (Mandaluyong BC, Central)</p> <p>20. Katiyakan sa Pabahay Neighborhood Association, Dilang 2, Nagpayong, Pinagbuhatan, Pasig City (Pasig BC, Central)</p> <p>21. Starville Home Owners Association, Sto. Tomas, Pinagbuhatan, Pasig City (Pasig BC, Central)</p> <p>22. Pinagbuhatan Urban Poor Home Owners Association, Urbano Velasco, Pinagbuhatan, Pasig City (Pasig BC, Central)</p>	<p>1,161 Households</p> <p>37 Households</p> <p>58 Households</p> <p>70 Households</p> <p>27 Households</p> <p>Total number of energized households: 3,079</p>
School Electrification (Energization of schools to improve the learning experience of students.)	<p>1. San Fernando National High School, El Nido, Palawan</p> <p>2. Teneguiban National High School, El Nido, Palawan</p> <p>3. Bulawit National High School, Linapacan Island, Palawan</p> <p>4. Cagbalete National High School, Mauban, Quezon</p> <p>5. Cagsiay III National High School, Mauban, Quezon</p> <p>6. Pandanon National High School, Jetafe, Bohol</p> <p>7. Cabul-An National High School, Buenavista, Bohol</p> <p>8. Rizal National High School, Basilisa, Dinagat Islands</p> <p>9. Cab-Ilan National High School, Dinagat, Dinagat Islands</p> <p>10. Cab-Ilan Elementary School, Dinagat, Dinagat Islands</p> <p>11. Casili Elementary School, Casili, Rodriguez, Rizal</p> <p>12. Macabud National High School, Rizal (456 students)</p> <p>13. Macaingalan National High School, Rizal (120 students)</p> <p>14. Macaingalan Elementary School, Rizal (251 students)</p> <p>15. Cayabu Elementary School or National High School, Rizal (208 students)</p> <p>16. San Andres Elementary School, Rizal (183 students)</p>	<p>253 Students, 7 Teachers</p> <p>218 Students, 4 Teachers</p> <p>150 Students, 6 Teachers</p> <p>281 Students, 13 Teachers</p> <p>81 Students, 6 Teachers</p> <p>187 Students, 8 Teachers</p> <p>327 Students, 13 Teachers</p> <p>173 Students, 4 Teachers</p> <p>109 Students, 6 Teachers</p> <p>196 Students, 7 Teachers</p> <p>147 Students, 6 Teachers</p> <p>Total number of student beneficiaries: 2,122 students, 80 Teachers</p> <p>456 Students, 15 Teachers</p> <p>120 Students, 6 Teachers</p> <p>251 Students, 10 Teachers</p> <p>208 Students, 4 Teachers</p>

	17. Laiban Elementary School or National High School, Rizal (268 students) 18. Mamuyao Elementary School, Rizal (165 students) 19. Tinucan Elementary School, Rizal (170 students) 20. Pinagsabiran Elementary School, Rizal (268 students) 21. Tablon Elementary School, Rizal (373 students) 22. Doong Island National High School, Bantayan Island, Cebu (746 students)	183 Students, 4 Teachers 268 Students, 6 Teachers 165 Students, 4 Teachers 170 Students, 5 Teachers 268 Students, 6 Teachers 373 Students, 11 Teachers 746 Students, 20 Teachers Total number of student beneficiaries: 3,208 Students, 91 Teachers																	
Communal Infrastructure Electrification (Provision of electricity to various communal infrastructures such as a farm irrigation system, rural health clinics, streetlights, youth centers, and the like.)	Farm Electrification Green Earth Heritage Foundation MVP Housing Baganga, Davao Oriental	36 Farming Families 29 Households																	
Energy Education 1,949 Public Schools (excluding non-winners)	<u>Meralco Energy Leadership Awards under the DENR's National Search for Sustainable Schools</u> Schools qualified for regional finals <table><tr><th>Type of Schools</th><th>Entries</th><th>Winners</th><th rowspan="4">41 Winners (Schools) out of 213 Entrants.</th></tr><tr><td>Elementary Schools</td><td>83</td><td>15</td></tr><tr><td>High Schools</td><td>89</td><td>13</td></tr><tr><td>Colleges</td><td>41</td><td>13</td></tr><tr><td colspan="3">(Note: 25 of 213 schools are within the franchise area)</td><td></td></tr></table>	Type of Schools	Entries	Winners	41 Winners (Schools) out of 213 Entrants.	Elementary Schools	83	15	High Schools	89	13	Colleges	41	13	(Note: 25 of 213 schools are within the franchise area)				
Type of Schools	Entries	Winners	41 Winners (Schools) out of 213 Entrants.																
Elementary Schools	83	15																	
High Schools	89	13																	
Colleges	41	13																	
(Note: 25 of 213 schools are within the franchise area)																			

	<p>Winners (15 Elementary Schools):</p> <ol style="list-style-type: none"> 1. Commonwealth Elementary School (Quezon City) 2. Lucban Elementary School (Baguio City) 3. Lubnac Elementary School (Ilocos Norte) 4. Victoria Elementary School (Isabela) 5. Limay Elementary School (Bataan) 6. Julian A. Pastor Memorial Elem. School (Batangas City) 7. Camilmil Central School (Oriental Mindoro) 8. Malindog Elementary School (Negros Occidental) 9. Simeon Ayuda Elementary School (Cebu) 10. Lomonon Elementary School (Leyte) 11. Sicayab Elementary School (Zamboanga del Norte) 12. Kibawe Central School (Bukidnon) 13. Luna Elementary School (Davao del Norte) 14. Koronadal Central Elementary School II (South Cotabato) 15. Father Saturnino Urios University - Elementary School (Butuan City) <p>Winners (13 High Schools):</p> <ol style="list-style-type: none"> 1. Baguio City National High School (Baguio City) 2. Don Salustiano Aquino Memorial National High School (La Union) 3. Santiago City National High School (Isabela) 4. Doña Remedios Trinidad High School (Bulacan) 5. Balete National High School (Batangas City) 6. Cajidiocan National High School (Romblon) 7. Magallanes National Vocational High School (Sorsogon) 8. Tubungan National High School (Iloilo) 9. Sumoroy Agro-Industrial School (Northern Samar) 10. Dipolog City National High School (Zamboanga Del Norte) 11. Asuncion National High School (Davao del Norte) 12. Tulunan National High School (South Cotabato) 	
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	<p>13. Matin-ao National High School (Surigao del Norte)</p> <p>Winners (13 Tertiary-level Institutions):</p> <ol style="list-style-type: none"> 1. Miriam College (Quezon City) 2. St. Louis University (Baguio City) 3. University of Northern Philippines (Ilocos Sur) 4. University of La Salette (Isabela) 5. Pampanga Agricultural College (Pampanga) 6. Western Philippines University (Palawan) 7. Unibersidad De Sta. Isabel (Naga City) 8. La Consolacion College - Bacolod (Bacolod City) 9. Foundation University (Negros Oriental) 10. Visayas State University (Leyte) 11. Central Mindanao University (Bukidnon) 12. Davao Doctors' College (Davao City) 13. Notre Dame of Marbel University (South Cotabato) <p>Safe ang School Ko! Project Painted pedestrian lanes in 21 Schools. Electrical Safety Assessment for Public Schools Public Elementary and High Schools assessed</p>	<p>21 Schools</p> <p>1,887 Schools</p>
Grassroots Partnerships 2,798 Service Personnel	Project Kasambahay	Benefited 2,798 Service Personnel
2 Community Grants	Community Grants Youth Leadership Summit	<p>Central Luzon Alliance (YLS-CLA) for the Takbo Para sa Kalikasan (donation of 100 reusable bags)</p> <p>Central Luzon Alliance (YLS-CLA) for the Summer Camp (donation of ten wooden poles)</p>

<p>26 BC/Network-based support</p>	<p>Support to Meralco's Business Centers, Sectors, Offices and Subsidiaries (Donations)</p> <ol style="list-style-type: none"> 1. Batangas Business Center 2. Batangas Business Center 3. Tagaytay Auxiliary 4. Republic Surety and Insurance Company (Subsidiary) 5. Office of the President 6. Customer Retail Services and Corporate Communications 7. Legal 8. Safety and Environment Management 9. Employee Relations 10. Employee Relations 11. First Pacific Leadership Academy 12. Thomasian Leaders' Congress 13. Customer Solutions and Innovations 14. Customer Retail Services 15. Office of the Chairman 16. Office of the President 17. CSRO 18. Dasmariñas Business Center 19. Dasmariñas Business Center 20. Rosario Business Center 21. Balagtas Business Center 22. CSRO 23. Malolos Business Center 24. Malolos Business Center 25. Lucena Business Center 26. Networks Design 	<p>Batangas City Alay Lakad (Cash Donation)</p> <p>Alay Lakad Foundation, Inc. – Batangas Province Chapter (Cash Donation)</p> <p>Tagaytay City La Prairie Host Lions Club (Medicines benefiting 800 parishioners of the Tagaytay Lourdes Parish Church)</p> <p>May-It Elementary School, Lucban, Quezon (Construction of classroom and library)</p> <p>Isarog Medical Research Foundation, Inc. (Support to annual free medical and surgical mission)</p> <p>BLD Metro Manila Foundation, Inc. (Support to 6th Fr. Pascual Adorable Golf Tournament)</p> <p>San Nicolas de Tolentino Parish/ San Antonio de Padua in Tarlac (Construction of church)</p> <p>Meralco Rescue Team (30 pcs. T-shirt uniforms)</p> <p>Ofelia C. Ongtenco (Educational support for child)</p> <p>Dimple P. Payas (Education support for child)</p> <p>Sponsorship to the 1st Philippine International Science Fair (Cost of books donated to the Thomasian Leaders' Congress)</p> <p>Philippine Science High School Foundation, Inc. (Rehabilitation of Biology Laboratory)</p> <p>Philippine Olympic Committee % Monico Fuentevella (To support the London Olympics)</p> <p>The Roman Catholic Archbishop (Construction of their Chancery Function Hall)</p> <p>Serving Humanity through Empowerment and Development, Inc. (Micro-Enterprise Development for the Poor)</p> <p>RP Energy (Computer donation – 6 units and 1 printer)</p> <p>Tabora Elementary School in Trece Martires, Cavite (Computer donation – 5 units)</p> <p>Panungyan Elementary School in Mendez, Cavite (Computer donation – 5 units)</p>
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	16. St. John the Baptist Parish, Sara, Iloilo 17. Kidlat with TV5 18. Donations of Supplies to San Vicente, Angono Rizal 19. T3 Public Service Day 20. Hospicio de San Jose 21. 10,000 Postcards for National Teachers' Month	
Disaster Response and Emergency Preparedness 24,808 Families 1,094 Poles 773 Spans 41 GenSets 11 Transformers	Relief Operations Fire Marne and Vila Streets, Brgy. St. Joseph, San Juan City, MM Habagat Metro Manila, Laguna, Zambales, Cavite, Rizal, Bulacan, Bataan, Pampanga, Subic and Olongapo Earthquake Loon and Loboc (for soup kitchen) in Bohol Typhoon Yolanda Aklan, Capiz, Iloilo, Leyte and Samar Electrical Facilities Rehabilitation (Power Restoration) Typhoon Pablo Typhoon Santi Power Restoration (Cabanatuan) Typhoon Yolanda (Aklan, Capiz, Iloilo and Leyte)	350 Families 5,670 Families 6,250 Families 12,538 Families Total number of families benefitted 24,808 Families 250 Poles (corrected, replaced, etc.) 42 Poles (corrected, replaced, etc.) 14 Spans of wiring restored 802 Poles (corrected, replaced, etc.) 759 Spans of stringing and wires 41 Generator sets donated 11 Distribution transformers installed

<i>Maliwanag ang Pasko Christmas Activities</i> <i>9,500 individuals</i>	Mahayagon Nga Pasko Christmas Outreach in Capiz, Aklan, Iloilo, Leyte and Bohol	9,500 Individuals
<i>Makabayan Volunteerism Program</i> <i>2,724 Employee-volunteers</i> <i>25,584 Volunteer-hours hours</i> <i>15 Volunteering Activities</i>	1. Typhoon Pablo Power Restoration 40 Employee Volunteers, 2,800 Volunteer-Hours 2. Brigada Eskwela 220 Employee Volunteers, 1,098 Volunteer-Hours 3. Gawad Kalinga Bayani Challenge in GK Southville, Trece Martirez, Cavite (with the participation of 25 GK youth volunteers) 14 Employee Volunteers, 56 Volunteer-Hours	
<i>Youth and Sports Advocacy</i> <i>1,421 Students</i> <i>1,217 Youth</i> Meralco Basketboys Program (A basketball clinic and values integration program which aims to improve and hone the basketball skills of disadvantaged youth, and for them to understand	4. MEFCI Gift-giving to Philippine Children's Medical Center, Diliman, Quezon City, MM 5 Employee Volunteers, 20 Volunteer-Hours 5. Meralco Basketboys Basketball Clinic Plaridel 18 Employee Volunteers, 72 Volunteer-Hours 6. Shore It Up (Underwater and Shoreline Clean-up, and Mangroves Planting) 4 Employee Volunteers, 48 Volunteer-Hours 7. MCEP Community Launches 41 Employee Volunteers, 123 Volunteer-Hours 8. Makabayan Day Activities – Community Feeding, Pedestrian Lane Painting, Coastal Clean-Up and Mangrove Planting 1,266 Employee Volunteers, 6,424 Volunteer-Hours	100 Youth 117 Youth 120 Youth 110 Youth 125 Youth 572 Youth

values such as leadership, teamwork, excellence and a winning attitude.)	<p>9. Habagat and Typhoon Maring Relief Efforts – Packing and distribution of relief goods 279 Employee Volunteers, 445 Volunteer-Hours</p> <p>10. Typhoon Odette Relief Efforts – Distribution of relief goods (Zambales) 20 Employee Volunteers, 160 Volunteer-Hours</p> <p>11. Makabayan Day – Tree Planting of North and Central Business Area in Norzagaray, Bulacan 99 Employee Volunteers, 297 Volunteer-Hours</p> <p>12. Cabanatuan Power Restoration (Typhoon Santi) 69 Employee Volunteers, 3,161 Volunteer-Hours</p> <p>13. Typhoon Yolanda Relief Efforts – Packing and distribution of relief goods (with the participation of 80 non-Meralco volunteers) 416 Employee Volunteers, 1,584 Volunteer-Hours</p> <p>14. Typhoon Yolanda Power Restoration Efforts in Capiz, Aklan, Iloilo and Leyte 141 Employee Volunteers, 7,896 Volunteer-Hours</p> <p>15. Mahayagon Nga Pasko Christmas Outreach in Capiz, Aklan, Iloilo, Leyte and Bohol 92 1,400</p> <p>Total number of employee volunteers: 2,724</p> <p>Total number of man hours: 25,584</p>	
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	<p>SOS Children's Village - Mariveles, Bataan</p> <p>Jubilee - Caritas Manila - Plaridel, Bulacan</p> <p>San Felipe Neri Parish – Caritas Manila – Brgy. Poblacion, Mandaluyong City, MM</p> <p>Marikina Youth (from 7 barangays) – Brgy. Marikina Heights, Marikina City, MM</p> <p>Naic Youth – Naic, Cavite</p> <p>Total number of youth trained under Basketboys:</p>	
MVP Academic Assistance Awards (Provision of financial aid for deserving dependents of Meralco employees to support their educational expenses for the current school year.)	<p>MVP Academic Assistance Awards (MVPAAA)</p> <p>Elementary, High School and College Grantees</p> <p>Top Achievers of MVPAAA 2012 Recognized</p>	<p>180 Students</p> <p>84 Students</p> <p>Total number of employee dependents recognized: 264 Students</p>
Sparks Football Clinic	<p>Sparks Football Clinic</p> <p>Football for Peace Clinic with Philippine Marine Corps, Loyola</p> <p>Meralco Sparks FC and Meralco Sparks FC</p> <p>Football Clinic with the Meralco Sparks FC & KAYA FC (iCanServe Foundation)</p>	<p>178 Conflict-affected kids from Mindanao and Palawan</p> <p>20 (Neglected/Abandoned) Kids</p> <p>Total number of youth trained under Sparks Football:</p> <p>198 Youth</p>
Meralco Campus Tour Workshop (In partnership with the	<p>Meralco Campus Tour Chess Tournament and Workshop (with Meralco Chess Club)</p> <p>Jr. Chess Masters Championship</p> <p>Jr. Chess Masters 1st Christmas Team Championship</p> <p>MVP Team Tournament</p>	<p>148 Students</p> <p>20 Students</p> <p>30 Students</p>

<p>Meralco Chess Club, the workshop includes lectures and simultaneous chess exhibitions which build strategizing and problem-solving skills of the youth.)</p>	<p>Andres Bonifacio Team Tournament</p> <p>Campus Tour Chess Workshop (½ Day Workshop, Chess Mats, and Chess Pieces)</p> <ol style="list-style-type: none"> 1. Philippine Mission Service – Balagtas, Bulacan 2. Meralco Chesskolars from various public schools 3. Students from various public schools – Aliaga, Nueva Ecija 4. Bagong Ilog Elementary School – Pasig City, MM 5. Polytechnic University of the Philippines – Sta. Mesa, MM 6. Bagong Silangan Elementary School and High School – Quezon City, MM 7. V. Mapa High School – Manila 8. Taytay National High School – Taytay, Rizal 9. Ramon Magsaysay High School – Cubao, Quezon City, MM 10. Ramon Magsaysay High School – España, Manila City, MM 11. Paranaque National High School – Paranaque City, MM 12. Pamantasan ng Lungsod ng Muntinlupa – Muntinlupa, MM 13. Jose Diaz Memorial High School – San Mateo, Rizal 	<p>30 Students</p> <p>Total number of youth who participated in the tour chess tournament and workshop 228 Students</p> <p>14 Students</p> <p>83 Students</p> <p>149 Students</p> <p>77 Students</p> <p>48 Students</p> <p>61 Students</p> <p>65 Students</p> <p>97 Students</p> <p>57 Students</p> <p>66 Students</p> <p>57 Students</p> <p>104 Students</p> <p>51 Students</p> <p>Total number of youth trained under chess clinics: 929 Students</p>
<p>Youth and Sports Advocacy Sponsorships</p>	<p>Youth and Sports Advocacy Sponsorships</p> <ul style="list-style-type: none"> ● Akapela Open ● Shore It Up ○ Anilao, Batangas ○ Puerto Galera, Mindoro 	<p>(9 finalists, 12 semi-finalists, 17 qualifiers)</p> <p>(4 Meralco volunteer divers)</p> <p>(4 Meralco volunteer divers)</p>

	<ul style="list-style-type: none"> ○ Subic Bay, Zambales ○ Del Carmen, Siargao Island ● Fun run/sport fest sponsorship ○ AETakbo: Takbo Para sa Katutubong Aeta ○ SOS Children Village: Run for a Child – Iloilo City ○ DSWD Nayon ng Kabataan: Summer Sportsfest ○ Run for the Mangroves (63 Volunteer Runners) ○ Football Clinic with the Meralco Sparks FC & KAYA FC ○ SunPiology Run <p>Others:</p> <ul style="list-style-type: none"> ● SOS CVP 25th Anniversary (Major sponsorship worth P15,000) 	<p>(Cash sponsorship) (4 Meralco volunteer divers)</p> <p>(5 Volunteer runners)</p> <p>(Cash Sponsorship)</p> <p>(20 Kids participated) (30 Volunteer runners)</p>
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M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

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:

	Process	Criteria
Board of Directors	Self-Assessment	<ul style="list-style-type: none"> A. Board Structure B. Board Duties and Responsibilities C. Duties and Responsibilities as an Individual Director
Board Committees	General Assessment of all Committees by the Board, Self-Assessment of Committee members	<p>General and Self-Assessment of the overall performance of the following committees, based on the provisions of the Board Committee Charters:</p> <ul style="list-style-type: none"> A. Nomination and Governance Committee B. Audit Committee

		C. Risk Management Committee D. Remuneration and Leadership Development Committee E. Finance Committee
Individual Directors	Self-Assessment	A. Board Structure B. Board Duties and Responsibilities C. Duties and Responsibilities as an Individual Director
CEO/President	Board Assessment & Self-Assessment	Key Performance Indicators: <ul style="list-style-type: none"> • Leadership • Management • Operating and Financial Performance (Consolidated Core Net Income) • Working relations with the Board

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
Violations of Corporate Governance Rules	<p>The Revised Manual of Corporate Governance provides for the following disciplinary actions for directors:</p> <ol style="list-style-type: none"> 1. Temporary disqualification – refusal to comply with Company’s disclosure requirements, unexcused absences of more than 50% of all regular and special meetings of the Board, dismissal or termination for a cause as director in any corporation covered by Governance Code, among others. 2. Permanent Disqualification – if convicted or adjudged guilty of any offenses or crimes, decree or order issued by a judicial or administrative body or the SEC or BSP. <p>Please refer to Section 6.0 Disqualification of a Director of the Company’s Revised Manual of Corp. Governance for details.</p>
Violations on the following prescribed	For Officers/Senior Management and Employees:

behavior: 1. Attendance & Punctuality 2. Work Performance 3. Employee Behavior 4. Confidentiality of Work and Information 5. Conflict of Interest 6. Use of Company Property 7. Hiring and/or Assignment of Relatives 8. Voluntary Separation	<p>The Company's Code on Right Employee Conduct (COREC) prescribes the proper and correct conduct of employees and Senior Management of the Company.</p> <p>The policy includes a guide in imposing disciplinary actions to employees and Senior Management with sanctions and penalties ranging from verbal counseling, written reprimand, suspension or dismissal, depending on the gravity of the offense committed.</p>
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This Consolidated Changes in ACGR for 2014 is hereby compiled and published in the Company website, in compliance with the Securities and Exchange Commission (SEC) Advisory dated March 12, 2015 addressed to all Publicly-Listed Companies on the submission of the Annual Corporate Governance Report (ACGR) together with the Annual Report as well as with Memorandum No. 12, Series of 2014 released May 26, 2014 requiring all publicly listed companies to consolidate all the ACGR updates and changes for the year and label the consolidated changes as "Consolidated Changes in ACGR for (year) for posting in the company website.

In lieu of the notarized signature page, the Consolidated Changes in the ACGR shall be accompanied by a Secretary's Certificate with excerpts of Board Resolution or Minutes of meetings regarding said updates and changes in the ACGR.

Republic of the Philippines)
City of Pasig) S.S.

SECRETARY'S CERTIFICATE

I, WILLIAM S. PAMINTUAN, Filipino, of legal age, with office address at 8th Floor, Lopez Building, Meralco, Ortigas Avenue, Pasig City, after having been sworn, in accordance with law, depose and state that:

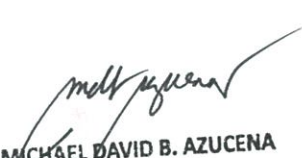
1. I am the duly elected and qualified Assistant Corporate Secretary of Manila Electric Company, a corporation duly organized and existing under and by virtue of the Republic of the Philippines, with principal office at Lopez Building, Brgy. Ugong, Ortigas Avenue, Pasig City;
2. I am the custodian of the corporate books and records of the Company, including the Minutes and Resolutions of its Board of Directors;
3. The Consolidated Changes in the Annual Corporate Governance Report (ACGR) for the year 2014 reflects the resolutions of the Board of Directors of the Company (excerpts are attached herewith), during its meetings in 2014; and
4. I am executing this Certificate in compliance with the SEC Advisory dated March 12, 2015 regarding the submission of the Annual Corporate Governance Report (ACGR) together with the Annual Report, Securities and Exchange Commission Memorandum Circular No. 12 Series of 2014 and for whatever legal purpose it may serve.

IN WITNESS WHEREOF, I have hereunto set my hand on this APR 10 2015
2015 in Pasig City, Metro Manila, Philippines.


WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED AND SWORN TO before me in Pasig City this APR 10 2015 2015
by William S. Pamintuan who has satisfactorily proven to me his identity through
his Driver's License No. N02-91-156323 valid until February 6, 2018, that he is the
person who personally signed before me the foregoing Secretary's Certificate and
acknowledged that he executed the same.

Doc. No: 202 ;
Page No: 42 ;
Book No: 1 ;
Series of 2015


ATTY. MICHAEL DAVID B. AZUCENA
NOTARY PUBLIC
PASIG, PATEROS, TAGUIG, AND SAN JUAN
ISSUED ON MAY 12, 2014 AT PASIG CITY
APPOINTMENT NO. 217 (2014-2015)
ROLL NO. 58433/ IBP NO. 0980976/ 01-07-15 MAKATI CHAPTER
PTR NO. 0509670 / 02-13-15 PASIG CITY
8TH FLOOR LOPEZ BLDG. ORTIGAS AVENUE, PASIG CITY

Attached Excerpts	
Resolution	Date
Approval of 2013 Annual General Meeting of Shareholders (AGM) Minutes	May 27, 2014
Approval of 2013 Consolidated Financial Statements	May 27, 2014
Approval of Amendment of Articles of Incorporation	May 27, 2014
Ratification of all 2013 Corporate Acts	May 27, 2014
Election of the Board of Directors (2014-2015)	May 27, 2014
Appointment of External Auditors (2014-2015)	May 27, 2014
Approval of Revised Manual of Corporate Governance	July 28, 2014
Approval of 2015 Board Meeting Schedule	November 24, 2014
Approval of Revised Insider Trading Policy	November 24, 2014
Assessment of Risk and Internal Control	December 15, 2014
Approval of Consolidated Changes in Annual Corporate Governance Report (ACGR) for 2014 for disclosure to SEC	December 15, 2014

SERVICE OF NOTICE

The Corporate Secretary reported that, in accordance with the provisions of the Corporation Code and the Amended By-Laws of the Company, written notice of the meeting was served to all stockholders of record as of March 14, 2014. The notices were released on April 16, 2014, which is twenty-eight (28) working days prior to the annual stockholders meeting on May 27, 2014. The profiles of all nominees to the Board of Directors, stating their age, qualifications, experience, date of first appointment to the Board of the Company, and other directorships in other publicly listed companies (or subsidiaries, whether listed or non-listed within the group of companies) were made available as part of the Information Statement. Notification attesting to this fact is provided in the last page hereof.

DETERMINATION OF QUORUM

The Corporate Secretary reported that there was a quorum for the meeting, as stockholders who own or hold over 960,000,000 shares or approximately 85.18% of the 1,127,098,705 issued and outstanding common shares of the Company entitled to vote, were present in person or by proxy.

**APPROVAL OF THE MINUTES OF
STOCKHOLDERS' MEETING HELD IN 2013**

The Chairman submitted for approval the Minutes of the Annual Stockholders Meeting held on May 28, 2013.

Ms. Jocelyn V. Altamira moved for the approval of the Minutes of the Annual Stockholders' Meeting held on May 28, 2013 and to dispense with the reading thereof since copies of the Minutes have been made available at the Office of the Corporate Secretary and posted at the registration area and at the Company's website. The motion was seconded by Mr. Larry Francisco. No objection was raised despite opportunity given by the Chairman, thus the motion was thereupon carried. The Minutes was approved by more than a majority

of the total voting stockholders present and represented at the meeting and eligible to vote, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	960,042,921	85.18%
2. Against	668	0.0%
3. Abstained	6,979	0.0%

The following resolution was thus adopted and approved as Resolution 2014-1:

“RESOLVED, that the Minutes of the Annual Stockholders’ Meeting held on May 28, 2013 be, as the same is hereby approved.”

<p>REPORT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER</p>

The President and Chief Executive Officer, Mr. Oscar S. Reyes, presented his report to the stockholders as follows:

“2013- A banner year for the economy. A challenging year for the power industry. Another good year for the Company.

Fellow Stockholders, thank you for joining us in this year’s Annual General Meeting.

THE ECONOMY

Our economy continues to outperform our regional peers and our own achievements in 2012. Gross Domestic Product increased by 7.2% in real terms, up from 6.8% the previous year.

This was driven by Overseas Filipino Remittances of \$25.1 Bn, and BPO Revenues of \$13.3 Bn, which fueled consumer spending. Increased Private Investments, including Foreign Direct Investments, and Government spending, contributed to this remarkable growth.

Inflation and interest rates were at their new lows, at 3.0% for inflation, and 3.5% for the Bangko Sentral overnight borrowing rate. These were highly supportive of healthy business and personal investment spending.

The Philippine Stock Exchange remains bullish, with the PSE index at 6,811 as of last Friday, May 23, up from 5,890 at the end of 2013. The country’s credit rating

Mr. Ed Dulalia then took the floor and congratulated the Board and Management for the Company's good performance in 2013 despite economic and political crises. In this connection, he proposed that the Directors and employees be given a bonus.

Thereafter, Mr. Guillermo Gili raised a point regarding the right of stockholders where shares are lodged with brokers. He mentioned that as beneficial owners of the shares, the right to vote belongs to them. The Chairman noted the point raised by Mr. Gili.

In as much as there has been sufficient discussion, Ms. Shiela Marie Granados moved to close the discussion and to proceed to the next item on the agenda. Mr. Paul Soriño seconded the motion.

<p>APPROVAL OF THE 2013 AUDITED FINANCIAL STATEMENTS</p>

The next item on the agenda was the approval of the Audited Financial Statements for the Year 2013.

Mr. Raymond Yap moved for the approval of the Company's 2013 Audited Financial Statements and the motion was seconded by Mr. Roy Pedroso. There being no objection despite opportunity given by the Chairman, the motion was thereupon carried.

Accordingly, the Company's Audited Financial Statements for the period ended December 31, 2013 was approved by a majority of the total voting stockholders present and represented at the meeting and eligible to vote, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	951,039,365	84.38%
2. Against	9,000,668	0.0%
3. Abstained	8,921	0.0%

The following resolution was thus adopted and approved as Resolution 2014-2:

"RESOLVED, that the audited financial statements for the year ended December 31, 2013 be, as the same hereby are, approved."

<p>APPROVAL OF AMENDMENT TO SECTION 3 OF THE ARTICLES OF INCORPORATION</p>

The next item on the agenda was the approval of the resolution to amend the Company's Articles of Incorporation to comply with SEC Memorandum Circular No. 6 Series of 2014, which states that "all corporations and partnerships whose articles of incorporation or articles of partnership indicate only a general address as their principal office address, such that it refers only to a city, town or municipality, or "Metro Manila" are directed to file an amended articles of incorporation or amended articles of partnership in order to specify their complete address, such that, if feasible, it has a street number, street name, barangay, city or municipality and if applicable, the name of the building, the number of the building and name or number of the room or unit."

The Assistant Corporate Secretary, Atty. William S. Pamintuan, explained to the stockholders that the Board, in compliance with the said SEC Memorandum Circular in its meeting held on April 28, 2014, adopted a resolution amending Section 3 of the Articles of Incorporation to reflect the complete address of the principal office of the Company to be located at Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City. Under the Corporation Code, the amendment is subject to the approval of at least 2/3 of the Company's outstanding capital stock.

Ms. Eliza Yamamoto moved for the approval of the amendment to Section 3 of the Company's Articles of Incorporation reflecting the complete address of the Corporation to read as follows: "That the place where the principal office of the Corporation is to be established or located is at Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City." The motion was seconded by Mr. Roy Pedroso.

The amendment to Section 3 of the Company's Articles of Incorporation reflecting the complete address of the Corporation was approved by at least two-thirds (2/3) of the total outstanding capital stock present and represented at the meeting and eligible to vote, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	960,028,695	85.18%
2. Against	1,773	0.0%
3. Abstained	14,992	0.0%

The following resolution was thus adopted and approved as Resolution 2014-3:

“RESOLVED, that Section 3 of the Company’s Articles of Incorporation be amended to read as follows: ‘THIRD. That the place where the principal office of the Corporation is to be established or located is at Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City.’”

RATIFICATION OF ACTS, RESOLUTIONS, AND DEEDS OF THE BOARD OF DIRECTORS AND MANAGEMENT
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The next item on the agenda was the ratification of acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders’ Meeting held on May 28, 2013 up to this meeting. Upon the Chairman’s request, the Corporate Secretary briefly explained that these acts pertain to those taken to implement the resolutions, directives and instructions of the Board and its Committees and those done in the regular course of the Company’s business.

Mr. Adrian Rex Dimalanta moved for the confirmation, approval and ratification of all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders’ Meeting held on May 28, 2013 up to this meeting. These acts are provided in the minutes of meetings of the Board, its Committees and the Management. These also include the approval of contracts and agreements, projects and investments, treasury matters, dividend declaration, and disclosures to the Securities and Exchange Commission and Philippine Stock Exchange.

This was seconded by Mr. Michael David Azucena. No objection was raised despite opportunity extended by the Chairman. Accordingly, the motion was carried.

Consequently, all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders’ Meeting held on May 28, 2013

up to this meeting were ratified by a majority of vote of the stockholders present and represented at the meeting and eligible to vote, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	960,016,354	85.18%
2. Against	5,233	0.0%
3. Abstained	4,388	0.0%

The following resolution was thus adopted and passed as Resolution 2014-4:

“RESOLVED, that all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders’ Meeting held on May 28, 2013 up to the date of this meeting be as they hereby are, confirmed, ratified and approved.”

ELECTION OF DIRECTORS

The next item on the agenda was the election of the members of the Board of Directors for the ensuing year. The Company’s Articles of Incorporation provide for eleven (11) seats in the Board. The Company’s shareholders, including shareholders in the minority, were given the opportunity to nominate candidates for election to the Board of Directors. The Chairman of the Nomination and Governance Committee, Mr. Pedro E. Roxas, was requested by the Chairman to explain the screening process and to read the names of the nominees.

Mr. Roxas stated that in accordance with the Corporation’s By-Laws and Manual of Corporate Governance, as well as the Corporation Code and the Securities Regulations Code, the following stockholders were duly nominated as members of the Company’s Board of Directors to serve as such for the ensuing term:

Name	Nominated by
1. Atty. Ray C. Espinosa	Beacon Electric Asset Holdings, Inc.
2. James L. Go	JG Summit Holdings, Inc.
3. Lance Y. Gokongwei	JG Summit Holdings, Inc.
4. John L. Gokongwei, Jr.	JG Summit Holdings, Inc.
5. Jose Ma. K. Lim	Beacon Electric Asset Holdings, Inc.
6. Manuel M. Lopez	First Philippine Holdings, Corp.
7. Napoleon L. Nazareno	Beacon Electric Asset Holdings, Inc.
8. Retired Chief Justice	Mr. Mark Dennis Y.C. Joven

Artemio V. Panganiban	
9. Manuel V. Pangilinan	Beacon Electric Asset Holdings, Inc.
10. Oscar S. Reyes	Beacon Electric Asset Holdings, Inc.
11. Pedro E. Roxas	Mr. Mark Dennis Y.C. Joven

Retired Chief Justice Panganiban and Mr. Roxas were nominated as independent directors.

The Nomination and Governance Committee have evaluated the qualifications of the nominees, including the nominees for Independent Directors, and determined that they have all the qualifications and none of the disqualifications to serve as directors of the Company. All these nominees have given their consent to their nomination.

Copies of the profiles of all nominees for seats in the Board of Directors, stating their age, qualifications, experience, date of first appointment to the Board of the Company, and other directorships in other publicly listed companies (or subsidiaries, whether listed or non-listed within the group of companies) were provided in advance to the stockholders through the Company's Information Statement.

On motion made by Mr. Karl William Soriano and seconded by Mr. Larry Francisco, the following were declared duly elected members of the Board of Directors to serve for the ensuing year and until their successors are duly elected and qualified, having received the following number of votes from the stockholders present and represented at the meeting:

Name	Approved
1. Atty. Ray C. Espinosa	959,790,768
2. James L. Go	959,745,507
3. Lance Y. Gokongwei	959,998,408
4. John L. Gokongwei, Jr.	960,049,415
5. Jose Ma. K. Lim	959,781,064
6. Manuel M. Lopez	960,991,314
7. Napoleon L. Nazareno	959,873,656
8. Retired Chief Justice Artemio V. Panganiban	960,250,219
9. Manuel V. Pangilinan	960,434,192
10. Oscar S. Reyes	960,352,311
11. Pedro E. Roxas	959,741,490
A total of 14,262 shares abstained from the election of directors.	

The above was thus adopted and passed as Resolution 2014-5.

<p align="center">APPOINTMENT OF EXTERNAL AUDITORS</p>

The next order of business was the appointment of external auditors for the Company.

Retired Chief Justice Artemio V. Panganiban stated that in the evaluation of the performance during the past year of the Company's present external auditors, SGV & Company, the Audit and Risk Management Committee found their performance satisfactory. The reappointment of SGV & Company as external auditors of the Company for the ensuing year was thus endorsed by the Audit and Risk Management and the Board of Directors. For the year ended December 31, 2013, the Company paid an audit fee of P8.3 Million, inclusive of P1.8-Million audit fees for the review of the interim consolidated financial statements of the Company as of June 30, 2013 and September 30, 2013 in relation to the Company's bond offering. The Committee was satisfied with their performance.

On motion made by Mr. Michael David Azucena and seconded by Mr. Adrian Rex Dimalanta, there being no objection despite opportunity given, SGV & Company's reappointment as the Company's external auditor was approved by a majority vote of the stockholders present and represented at the meeting and eligible to vote, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	960,065,006	85.18%
2. Against	6,310	0.0%
3. Abstained	10,283	0.0%

The following resolution was thus adopted and passed as Resolution 2014-6:

“RESOLVED, that SGV & Company, Certified Public Accountants, be, as they hereby are, retained and appointed external auditors of the Company.”



APPROVAL OF REVISED MANUAL OF CORPORATE GOVERNANCE

In its meeting held on **July 28, 2014**, the Board approved the Company’s Revised Manual of Corporate Governance to comply with the changes prescribed by the SEC Memo Circular No. 9 Series of 2014, and to reflect all changes that have transpired since the most recent version (March 28, 2011) of the Company’s Revised Manual of Corporate Governance.

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In its meeting held on **November 24, 2014**, the Board approved the following resolutions:

**APPROVAL OF 2015
MERALCO BOARD MEETING SCHEDULE**

The Board approved the following schedule of meetings for the ensuing year 2015:

MERALCO BOARD MEETING 2015 SCHEDULE	
January 26	
February 23	
March 23	
April 27	
May 26 (Tuesday) (Regular Board, Annual Stockholders’ Meeting or Annual General Meeting (AGM), Organizational Meeting)	
June 29	
July 27	
August 24	
September 28	
October 26	
November 23	
December 14	
Regular meeting is held last Monday of the month at 10:00 A.M. unless re-scheduled due to holidays. As per the Company’s By-Laws, the Annual Stockholders’ Meeting or Annual General Meeting (AGM) is held every last Tuesday of May.	

APPROVAL OF REVISED INSIDER TRADING POLICY

The Board approved the Revised Insider Trading Policy to rename and align the prior version of the policy with the contemporary standards of regulators and international companies.

Changes incorporated in the Revised Insider Trading Policy consist of definition of terms, general rules and possible penalties for non-compliance.

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In its meeting held on **December 15, 2014** the Board executed the following resolutions:

ASSESSMENT OF RISKS AND INTERNAL CONTROL

The Board reviewed the effectiveness and adequacy of the risk management system and internal control:

Risk Management

- Reviewed management's top business risks and discussed on-going 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 to the Audit and Risk Management Committee.

Internal Control

- Obtained management's assurance on the adequacy and effectiveness of the Company's internal control system and noted Management's 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.

APPROVAL OF CONSOLIDATED CHANGES IN ACGR FOR 2014
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In compliance with the Securities and Exchange Commission (SEC) Memorandum No. 12, Series of 2014, which requires all publicly listed companies to consolidate all the Annual Corporate Governance Report (ACGR) updates and changes for the year, the Board reviewed Meralco's Consolidated Changes in the ACGR for the year 2014 and approved the same for disclosure to SEC.

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MANILA ELECTRIC COMPANY

REVISED MANUAL OF CORPORATE GOVERNANCE

(July 2014)

REVISED MANUAL OF CORPORATE GOVERNANCE

The Board of Directors, officers, executives, and employees of MERALCO (or the “Company”) hereby commit themselves to the fundamental principles of sound corporate governance provided in this Revised Manual of Corporate Governance (Revised Manual), and acknowledge that the same are necessary components of sound strategic business management that will enhance the value of the Company to all its stakeholders.

This Revised Manual is adopted pursuant to Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2009 (Revised Code of Corporate Governance) issued on July 15, 2009. It supersedes the Company’s Manual of Corporate Governance adopted pursuant to SEC Memorandum Circular No. 2, Series of 2002 (Code of Corporate Governance) issued on April 5, 2002.

DECLARATION OF CORPORATE PRINCIPLES

The Company adheres to the principles of integrity, accountability, fairness, and transparency to develop and uphold an ethical culture that will protect and promote the best interest of the Company for the common benefit of the Company’s stockholders and other stakeholders. The Company likewise adheres to the laws enfranchising its corporate existence and utility operations. As the Company progresses, this Revised Manual shall be kept under constant review and revision to meet the emerging standards of good corporate governance practices.

DEFINITION OF TERMS

- a) **Corporate Governance** – the framework of rules, systems and processes in the corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates;
- b) **Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
- c) **Exchange** – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities;
- d) **Management** – the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;
- e) **Independent director** – a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director;
- f) **Executive director** – a director who is also the head of a department or unit of the corporation or performs any work related to its operation;
- g) **Non-executive director** – a director who is not the head of a department or unit of the corporation nor performs any work related to its operation;

- h) **Non-audit work** – the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;
- i) **Internal control** – the system established by the Board of Directors and Management for the accomplishment of the corporation’s objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules;
- j) **Internal control system** – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed;
- k) **Internal audit** – an independent and objective assurance activity designed to add value to and improve the corporation’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;
- l) **Internal audit department** – a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporation’s operations;
- m) **Internal Auditor** – the highest position in the corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.

CORPORATE GOVERNANCE RULES & PRINCIPLES

I. BOARD GOVERNANCE

Section 1.0 Composition of the Board

- 1.1** The Board consists of eleven (11) directors who shall be elected by the stockholders at a regular or special meeting in accordance with the Amended By-Laws of the Company.
- 1.2** The Board shall have at least two (2) independent directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2).

Section 2.0 Independent Directors

- 2.1** Independent Director means a person who, apart from his fees and shareholdings, is independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgment in carrying out his responsibilities as a director in the Company and includes, among others, any person who:

- a. Is not a director or officer of the Company or of its related companies¹ or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
- b. Does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders;
- c. Is not related to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
- d. Is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
- e. Has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
- f. Is not retained, either personally or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, within the last two (2) years;
- g. Has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and or through a firm of which he is a partner and/or a Company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial;
- h. Is not the chairman emeritus or an ex-officio director/officer or a member of the advisory board of the Company, or otherwise appointed in a capacity to assist the Board of the Company in the performance of its duties and responsibilities within the last one (1) year;
- i. Is not a director (other than an independent director) of the Company who resigned or whose term ended within the last two (2) years; and
- j. Is not a securities broker-dealer or a person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.

¹ When used in relation to the Company, "related company" means another company which is : (a) its holding company, (b) its subsidiary, or (c) a subsidiary of its holding company; and "substantial shareholder" means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

- 2.2** Independent directors should, as much as possible, be in attendance during board meetings to promote transparency. Unless otherwise provided in the By-Laws, their absence shall not affect the quorum requirement.

Section 3.0 Multiple Board Seats

The Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company.

Section 4.0 Duties and Responsibilities of the Board

4.1 General Responsibility

It is the Board's responsibility to foster the long-term success of the Company, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its stockholders and other stakeholders.

- a. The Board of Directors is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.
- b. The Board should establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance.
- c. A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness.

4.2 Specific Duties and Functions

To ensure a high standard of best practice for the Company, its stockholders and other stakeholders, the Board shall:

- a. Adopt a process of selection that encourages diversity and ensures a mix of competent directors and officers, without regard to gender, race, religion, or age;
- b. Oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;
- c. Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance;
- d. Ensure that the Company complies with all relevant laws, regulations and endeavor to adopt best business practices;

- e. Identify the Company's stakeholders in the community in which it operates or are directly affected by its operations and oversee Management's formulation and implementation of the Company's policy on communicating or relating with them through an effective investor relations program and other appropriate communication programs;
- f. Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness;
- g. Provide oversight with regard to enterprise risk management;
- h. Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- i. Ensure that the Company establishes appropriate policies and procedures in accordance with this Revised Manual and applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions;
- j. Constitute Board Committees, including an Audit and Risk Management Committee, that it deems necessary to assist the Board in the performance of its duties and responsibilities;
- k. Consider the creation and maintenance of an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable;
- l. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;
- m. Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing law, rules and regulation; and
- n. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably, shall act as Compliance Officer.

4.3 Chairman of the Board

In addition to the duties provided in the By-Laws of the Company, the responsibilities of the Chairman in relation to the Board shall include the following:

- a. To ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary;
- b. To supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the directors and Management; and
- c. To maintain qualitative and timely lines of communication and information between the Board and Management.

If the positions of Chairman and Chief Executive Officer (CEO) are not separate and matters for resolution of the Board involve the accountability of Management and there is a perceived conflict of

interest in relation thereto, the Chairman must appoint a lead director from among the independent directors to temporarily preside in the meeting to ensure the independence of the Board.

4.4 Internal Controls Responsibilities of the Company

- a. The control environment of the Company consists of:
 - i. The Board which ensures that the Company is properly managed and effectively supervised;
 - ii. The Management that actively manages and operates the Company in a sound and prudent manner;
 - iii. The organizational and procedural controls supported by effective management information and risk management reporting systems; and
 - iv. An independent audit mechanism to monitor the adequacy and effectiveness of the Company's financial reporting, governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, confidential information, and compliance with laws, rules, regulations and contracts.
- b. The Board's internal control mechanisms for the Board's oversight responsibility may include:
 - i. Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Company's organizational and operational controls;
 - ii. Selection of a CEO who possesses the ability, integrity and expertise essential for the position;
 - iii. Establishment by the Company of an internal audit system that can reasonably assure the Board, Management, and stockholders that the Company's key organizational and operational controls are appropriate, adequate, effective, and complied with;
 - iv. Selection and appointment of proposed senior management officers; and
 - v. Review of the Company's personnel and human resource policies and sufficiency, conflict of interest situations, changes in the compensation plan for employees and succession plan for officers and management.

Section 5.0 Qualifications of Directors

- 5.1** Every director shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. He must have all the qualifications and none of the disqualifications of a director. The following are the qualifications:
- a. Possesses college education or the skills needed to effectively carry out his functions as director;
 - b. Possesses integrity/probity; and
 - c. Has strong adherence to legal and moral principles.

A director must have a practical understanding of business in general and of the business of the Company, in particular.

- 5.2** The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

Section 6.0 Disqualification of a Director

6.1 Permanent Disqualification

- a. Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:
 - i. an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
 - ii. any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; or
 - iii. having willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;
- b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from:
 - (1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (2) acting as director, or officer of a bank, quasibank, trust company, investment house, or investment company; (3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (1) and (2) above.

The disqualification shall also apply if such person: (1) is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; or (2) has otherwise been restrained to engage in any activity involving securities and banking or (3) is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization.

- c. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;
- d. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; and
- e. Any person judicially declared as insolvent.

6.2 Temporary Disqualification

The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the following grounds:

- a. Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists.
- b. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.
- c. Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.
- d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.

A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

6.3 If an independent director becomes an officer or employee of the Company, his designation as independent director is automatically terminated and he shall be disqualified as an independent director.

6.4 The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

Section 7.0 Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

- 7.1** To conduct fair business transactions with the Company and ensure that his personal interest does not conflict with the interest of the Company;
- 7.2** To devote time and attention necessary to properly discharge and effectively perform his duties and responsibilities;
- 7.3** To act judiciously;
- 7.4** To exercise independent judgment;
- 7.5** To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of its Articles of Incorporation and By-Laws, the requirements of the SEC, and where applicable, the requirements of other regulatory agencies;
- 7.6** To observe confidentiality of information; and
- 7.7** To ensure the continuing soundness, effectiveness and adequacy of the Company's control environment.

Section 8.0 Compensation of Directors

Directors, as such, shall not receive any compensation unless approved by the stockholders or provided in the By-Laws of the Company. No director should participate in the approval of his compensation. However, the Board may, from time to time, approve a reasonable *per diem* that a director may receive for attendance in Board and Board Committee meetings.

Section 9.0 Board Committees

The Board of Directors shall form Board Committees to aid in ensuring compliance with the principles of good corporate governance. The members of such Committees shall be appointed by the Board of Directors annually.

9.1 Executive Committee

- a. The Board of Directors may, by a majority vote, designate five (5) of its members, including one (1) independent director, to constitute an Executive Committee.
- b. The Committee 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 in the By-laws or on a majority vote of the Board, subject to the limitations provided by Section 35 of the Corporation Code.
- c. The Corporate Secretary or a member of the Executive Committee shall keep the minutes of its proceedings; and all such proceedings shall be from time to time reported to the Board of Directors, and shall be subject to revision or alteration by the Board; provided that no rights of third persons shall be affected by such revision or alteration.

9.2 Nomination and Governance Committee

- a. The Nomination and Governance Committee shall preferably have at least three (3) directors, one of whom must be an independent director.
- b. The Nominations and Governance Committee shall have the following duties and responsibilities:
 - i. Review and evaluate the qualifications of all persons nominated to Board and other appointments that require Board approval in accordance with the qualifications prescribed by law, pertinent rules and regulations, the Company's By-Laws and this Revised Manual. The screening shall include the evaluation of the nominee's directorship, membership and officership in other corporations or organizations to ensure that he can perform his duties diligently and effectively;
 - ii. Provide a Final List of all qualified nominees to the Board;
 - iii. Review and endorse to the Board the Compliance Officer's recommendations in relation to violations of this Revised Manual, the Revised Code of Corporate Governance and such other circulars, rules and regulations issued in relation thereto;
 - iv. Recommend Committee membership appointments, including Committee chairmanships, to the Board for approval after receiving advice from the Chairman of the Board and CEO and with consideration of the desires of individual Board members;
 - v. Review annually the Charters of the Board Committees for the purpose of recommending any needed change(s) to the Board;
 - vi. Recommend processes and mechanisms for evaluating the performance of the Board, the Board Committees, and Management;
 - vii. Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors;
 - viii. Review annually the prescribed Full Business Interest Disclosure of all incoming Directors and officers; and
 - ix. Such other responsibilities as may be provided in the Nomination and Governance Committee Charter.

9.3 Audit & Risk Management Committee

- a. The Audit and Risk Management Committee shall be composed of five (5) directors, who shall preferably have accounting and finance backgrounds, two (2) of whom shall be Independent Directors and another with audit experience. The Chairman shall be an Independent Director. Each member shall have adequate understanding at least or competence at most of the Company's financial management systems and environment.

- b. The Audit and Risk Management Committee shall have the following duties and responsibilities:
- i. Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring compliance with applicable laws, rules, and regulations;
 - ii. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal, and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
 - iii. Perform oversight functions over the Company's internal and external auditors. It should ensure that internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties, and personnel to enable them to perform their respective audit functions;
 - iv. Review and approve the annual internal audit plan to support the attainment of the objectives of the Company. The plan shall include the audit scope, resources, and budget necessary to implement it;
 - v. Prior to commencement of the audit, discuss with the external auditor the nature, scope, and expenses of the audit, and ensure proper coordination if more than one (1) audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts; .
 - vi. Organize an internal audit department and consider the appointment of an independent internal auditor as well as consider an independent external auditor, and the terms and conditions of their engagement and removal;
 - vii. Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;
 - viii. Review the reports submitted by the internal and external auditors;
 - ix. Review the completeness, accuracy, and fairness of the quarterly, half-year, and annual financial statements before their submission to the Board or regulators with particular focus on the following matters:
 - ix.i Any change/s in accounting principles and practices
 - ix.ii Major judgmental areas
 - ix.iii Significant adjustments resulting from audit
 - ix.iv Going concern assumptions
 - ix.v Compliance with accounting standards
 - ix.vi Compliance with tax, legal, and regulatory requirements.
 - x. Coordinate, monitor, and facilitate compliance with laws, rules, and regulations;
 - xi. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the

total annual income of the external auditor and to the Company's overall consultancy expenses. The Audit and Risk Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's annual report;

xii. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. The Audit and Risk Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties;

xiii. Elevate to international standards the accounting and auditing processes, practices and methodologies; and

xiv. Such other duties and responsibilities as may be provided in the Audit and Risk Management Committee Charter.

xv. The Audit and Risk Management Committee shall meet quarterly and as often as may be necessary.

9.4 Remuneration and Leadership Development Committee

a. The Remuneration and Leadership Development Committee preferably shall be composed of at least three (3) directors, one of whom shall be an independent director.

b. The Remuneration and Leadership Development Committee shall have the following duties and responsibilities:

i. Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy, and the business environment in which it operates;

ii. Oversee the formulation of the compensation and retirement philosophy as well as study and evaluate the appropriate compensation, retention, and retirement policies and programs for the officers of the Company as appointed in accordance with the Company's By-Laws, as well as managers or executives with the rank of assistant vice president and up;

iii. Review management succession plan; and

iv. Such other duties and responsibilities as may be provided in the Remuneration and Leadership Development Committee Charter.

9.5 Finance Committee

a. The Finance Committee shall be composed of at least three (3) directors with the Chief Finance Officer as ex-officio member, one (1) of whom shall be an independent director.

b. The Finance Committee is in charge of reviewing the financial operations of the Company and matters regarding the acquisitions of or investments in companies, business or projects. It endorses

recommendations to the Board as deemed appropriate or approved actions within its delegated authority.

- c. The Finance Committee shall review, advise and recommend approval, decision or action on financial matters, including but not limited to the following:
 - i. Establishment of and changes to financial, accounting and treasury policies;
 - ii. All major financing transactions of the Company;
 - iii. Issuance of shares and shares repurchases, valuation of shares, and other such activities involving existing shares;
 - iv. The Company's corporate plans and budgets;
 - v. Major contracts and variations;
 - vi. Proposals for dividends and transfers to reserve;
 - vii. Financing guarantees and indemnities and mortgaging of the Company's assets;
 - viii. Any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company;
 - ix. Guarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval;
 - x. Capitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;
 - xi. Proposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment; and
 - xii. Such other duties and responsibilities as may be provided in the Finance Committee Charter.

Section 10.0 The Management

The Management is represented by a Management Committee (Mancom) composed of corporate officers and executives formed and headed by the CEO, or, in his absence, the President. All principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries shall be formulated and implemented by this Committee, subject to Board approval when required by existing laws. The Committee shall regularly report to the Board at its regular Board meeting, or during special meeting whenever necessary or requested by the Board, through the CEO and/or the President, on all matters concerning the Company's operation as well as significant events or occurrences affecting the Company.

Section 11.0 Duties and Responsibilities of the CEO

The CEO shall be in charge of the management and administration of the business operations, affairs and properties of the Company. He shall ensure that all resolutions of the Board are carried into effect and see that the business and affairs of the Company are managed in a sound and prudent manner. He shall ensure the reliability and integrity of financial and operational information and effectiveness, as well as, the efficiency of operations.

The CEO shall report to the Board, from time to time, all matters within his knowledge in which the Company has material interest.

Section 12.0 The Corporate Secretary and Assistant Corporate Secretary

The Corporate Secretary and the Assistant Corporate Secretary are officers of the Company and are expected to observe the highest degree of professionalism, integrity, and diligence.

12.1 Qualifications of the Corporate Secretary and Assistant Corporate Secretary

- a. The Corporate Secretary and the Assistant Corporate Secretary shall be resident Filipino citizens of good moral character.
- b. They shall have adequate legal, administrative, and interpersonal skills.

12.2 Duties and responsibilities of the Corporate Secretary and the Assistant Corporate Secretary

- a. Work and deal fairly and objectively with all the constituencies of the Company, namely, the Board, Management, stockholders and other stakeholders.
- b. Be fully informed and be part of scheduling the Board activities.
- c. Be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities.
- d. Schedule meetings at least for the current year and duly notify the Board before every meeting.
- e. Advise directors on matters pertaining to their legal responsibilities and obligations and ensure that appropriate Board procedures are being followed and that applicable rules and regulations are complied with.
- f. Conduct orientation for new directors on the Company's organizational structures and business operation.
- g. Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
- h. Attend all Board meetings and maintain record of the same.
- i. Submit to the SEC, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.
- j. Report to the SEC and the Philippine Stock Exchange (PSE) matters involving the Company, which are required to be disclosed under applicable laws and regulations.

- k. Safekeep and preserve the integrity of minutes and other official records of the Company.
- l. Be loyal to the mission, vision, and objectives of the Company.
- m. Have working knowledge of the operations of the Company.
- n. Ensure that all Board procedures, rules and regulations are faithfully followed by its members.

Section 13.0 Compliance Officer

13.1 The Board shall appoint a Compliance Officer who shall report to the Chairman. The Compliance Officer shall perform the following duties:

- a. Monitor compliance with the provisions and requirements of this Revised Manual;
- b. Appear before the SEC when summoned in relation to compliance with the Revised Code of Corporate Governance or such other circulars, rules and regulations issued in relation thereto;
- c. Determine violation/s of this Revised Manual and recommend action for violation thereof to be reviewed and approved by the Board;
- d. Issue a certification within the prescribed deadline set by the regulators on the extent of the Company's compliance with this Revised Manual for the completed year, explaining the reason for any deviation from the same, if any; and
- e. Identify, monitor and report compliance risks.

13.2 The appointment of the Compliance Officer shall be immediately disclosed to the SEC on SEC Form 17-C. All correspondence related to his functions as such shall be addressed to said Officer.

Section 14.0 External Auditor

14.1 The Board, after consultations with the Audit and Risk Committee, shall recommend to the stockholders an external auditor duly accredited by the SEC who shall undertake an independent audit of the Company, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.

14.2 The external auditor of the Company should not at the same time provide the services of an internal auditor.

14.3 The Company's external auditor should be rotated or the handling partner should be changed every five (5) years or earlier.

14.4 The reason(s) for the resignation, dismissal or cessation from service of an external auditor and the date thereof shall be reported in the Company's annual and current reports. Said report should include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

- 14.5** If an external auditor believes that the statements made in the Company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

Section 15.0 Internal Auditor

- 15.1** The Company shall have in place an independent internal audit function which shall be performed by an Internal Auditor or an internal audit organization, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
- 15.2** The Internal Auditor should certify that the conduct of internal audit activities is in accordance with the International Standards for Professional Practice of Internal Auditing.
- 15.3** The Internal Auditor shall functionally report directly to the Audit and Risk Management Committee.
- 15.4** The Internal Auditor should submit to the Audit and Committee and Management an annual report on department's activities, responsibilities, and performance plans and strategies as approved by the Audit and Committee. Risk Management the internal audit relative to the audit Risk Management

II. SUPPLY OF INFORMATION

All directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties.

- A. Management is responsible for providing the Board with appropriate and timely information. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.
- B. The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.
- C. A full agenda and comprehensive Board papers are be circulated to all directors well in advance of each Board meeting.
- D. Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.

III. DISCLOSURE AND TRANSPARENCY

- A. The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders. All material information may include: earnings results, acquisition or disposition of assets, board changes, related party transactions, shareholdings of directors, changes in ownership, remuneration

(including stock options) of all directors and senior management, corporate strategy, and off balance sheet transactions.

- B. All disclosed information may be released via the approved stock exchange procedure for Company announcements as well as through the annual report. The Company shall cause the filing of all required information for the interest of the stakeholders.

IV. ACCOUNTABILITY AND AUDIT

- A. The Board shall ensure that stockholders are provided with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.
- B. Management should formulate the rules, procedures on internal controls, and financial operations for presentation to the Audit & Risk Management Committee in accordance with the following guidelines:
 - i. The extent of its responsibility in the preparation of the financial statements of the Company, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
 - ii. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company should be maintained for the benefit of all stockholders and other stakeholders;
 - iii. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Company's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations; and
 - iv. The Company should consistently comply with the financial reporting requirements of the SEC.

V. INVESTORS' RIGHTS AND PROTECTION

The Board shall commit to respect the following rights of the stockholders:

Section 1.0 Voting Right

1.1 Stockholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

1.2 Cumulative voting shall be used in the election of directors.

Section 2.0 Pre-emptive Right

Unless otherwise stated in the Articles of the Incorporation or the Corporation Code of the Philippines, all stockholders shall enjoy pre-emptive right to subscribe to all issues or disposition of shares in proportion to their respective shareholdings.

Section 3.0 Right of Inspection

Any stockholder who desires to exercise his right to inspect corporate books and records of the Company must make a written request addressed to the Corporate Secretary, and stating the specific reason(s) or purpose(s) for the inspection. The exercise of such right may be denied if: (i) the requesting stockholder improperly used information obtained from prior examination; or, (ii) is not acting in good faith; or, (iii) there is a reasonable ground to safeguard the interests of the Company, such as when the subject of inspection contains confidential or proprietary information or covered by a confidentiality or non-disclosure obligation which will be violated by the Company if inspection were allowed. In no case shall the stockholder be allowed to take corporate books and other records out of the principal office of the Company for the purpose of inspecting them. The Corporate Secretary may elevate the request for inspection for the information, approval, or other appropriate action by the Board.

This Revised Manual shall be available for inspection by any stockholder of the Company at reasonable hours on business days.

Section 4.0 Right to Information

Stockholders shall be provided, upon request, with periodic reports filed by the Company with the SEC (e.g., proxy statement/information statement and annual report) which disclose personal or professional information about the Directors and Officers such as their educational and business background, holdings of the Company's shares, material transactions with the Company, relationship with other Directors and Officers and the aggregate compensation of Directors and Officers.

Section 5.0 Right to Dividends

- 5.1** Stockholders shall have the right to receive declared dividends subject to the procedures prescribed by the Board.
- 5.2** The Company shall be compelled to declare dividends when its retained earnings exceeds 100% of its paid-in capital stock, except:
 - a. when justified by definite corporate expansion projects or programs approved by the Board; or
 - b. when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or
 - c. when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

Section 6.0 Appraisal Right

The stockholders shall have appraisal right under any of the following circumstances:

- a. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any aspect superior to those of outstanding shares of any class, or of extending or reducing the term of corporate existence;
- b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the property and assets of the Company;
- c. In case of merger or consolidation; and
- d. Investment of funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized.

Section 7.0 Right to Transparent and Fair Conduct of Stockholders' Meeting

The Board shall adopt appropriate measure to ensure that stockholders' meetings are conducted in a fair and transparent manner. The stockholders should be encouraged to personally attend such meetings, and if unable to do so, they should be advised ahead of time of their right to appoint a proxy on their behalf. Subject to the requirements of law, rules and regulations, the By-Laws of the Company and the rules approved by the Board, the validity of a proxy should be resolved in favor of the stockholder.

It shall be the duty of the directors to promote stockholder rights, remove impediments to the exercise of stockholders' rights and allow possibilities to seek redress for violation of their rights. The directors shall envisage the exercise of stockholders' voting rights and the solution of problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to stockholders participating in meetings and/or voting in person.

VI. COMPLIANCE AND MONITORING SYSTEM

Section 1.0 Communication and Training Process

- 1.1** All Company directors and executives are tasked to ensure the thorough dissemination of this Revised Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- 1.2** An adequate number of printed copies of this Revised Manual must be reproduced and distributed to each department of the Company.
- 1.3** Funds will be allocated by the Company for the purpose of conducting an orientation program or workshop to operationalize this Revised Manual.
- 1.4** A director shall, before his assumption of duty, be required to attend a seminar on corporate governance which shall be conducted by a recognized and reputable training provider.

Section 2.0 Governance Rating System

The Board shall develop a rating system to measure the performance of the Board and Management in accordance with the criteria provided in this Revised Manual and other rules and regulations on good corporate governance.

Section 3.0 Penalties for Non-Compliance with the Revised Manual

- 3.1 The Compliance Officer shall be specifically tasked with the responsibility of ensuring compliance with this Revised Manual.
- 3.2 The Compliance Officer shall, after proper investigation, notice and hearing, determine and recommend to the Board, the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent repetition of the violation.

VII. APPLICABILITY TO SUBSIDIARIES

Subsidiaries of the Company are encouraged to adopt their own Manual of Corporate Governance.

VIII. SEPARABILITY CLAUSE

The Board endeavors to comply at all times with the principles set out in this Revised Manual. In case of conflict between the Code of Corporate Governance issued by the SEC and this Revised Manual, the Code shall prevail. If the conflict is such that the affected provision of this Revised Manual is rendered invalid, the rest of the provisions of this Revised Manual shall remain valid.

IX. EFFECTIVITY

This Revised Manual was approved on July 28, 2014 by the Board of Directors. It shall be published in the Website of the Company and shall take effect immediately. It supersedes the previous Manual on Corporate Governance that was approved and adopted by the Company on January 1, 2003 and amended on August 25, 2003, June 7, 2004, June 25, 2007, May 1, 2010 and March 28, 2011.

Signed:



MANUEL V. PANGILINAN

Chairman



OSCAR S. REYES

President & CEO





CONFLICT OF INTEREST POLICY
(Revised: July 2012)

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I. DECLARATION OF POLICY

The Company strongly adheres to the observance of honesty, justice and good faith in its obligations, dealings or relationships with its various stakeholders as specified in its existing Company Codes namely, The Code of Ethics, Code on Employee Discipline and Information Security Policy, among others. In the pursuit of this time-honored commitment, its Directors, Officers and Employees are required to observe at all times the highest degree of fairness, accountability, transparency and integrity in the performance of their duties and responsibilities to the Company, free from any form of conflict or contradiction with their own personal interest.

II. DEFINITION OF TERMS

A. **Affiliated Party** refers to any person, natural or juridical, other than the Company, with which a Director, Employee, or Officer of the Company has a financial, professional or personal relationship or interest. This includes, among others:

1. Relatives as defined in this Policy;
2. Corporations or firms other than the Company where a Director, Officer, Employee and/or his relative holds a position as Director, Officer, executive, Employee or consultant; or
3. Corporations, other than the Company, owned by the Directors, Officers, Employees of the Company, or their relatives, which holds, either singly or collectively, more than ten percent (10%) of the subscribed capital or equity of such corporations.
4. Partnerships in which a Director/ Officer/ Employee or an Affiliated Party is a partner;
5. Co-ownership wherein a Director, Officer, Employee, or his Affiliated Party is a part owner of the property sold, assigned or leased to the Company; and
6. Relationship by reason of wedding, baptismal or sponsorship (i.e. the godparents; goddaughter; godson; or "*kumpare/kumare*") of the Employee or of his spouse or children.

Business dealings or transactions of an Officer or Employee in behalf of the Affiliates or Subsidiaries of the Company are excluded from the definition of Affiliated Party.

B. **Board** refers to the Board of Directors of the Company.

C. **CGO** refers to the Corporate Governance Office of the Company.

D. **Clearance Authority** refers to the individual or office who/which exercises the duties and responsibilities enumerated under Section (VI) *Compliance and Enforcement*. This includes the Group Head, Organization/BRU Head of the employee, President or

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CEO or his representative, and the Nomination and Governance Committee (Nom & Gov), as the case may be.

- E. **Company** refers to the Manila Electric Company (MERALCO).
- F. **Confidential or Proprietary Information** shall include, but shall not be limited to, any and all trade secrets and any other information, methods, processes, formulae, systems, business, technical, marketing, computer and administrative records, including customer lists, plans, software and other data developed, created, acquired or maintained by the Company.
- G. **Conflict of Interest Situation** refers to a situation where financial or business interest, professional, or other personal considerations or interests may influence, jeopardize or compromise, or have the appearance, tendency or propensity of influencing, jeopardizing or compromising, the ability of Directors, Officers or Employees to effectively and impartially or objectively exercise independent judgment in the performance of their duties, responsibilities or professional activities in the Company.
- H. **Consultancy** refers to the act of providing professional or expert advice, for a consideration, in a particular field like management, energy services and technology.
- I. **Director** refers to a member of the Board of Directors of the Company.
- J. **Employees** refer to all persons under the employ and in the active payroll of the Company.
- K. **Gifts** may be a right, privilege, or a thing of value, like cash or cash equivalent, loan, fee, reward, commission, allowance, employment, travel and any other form of benefit.
- L. **Nom & Gov** refers to the Nomination and Governance Committee of the Company.
- M. **Officer** refers to an officer of the Company as defined in its By-laws.
- N. **Relatives** refer to persons related up to the third degree, by consanguinity, affinity or legal adoption, including the spouse, parents, children (and their spouses) siblings, (and their spouses), nieces and nephews (limited to children of brothers or sisters) [and their spouses], grandparents, and aunts and uncles (limited to sisters or brothers of parents); and the common-law spouse and/or his relatives of up to the third degree, by consanguinity, affinity or legal adoption. For purposes hereof, Relatives shall include first cousins (Please see illustration in “**Annex A**”).

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- O. **Third Party** refers to any person, natural or juridical, that has existing and/or expected business dealings with the Company, including, but not limited to, prospective or existing suppliers, contractors, buyers, customers, government agencies, or all other business partners who are or may be similarly situated.

III. COVERAGE

This Policy covers all possible conflicts of interest between the financial, professional or personal interests or activities of i) Directors, Officers, or Employees; or ii) Affiliated Party, and the business interest of the Company.

IV. CONFLICT OF INTEREST SITUATIONS

The following are situations or events which may give rise to or result in a Conflict of Interest Situation. Other situations not described herein shall be evaluated on a case to case basis by the Clearance Authority within the context of this Policy.

A. Corporate Opportunity and Outside Investment

1. Having a part in recommending, decision-making or approving; or in influencing decisions in the granting of awards or in the provision of electric services; or in selling or leasing Company property; or in establishing prices, customer deposits, and discounts; or in disseminating information about the availability of electric service and Company property, with respect to, or in favor any of his Affiliated Parties.
2. Soliciting personal business from customers/ suppliers of the Company.
3. Using the Company's resources for personal or non-Company activities or for purposes outside of the Company's corporate mission/vision.
4. Using the Company's non-public, confidential or proprietary information for his or another person's gain or advantage, including the purchase or sale of securities of the Company and/or in a business the Company is interested in acquiring, selling, establishing or terminating business relations with.
5. Using the Company's name, trademark and other intellectual properties or data, facilities and resources in connection with, among others, the following instances:
 - a. Sponsoring, recommending or promoting any commercial service or product, unless such is at the request of the Company or is part of the Director, Officer, or Employee's Company duties or responsibilities;
 - b. Granting Third Parties access to Company facilities or services for purposes outside of the Company's mission, or offering favors to said Third Parties to gain favors for one's self or for any of his Affiliated Party;

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- c. Granting unauthorized access of confidential or proprietary information to others; and
- d. Providing preferential access to the Company's resources and facilities, or giving preferential treatment or advantage, to Third Parties for personal gain or in exchange for a Gift in favor of any of a Director's, Officer's or Employee's Affiliated Party.

B. Relationships

Additional instances or events that may give rise to a Conflict of Interest Situation under this Section are as follows:

1. When Directors, Officers or Employees take part in decisions to transact business with an Affiliated Party. These include, but shall not be limited to:
 - a. The execution of any contract between the Affiliated Party and the Company for the procurement of supplies or services, and lease or sale of property.
 - b. The valuation, recommendation and/or approval of business, project proposals, or transactions of the Company with an Affiliated Party.
2. Exerting pressure/influence with respect to the hiring by the Company of an Affiliated Party.
3. Personal relationships at work, when such can influence or compromise a Director's, Officer's, or Employee's decisions or actions involving his subordinate, or which could affect hiring, job responsibilities, work duties, promotions, performance evaluations, and/or compensation.

C. Gifts

Soliciting or accepting gifts, in any form, from a Third Party with existing or intended business dealings with the Company, in consideration of any act or omission affecting, or transaction involving the Company.

D. Outside Employment and Other Services

A Director, Officer, or Employee shall avoid accepting a position or employment, or carrying out work outside of the Company and/or its subsidiaries where a Conflict of Interest or loyalty may arise and which may significantly affect the Director's, Officer's, or Employee's efficiency in the performance of duties and obligations or otherwise adversely affects one's work.

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V. DISCLOSURE AND APPROVAL

Directors, Officers and Employees of the Company are expected to conduct themselves at all times with the highest ethical standards. They must seek guidance from the Clearance Authority before embarking on activities where potential Conflict of Interest Situations may be present. Actual or potential Conflict of Interest Situations must be avoided and should be disclosed immediately.

A. DUTY TO DISCLOSE AND SEEK CLEARANCE OF ACTUAL OR POTENTIAL CONFLICT OF INTEREST SITUATIONS

1. As soon as a Director, Officer, or Employee becomes aware of an actual or potential conflict of interest situation where he is involved in, he must disclose this in writing to the appropriate Clearance Authority to seek clearance or advice. *(Please refer to **Annex B** for the template when requesting Clearance on Potential Conflict of Interest.)*

He shall likewise inhibit from being involved at any stage of the transaction and cannot sign any document related to the transaction.

2. All Directors, Officers and Employees shall annually sign and submit a Conflict of Interest Disclosure Statement not later than January 31 of each year. *(Please refer to **Annex C** for the Annual Conflict of Interest Disclosure for Employees below AVP level and **Annex D** for AVP and up level.)*
3. It shall be the responsibility of every Director, Officer, and Employee to take immediate and appropriate action when they become aware of any violations or potential violations of other Directors, Officers or Employees, and to disclose the same to the Clearance Authority for appropriate action.

B. DISCLOSURE/APPROVAL GUIDE

Conflict of Interest Situations shall be approved or cleared by the Clearance Authority in the levels provided below:

REPORTING PERSON	CLEARANCE AUTHORITY
Employee	Organization Head /BRU Head
Organization Head/ BRU Head	Group Head
Officer (except President/CEO)	President/CEO
Director/ President/CEO	Nomination and Governance Committee

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The Clearance Authority shall provide HR and CGO with a copy of all its rendered decisions.

VI. COMPLIANCE AND ENFORCEMENT

A. The Nom & Gov shall oversee compliance of this Policy through the CGO. The Nom & Gov for the Directors, President or CEO, or the CGO for Officers and Employees, shall take appropriate actions on Conflict of Interest Situations that are not specified in Article IV of this Policy.

B. The Clearance Authority shall have the following duties and responsibilities:

1. Evaluate Conflict of Interest Situations disclosed to them and determine if the same is permissible.
2. Issue opinion or advice to concerned Directors, Officers, or Employees on potential or actual Conflict of Interest Situations. Ensure that mitigation measures are in-place for authorized conflict of interest situation and this must be clearly stated as part of the approval.

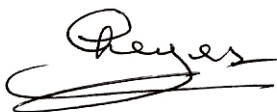
The decision of the first level Clearance Authority may be elevated to the next level Clearance Authority for appropriate action.

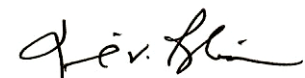
C. Any Conflict of Interest Situation that has not been disclosed in violation of this Policy shall be dealt with administratively in accordance with the provisions of the Revised Manual of Corporate Governance, By-Laws, Code of Ethics or the Code on Employee Discipline, or other Company policy or guidelines, whichever is applicable.

VII. EFFECTIVITY

This Policy was approved by the Board of Directors on **July 30, 2012**. It shall be published in the Website of the Company and shall take effect on **August 15, 2012**. It supersedes the previous Conflict of Interest Policy that was approved and adopted by the Company on August 23, 2004. In the event of inconsistencies of this Policy with other existing Company policies, this Policy shall prevail.

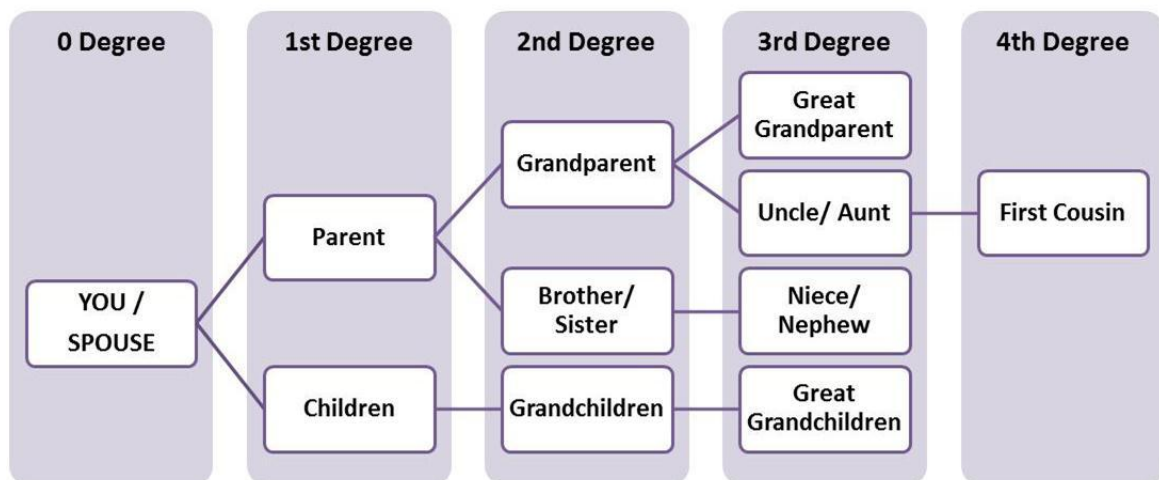
Signed:


Oscar S. Reyes
President and CEO


Manuel V. Pangilinan
Chairman of the Board

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Annex A: Chart of Affinity and Consanguinity Relations



For purposes of this Policy:

1. A spouse is related by marriage (affinity) to his/her partner's relatives in the same way that he/she is related to them by blood (consanguinity).
2. Half-blood relationship is the same as a full-blood relationship.
3. Step relationship is the same as a blood relationship.
4. Relationship through legal adoption shall constitute relation by consanguinity.

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Annex B: CLEARANCE ON POTENTIAL CONFLICT OF INTEREST SITUATION



MEMORANDUM

TO : _____
(The Clearance Authority)¹

CC : The Corporate Governance Office

FROM : _____
(The Employee)

DATE : _____

SUBJECT : **CLEARANCE ON POTENTIAL CONFLICT OF INTEREST SITUATION**

☐ Information ☐ Review ☐ Action ☐ Approval

I hereby disclose and secure the approval of the following situations or events that may give rise to a potential Conflict of Interest (COI) under MERALCO's COI Policy.

Please state the affected portion of the submitted COI Disclosure and provide the updated/corrected entries.

Please state situation or event details (include additional sheet if necessary).

ASSESSMENT and DISPOSITION (To be filled-up by Clearance Authority)

Assessment: ☐ Conflict of Interest ☐ Not a Conflict of Interest
☐ No need to Disclose ☐ No need for Approval

Disposition if there is Conflict of Interest (include additional sheet if necessary):

☐ Disapproved (state reason)

☐ Approved (state reason and mitigating measures to manage the conflict)

By: _____
Signature over Printed Name of Clearance Authority

Date: _____

¹ Please refer to the COI Policy (page 7) for the appropriate Clearance Authority

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Annex C: ANNUAL CONFLICT OF INTEREST DISCLOSURE (FOR EMPLOYEES BELOW AVP LEVEL)



Annual Conflict of Interest Disclosure (For Employee below AVP Level) For the Year _____

Employee Name (Last, First, Middle)		Man No.:
Title/Position:	Organizational Unit:	

In compliance with MERALCO's Conflict of Interest Policy, I hereby submit the following information:

<p>1. I am part of a team or office that: (i) approves or recommends provision of electric service to customer; requires customer deposits and recommends or approves, discounts and refunds; (ii) recommends sale or lease of MERALCO properties; (iii) determines prices, (iv) disseminates information about the availability of electric service.</p> <p>☐ No</p> <p>☐ Yes (Pls. state nature of involvement) _____</p> <p>_____</p> <p>_____</p>
<p>2. I am part of a team or office that has access to the Company's non-public, confidential or proprietary information, trademark or other intellectual properties or data, facilities and resources.</p> <p>☐ No</p> <p>☐ Yes (Pls. state nature of involvement) _____</p> <p>_____</p> <p>_____</p>



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3. I am part of a team or office that refers, evaluates, recommends, and approves purchase or supply of materials, equipment, facilities and other products or supply of services to MERALCO.

☐ No

☐ Yes (Pls. state nature of involvement) _____

4. I have personal dealings (other than the Company's business transactions) with the following Suppliers.

☐ None

☐ Yes (Pls. specify below. Include additional sheet if necessary)



Name of Supplier (Name, Address and Contact No.)	Personal Business Transaction	Inclusive date of transaction

5. I/my legal or common-law spouse personally has/have the following active business dealings with MERALCO.

☐ None

☐ Yes (Pls. specify below. Include additional sheet if necessary)

Name of Involved Individual (Name, Address and Contact No.)	Business Transaction (ex. Supplier/ Lessor/ Service Applicant)	MERALCO Office (involved in the transaction)



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6. My Affiliated Party(ies)¹ below has/have an active business dealings² with MERALCO:

a. Relatives³ and first (1st) cousins.

☐

None

☐

Yes (Pls. specify below. Include additional sheet if necessary)

Relative (Name, Address and Contact No.)	Degree of Relation	Business Transaction (ex. Supplier/ Lessor/ Service Applicant)	MERALCO Office (involved in the transaction)

b. Corporations or firms, other than the Company, where I and/or my relative hold(s) a position of a director, officer, executive, employee or consultant.

☐

None

☐

Yes (Pls. specify below. Include additional sheet if necessary)

Corporation (Name, Address and Contact No.)	Name and Position of involved individual (if Relative, indicate relationship)	Business Transaction (ex. Supplier/ Lessor/ Service Applicant)	MERALCO Office (involved in the transaction)

¹ Please refer to Affiliated Party definition in *Annex A: Definition of Terms*.

² Dealings other than the regular standard transactions.

³ Please refer to Relatives definition in *Annex A: Definition of Terms*.



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- c. Corporations, other than the Company, where I and/or my relatives, hold(s), either singly or collectively, more than ten percent (10%) of the subscribed capital or equity of such corporations or firms.

☐

None

☐

Yes (Pls. specify below. Include additional sheet if necessary)

Corporation (Name, Address and Contact No.)	Name and No. of shares and % of ownership held by you/ relative (if Relative, indicate relationship)	Business Transaction (ex. Supplier/ Lessor/ Service Applicant)	MERALCO Office (involved in the transaction)

- d. Partnerships in which I and/or my Affiliated Party(ies) is a partner or are partners; or properties sold, assigned or leased to MERALCO, in which I and/or my Affiliated Party(ies) is a part owner or part owners.

☐

None

☐

Yes (Pls. specify below. Include additional sheet if necessary)

Business Name/ Property (Name, Address and Contact No.)	Name of Partner/ Co-owner (if Relative, indicate relationship)	Business Transaction (ex. Supplier/ Lessor/ Service Applicant)	MERALCO Office (involved in the transaction)



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e. I have a relationship (by reason of wedding, baptismal or sponsorship) with a third party who has existing or prospective business dealings with MERALCO.

☐

None

☐

Yes (Pls. specify below. Include additional sheet if necessary)

Name of Related Individual (Name, Address and Contact No.)	Relationship	Business Transaction (ex. Supplier/ Lessor/ Service Applicant)	MERALCO Office (involved in the transaction)

7. My Affiliated Party(ies)⁴ below is/are employed or compensated, as director, officer, consultant or employee, by a MERALCO Supplier or Competitor:

☐

No

☐

Yes (Pls. specify below. Include additional sheet if necessary)

Affiliated Party (Name, Address and Contact No.)	Affiliation (for Relatives state degree of relationships)	Title/Position	Business Entity	
			(Name, Address and Contact No.)	Relation ⁵ with MERALCO

⁴ Please refer to Affiliated Party definition in Annex A: Definition of Terms

⁵ Please specify if 1-Supplier or 2-Competitor



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8. I am currently a director, officer, consultant or employee of the following business entity:

☐ No

☐ Yes (Pls. specify below. Include additional sheet if necessary)

Business Entity (Name, Address and Contact No.)	Title/Position	Duration of Engagement/ Employment	Business Entity relation ⁶ with MERALCO	Salary/ Compensation for the entire duration

9. My present position and/or responsibilities in MERALCO involves or allows me to be involved in recruitment, selection, promotion, staff development, performance review, determination of benefits, remuneration or disciplinary sanctions to directors, officers, or employees of MERALCO.

☐ None

☐ Yes (Pls. state nature of involvement) _____



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10. My Affiliated Party(ies) below is/are assigned to an office under my direction, control or supervision;

☐ None

☐ Yes (Pls. specify below. Include additional sheet if necessary)

Affiliated Party (Name and Contact No.)	Affiliation (for personal relations, state degree ⁷ or nature ⁸)	MERALCO Employment		
		Office Assigned to	Title/Position	Term of Office

I hereby certify that the above disclosure of information and affirmation are true and correct, to the best of my knowledge, information and belief. I acknowledge the authority of MERALCO to verify the accuracy and completeness of the above information and impose the appropriate disciplinary action for proven malicious or false information.

Reviewed by:

Employee Name and Signature

Man No.: _____

BRU: _____

Date Signed: _____

Name and Signature of Clearance Authority

Reviewed Date: _____

⁷ Degree refers to 1st, 2nd, etc. of consanguinity or affinity.

⁸ Nature refers to Baptismal Sponsor, Wedding Sponsor, etc. (e.g. Baptismal Sponsor of your Child, your Wedding Sponsor)



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17. CORPORATE GOVERNANCE RELATED TRAININGS ATTENDED during the LAST TWO YEARS

Name of Institutional Training Provider & Address	Date of Completion	Certifier

(Continue on separate sheet, if necessary)

BUSINESS INTERESTS/AFFILIATIONS

SHAREHOLDINGS in any Company (Own or control 10% or More of Total Company Outstanding Shares) during the LAST TWO YEARS

Company	Nature of Business	% of Ownership

(Continue on separate sheet, if necessary)

SHAREHOLDINGS in Electric Power Industry Participants (even if less than 10% of Total Company Outstanding Shares) during the LAST TWO YEARS

Company	Electric Industry Sector (Generation/Transmission/ Distribution/Supply)	% Ownership and No. of Shares

(Continue on separate sheet, if necessary)

DIRECTOR (Chairman, Vice-Chairman or Member of the Board)

Name of Company/Institution	Position	Period

(Continue on separate sheet, if necessary)

CORPORATE OFFICER

Name of Company/Institution	Position	Period

(Continue on separate sheet, if necessary)

Prepared By: Corporate Governance Office

Approved By: Board of Directors

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CONSULTANT												
Name of Company/Institution	Nature of Work/ Focus Area	Period										
<i>(Continue on separate sheet, if necessary)</i>												
PARTNER												
Name of Partnership/Joint Venture	Nature of Work/ Focus Area	Period										
<i>(Continue on separate sheet, if necessary)</i>												
OTHER BUSINESS INTERESTS/ AFFILIATIONS												
Name of Company/Institution	Nature of Work/Business Engagement	Period										
<i>(Continue on separate sheet, if necessary)</i>												
<p>19. Are you a stockholder, director, officer or employee of a generation company, distribution utility or other entity engaged in the generation, distribution and supply of electricity? ____ Yes ____ No</p> <p>a. If yes, please specify the company/institution and the sector of the electric power industry it is involved in.</p> <table border="1" style="width: 100%;"> <thead> <tr> <th>Company/Institution Please specify if affiliate or subsidiary</th> <th>Sector (Generation/Transmission/Distribution/Supply)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr> <td colspan="2" style="text-align: center;"><i>(Continue on separate sheet, if necessary)</i></td> </tr> </tbody> </table>			Company/Institution Please specify if affiliate or subsidiary	Sector (Generation/Transmission/Distribution/Supply)							<i>(Continue on separate sheet, if necessary)</i>	
Company/Institution Please specify if affiliate or subsidiary	Sector (Generation/Transmission/Distribution/Supply)											
<i>(Continue on separate sheet, if necessary)</i>												
<p>20. Do you hold any other interest, whether directly or indirectly, in National Transmission Corporation, its concessionaire National Grid Corporation of the Philippines, or in any generation company or distribution utility?¹ ____ Yes ____ No</p>												

¹ Section 45 of Republic Act No. 9136 provides that no generation company, distribution utility, or its respective subsidiary or affiliate or stockholder or official of a generation company or distribution utility, or other entity engaged in generating and supplying electricity specified by ERC within the fourth civil degree of consanguinity or affinity, shall be allowed to hold any interest, directly or indirectly, in TRANSCO or its concessionaire. Likewise, the TRANSCO, or its concessionaire or any of its stockholders or officials or any of their relatives within the fourth civil degree of consanguinity or affinity, shall not hold any interest, whether directly or indirectly, in any generation company or distribution utility. Except for ex officio government-appointed representatives, no person who is an officer or director of the TRANSCO or its concessionaire shall be an officer or director of any generation company, distribution utility or supplier.

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21. Are you related within the fourth degree of consanguinity (blood relationship) or affinity (in-law relationship) to any stockholder, director, officer or employee of a generation company, distribution utility, or other entity engaged in generating, distributing and supplying electricity or National Transmission Corporation or its concessionaire National Grid Corporation of the Philippines?

a. within the fourth degree of consanguinity (i.e. mother/father, son/daughter, brother/sister, nephew/niece, uncle/aunt, cousin) [] Yes [] No
If "Yes", give the name/s of relative/s and relationship/s _____

b. within the fourth degree of affinity (i.e. mother-in-law/father-in-law, son-in-law/daughter-in-law, brother-in-law/sister-in-law) [] Yes [] No
If "Yes", give the name/s of relative/s and relationship/s _____

22. EXISTING MERALCO SECURITIES HELD/OWNED (whether as Owner of Record or Beneficial Owner)

Class	Aggregate No. of Securities	Amount of Securities	Price per Share/Unit of Security	Date of Acquisition

(Continue on separate sheet, if necessary)

23. PERSONAL DEALINGS during the LAST TWO YEARS with MERALCO or its SUBSIDIARIES & AFFILIATES OR OTHER RELATED PARTIES*

Nature of Transaction	Date of Transaction	Amount

(Continue on separate sheet, if necessary)

24. DEALINGS during the LAST TWO YEARS of COMPANIES/INSTITUTION/ORGANIZATION (where with Personal Business Interests or Affiliations) with MERALCO or its SUBSIDIARIES & AFFILIATES OR OTHER RELATED PARTIES*

Name of Company/Institution/ Organization	Nature of Transaction	Date of Transaction	Amount

(Continue on separate sheet, if necessary)

***NOTE :** A party is related to MERALCO or its SUBSIDIARIES & AFFILIATES if :

- (a) directly or indirectly through one or more intermediaries, the party :
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate of the entity;
- (c) the party is a joint venture in which the entity is a venturer;
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (b);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

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25. CLOSE FAMILY MEMBERS** and their BUSINESS INTERESTS or AFFILIATIONS during the LAST TWO YEARS				
Name of Family Member	Relationship	Name of Company/Institution/Organization	Type of Interest or Affiliation (like Directorship, Officership, % Ownership)	Period
(Continue on separate sheet, if necessary)				
<p>**NOTE : CLOSE FAMILY MEMBERS shall refer to an individual's family members who may be expected to influence, or be influenced by, that individual in their dealings with the Company. The term includes the individual's domestic partner and children, children of the individual's domestic partner, dependents of the individual or the individual's domestic partner, the individual's relatives within the second degree of consanguinity or affinity including relationship by legal adoption.</p>				
26. DEALINGS during the LAST TWO YEARS of CLOSE FAMILY MEMBERS and their OWNED/AFFILIATED COMPANY/INSTITUTION/ORGANIZATION with MERALCO or its SUBSIDIARIES & AFFILIATES				
Name of Company/Institution/Organization	Nature of Transaction	Date of Transaction	Amount	
(Continue on separate sheet, if necessary)				
27. GOVERNMENT POSTINGS & POLITICAL/CIVIC AFFILIATIONS				
Name of Institution/Organization	Position	Period		
(Continue on separate sheet, if necessary)				
28. STATEMENT ON CRIMINAL & CIVIL PROCEEDINGS during the PAST FIVE YEARS				
<p>State whether you have been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) and, if so, give the dates, nature of conviction, name and location of court, any penalty imposed, or other disposition of the case.</p> <p>_____</p> <p>_____</p> <p>_____</p>				
<p>State whether you have been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction, domestic or foreign, and as a result of such proceeding was or is subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, permanently or temporarily enjoining, barring, suspending or otherwise limiting involvement in any type of business, securities, commodities or banking.</p> <p>_____</p> <p>_____</p> <p>_____</p>				

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CERTIFICATION AND UNDERTAKING

I have read and understood the Manual of Corporate Governance of the Company and relevant provisions of existing laws such as Republic Act No. 9136 concerning the qualifications, duties, and responsibilities of the members of the Board of Directors and officers. I possess all the qualifications and none of the disqualifications for my position. I commit myself to the fulfillment of my duties and responsibilities to the best of my ability and with the highest degree of ethical standards.

I will hold and protect the confidentiality of all information that I have acquired from the Company and undertake not to disclose any material information to any person or entity, even after my term of office has expired, without authority from the Company or court order.

I undertake to promptly disclose any situation which comes to my knowledge that is a potential source of **conflict of interest***** involving myself or any member of my family.

I hereby certify that the foregoing disclosure of information and affirmation are true and correct, to the best of my knowledge.

DATE

PRINTED NAME & SIGNATURE

*** **Conflict of Interest** is a situation where financial or other personal considerations of the directors or officers may influence or compromise or have the tendency to influence and compromise the ability of such director or officer to effectively and impartially exercise judgment in the performance of his duties and responsibilities as director or officer of the Company. These situations shall include but are not limited to the following: a) the director or officer or any close member of his family enters into any business transaction with Meralco or any of its affiliates and subsidiaries; b) the company or institution where the concerned director or officer has business interest or professional affiliations enters into any transaction with Meralco or any of its affiliates and subsidiaries; c) the director or officer concerned acquires for himself a business opportunity which should pertain to Meralco without first disclosing such opportunity to the latter; d) acquisition of securities from Meralco whether as beneficial owner or as record holder as a result of which he would be in control of more than 10% of any of its class of security; e) participation in board meetings which involve business transactions of Meralco with another company or entity where any member of his close family is employed or has substantial interest.

SUBSCRIBED AND SWORN TO BEFORE ME, this _____ day of _____, 2012 at _____, Philippines, affiant exhibiting to me his/her _____
issued at _____ on _____.

Doc. No. _____
Page No. _____
Book No. _____
Series of 2012 _____





The Revised CODE OF ETHICS

“Standards of Business Conduct and Ethics”

Revision Date: September 2010

	<p align="center">POLICY MANUAL</p> <p align="center">MANILA ELECTRIC COMPANY</p>	<p>PM-CGO-2010-02</p> <p>Rev. Code: 0</p>	<p>Page 1 of 12</p>
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FOREWORD

Sound business ethics plays an integral part in fostering the success of a company. To ensure that the ethical values are preserved and promoted to all directors, officers and employees, our Company's Board of Directors approved the adoption of this Code of Ethics (the "Code"). This Code serves as the embodiment of our Company's unwavering dedication to uphold the fundamental corporate principles of fairness, accountability, integrity and transparency. It serves as a guide to our Company, its directors, officers and employees on how to conduct themselves in their decisions, transactions and interactions in alignment with these corporate principles when performing their respective duties and responsibilities.

The principles contained in this Code are not new or unfamiliar. In fact, they have been part of the life, tradition, heritage and culture of our Company during its more than 100 years of existence. They flow in the blood of every employee – "bahagi ng ating buhay ... sa araw at gabi, baha man o bagyo". The spirit of it all remains the same as ever - - *service excellence with integrity beyond business!* Hence, this Code serves as a renewal of our commitment to these principles as our Company moves forward and faces new challenges.

This Code is not intended to address all present or future ethical situations. Similarly, other matters or concerns which are not directly covered by this Code may have already been addressed in other existing company policies, standards, guidelines, procedures and codes.

Ultimately, everyone is enjoined to exercise sound judgment and to adhere to the letter and spirit behind this Code in their relationships among themselves, with our Company's customers, suppliers, business partners, competitors, government, regulators, creditors, stockholders and the general public.

We therefore commit to live and abide by the following ethical standards of behavior in our various business dealings:

	<p align="center">POLICY MANUAL</p> <p align="center">The Revised Code of Ethics</p>	<p>PM-CGO-2010-02</p> <p>Rev. Code: 0</p>	<p>Page 3 of 12</p>
Section: Standards of Business Conduct and Ethics		Effectivity Date: October 1, 2010	
Subject: Compliance and Fair Dealing		Sensitivity Classification: Company Use	

STANDARDS OF BUSINESS CONDUCT AND ETHICS

I. Compliance

1. We shall comply with all laws, rules and regulations governing the business operations of our Company and enfranchising its corporate existence, listing in the stock exchange, and utility operations.
2. In the performance of our duties, we shall, at all times, be aware of and adhere to the requirements and restrictions imposed by laws, rules and regulations and our Company's standards, policies, rules and procedures.

II. Fair Dealing

1. We commit to render adequate, reliable and efficient service at fair and reasonable cost to all customers within our Company's franchise area ever mindful of our Company's mandate as a public utility.
2. We treat our employees and applicants for employment fairly and will not discriminate on account of gender, religion, age, nationality, family status, or any other reasons prohibited by law. We hire, develop, and compensate employees, officers, based on qualification, merit and performance.
3. We select, engage and compensate consultants, contractors and other service providers based on qualification and labor and performance standards.
4. Our Company shall foster harmonious relations among its employees based on mutual understanding, trust and respect.
5. We avoid taking undue advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other form of deceptive practice.
6. We treat everyone with respect and shall be guided by professionalism, integrity, and good faith in transactions with and obligations to our Company's customers, suppliers, business partners, government, regulators, creditors, competitors and employees.

	<p align="center">POLICY MANUAL</p> <p align="center">The Revised Code of Ethics</p>	<p>PM-CGO-2010-02</p> <p>Rev. Code: 0</p>	<p>Page 4 of 12</p>
Section: Standards of Business Conduct and Ethics		Effectivity Date: October 1, 2010	
Subject: Confidentiality of Information and Proper Use of Property		Sensitivity Classification: Company Use	

III. Confidentiality of Information and Proper Use of Property

1. In the course of service or employment in our Company, directors, officers and employees, in varying degrees, will have access to confidential information. We recognize that such confidential information is a valuable Company asset which must be safeguarded.
2. We maintain and safeguard the confidentiality of information entrusted to the directors, officers, and employees by our Company, except when disclosure is authorized or legally mandated. Confidential information includes any non-public information that might be of use to competitors, or harmful to our Company if disclosed.
3. This confidentiality obligation shall survive our separation from our Company due to retirement, resignation, termination, expiration of term of office, or expiration or termination of contract, or any other cause.
4. We shall not take undue advantage of material non-public information by dealing in the securities of our Company while in possession of such information. Material non-public information refers to any information that is likely to affect the market price of our Company's securities and is not yet publicly disclosed.
5. We respect and uphold the confidential and proprietary information of other companies. We shall not knowingly appropriate, infringe or make an unauthorized use of a valid trademark, patent, trade secret or proprietary technology belonging to our Company or to another person or entity.
6. We maintain the integrity of all information, data, books, records, files and other documents entrusted by our Company to us by reason of our office and protect them against unauthorized or improper alteration, forgery, falsification, tampering, concealment, or destruction.
7. We observe standards for the proper use and care of our Company's property, systems, time, and resources at all times. We shall undertake to protect the property of our Company against loss, damage, misuse, abuse or theft.

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IV. Conflict of Interest

1. We act in the best interest of our Company and avoid activities, situations or associations which could impair our ability to perform our work in our Company's interest or where even the appearance of a conflict of interest may arise. A conflict of interest occurs:
 - a. When the private interest of a director, officer or employee interferes or appears to interfere in any way with the interests of our Company as a whole; or
 - b. When a director, officer or employee takes actions or has interests that make or appear to make it difficult to perform his or her Company work objectively and effectively.
2. The possible conflict of interest situations include, but are not limited to, the following:

a. Corporate Opportunity

We do not take for ourselves opportunities acquired through the use of corporate property, information or position/influence for personal gain, to compete with our Company, or act against the best interest of our Company.

b. Relationships

We avoid any actual or apparent conflict of interest and any material transaction or relationship that could reasonably be expected to give rise to a conflict of interest. Our business decisions are not motivated by personal considerations and/or relationships, which may interfere with the exercise of independent judgment that affects the interest of our Company in the performance of our duties to the Company.

c. Gifts

We restrict the solicitation or acceptance of gifts in any form from a third person or entity, directly or indirectly in consideration of any act, omission, or transaction of our Company favorable to such third person or entity with existing or intended business dealings with our Company.

A "gift" may be a right or thing of value, like cash or cash equivalent, loan, fee, reward, commission, allowance, employment, travel and benefits.

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The restriction shall not apply to: a) a gift of nominal value voluntarily given by a third person or entity to a director, officer, or employee of our Company as a souvenir or out of courtesy; or (b) a gift given for charitable projects for the benefit of the poor or the general public.

d. Outside Investments

We avoid taking part in (or influencing) decisions of our Company involving business transactions with entities in which we have a personal relationship or substantial financial interest.

e. Outside Employment

We avoid activities and interests that could significantly affect the objective or effective performance of our duties and responsibilities in our Company or which presents a situation that could compete or go against the interests of our Company, including business interests or unauthorized employment outside our Company.

Rendering outside professional work which presents potential conflict of interest, include, but are not limited to:

- When a director, officer or employee is employed by, or have a consultancy agreement with an entity which is a competitor of our Company
- When a director, officer, or employee serves as a director, manager, or member of the board of directors of an entity which is a competitor of our Company.

Within one (1) year after separation from service, any officer of the Company holding the position of Chief Executive Officer, Chief Operating Officer, Treasurer, Chief Financial Officer, Comptroller, Chief Engineer, Senior Account Officer, and any other key officer or employee who had regular access to confidential, classified or restricted information shall not enter into or accept any employment, consultancy, management or any form of service contract with any person, corporation or entity that directly competes with the business of the Company.

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3. We promptly disclose any actual or apparent conflict of interest, and any material transaction or relationship that could reasonably be expected to give rise to a conflict of interest for appropriate resolution and disposition.
4. Directors should immediately disclose any potential or actual conflicts of interest and should abstain from participating in any discussions or decisions on said matters when elevated to the Board.

V. Communication and Disclosure

1. We ensure that the contents of, and the disclosures in, reports and documents that our Company files with, or submits to the Securities and Exchange Commission (the "SEC"), Energy Regulatory Commission (ERC), other government agencies or regulators and all other Company's public communications shall be complete, fair, accurate, timely and understandable in accordance with applicable disclosure statutes, listing rules, and standards of materiality.
2. We shall: (a) ensure compliance with our Company's disclosure requirements and (b) not knowingly misrepresent, or cause others to misrepresent facts or information about our Company to others, whether inside or outside our Company, including our Company's independent auditors, government regulators and self-regulatory organizations.
3. We establish open communication links and make the appropriate disclosures regarding our corporate goals, objectives, rules, financial positions, material transactions with related parties, and prospects to all our stakeholders.
4. We actively encourage employees to actively participate in discussions and raise any legitimate work-related concern or issue.

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VI. Risk Management and Internal Control

1. We recognize that risk management and internal control processes act as enablers for the effective governance of our Company. Organizations, processes and application systems in our Company are structured to ensure checks and balances are in place.
2. We track and manage risk in the delivery of our Company's commitments to the stakeholders. Monitoring and reporting of risk is embedded as part of performance reporting in all levels of our Company.
3. We designate process owners to assess the risks of respective processes, design and implement necessary controls and procedures to mitigate the risks.
4. We ensure that internal organizational and procedural controls are embedded to support the operations of the different organizations within our Company.

VII. Shareholders and Investors Relations

1. We respect and protect the rights of our shareholders, including their right to a fair return on their investment. In this regard, we restrict or minimize the undertaking of risk so as not to jeopardize shareholder value. We fully assess and manage risks involved in undertaking strategies, acquisitions, activities, products, services and other business endeavors of our Company and adopt strategies, actions, decisions and transactions based on increasing shareholder value.
2. We shall ensure an independent audit of our Company's financial statements by external auditors.
3. We maintain complete and accurate books of accounts and records in accordance with the applicable provisions of law and generally accepted accounting principles and standards.
4. We shall monitor the adequacy and effectiveness of our financial reporting, governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations.

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VIII. Government and Regulatory Relations

1. We avoid the commission of any act that may be construed as direct or indirect bribery and corruption, as defined by law, of government officials to facilitate any transaction or gain any perceived or actual favor or advantage.
2. We maintain our right to any and all legal rights afforded to us and to invoke all administrative, judicial or other remedies.
3. We cooperate with our regulators and advocate for change and reform within the bounds of law.

IX. Community Relations

1. We support socio-economic projects that improve the lives of the people we serve, especially projects within our competence for our franchise area.
2. We conduct our business and maintain our workplace in accordance with applicable health, safety and environmental laws.
3. We consider the impact of our operations, projects and transactions on the environment and the communities we serve and ensure compliance with environmental, safety and health regulations and standards.
4. We render immediate assistance in times of natural calamities and accidents to ensure that any danger to life or property is minimized and our operations, installations or facilities are restored as soon as possible.
5. We provide timely and adequate information on matters that affect the general public.

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X. Implementation and Monitoring

1. Our Company's Corporate Governance Office has the specific task of implementing and monitoring corporate governance policies throughout the organization and the definition of the process by which such policies are implemented and monitored.
2. Each director, officer or employee is encouraged to consult with the Corporate Governance Office or with the appropriate offices with the authority to enforce specific Code guidelines issued pursuant to this Code when in doubt about the best course of action in a particular situation relating to a subject matter of this Code.
3. Organization Heads have the responsibility for the monitoring, ensuring, and enforcing compliance with this Code within their area of jurisdiction. The Organization Heads shall also be responsible for reporting non-compliance with this Code to their hierarchy or the Corporate Governance Office whenever appropriate, including taking or implementing disciplinary actions after proper exercise of due process.
4. Our Company's directors, officers and employees have the duty to report any observed violations of this Code and to communicate the same to our supervisors and immediate Heads, or the Corporate Governance Office, when appropriate. Our Company shall take steps to ensure the protection of those who report violations in good faith. On the other hand, our Company shall impose sanctions on those who attempt to conceal or hamper the investigation of any violation of this Code.

Our Company shall take all reports of potential violations of this Code seriously and are committed to confidentiality and exercise of due process for the investigation of allegations. Employees who are under investigation for potential violation of this Code will have an opportunity to be heard prior to any final decision of our Company.

5. Any administrative investigation or penalty imposed under the provisions of this Code shall be independent of, and without prejudice to, any other legal action that may be instituted against the party concerned under existing laws and regulations.

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6. All employees have the responsibility to have full knowledge of the provisions of this Code, and must agree to abide by its provisions. All employees must sign an acknowledgement form confirming that they have read this Code and agree to comply with the behavioral standards and norms set forth therein. Failure to read and confirm knowledge of this Code will not be an excuse for non-compliance.
7. Our Company shall promulgate appropriate policies and guidelines for the effective implementation of this Code.

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Effectivity

This Revised Code of Ethics was approved by the Board of Directors on September 27, 2010. It shall be published in the Website of the Company and shall take effect on October 1, 2010. It supersedes the previous Code of Ethics that was approved and adopted by the Company on March 15, 2003.

Signed:

(Original Signed)
MANUEL V. PANGILINAN
 President and CEO

(Original Signed)
MANUEL M. LOPEZ
 Chairman of the Board





**Amended Policy on
Solicitation and
Acceptance of Gifts
(July 2014)**

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I. Background

Pursuant to MERALCO's adherence to the corporate governance principles of fairness, accountability, integrity, and transparency, this policy is issued to define the Company's standing policy on Gifts, as aligned with MERALCO's Revised Manual of Corporate Governance and Revised Code of Ethics.

MERALCO's Revised Code of Ethics restricts the solicitation or acceptance of gifts in any form from a third person or entity, directly or indirectly in consideration of any act, omission, or transaction of our Company favorable to such third person or entity with existing or intended business dealings with our Company.

II. Rationale

Gift-giving is part of the Filipino culture of doing business to enhance good business relationships. However, Directors, Officers, and Employees must be aware that other parties may use this custom of gift-giving as means to gain favors or influence the objectivity of said Directors, Officers, and Employees. Thus, there is a need to properly regulate the receiving of gifts consistent with the abovementioned policies without prejudice to maintaining efficient, friendly, and cordial relations with Third Party entities. This serves as a guide for handling gifts offered and given by third parties.

III. General Statement of the Policy

Directors, Officers, and Employees shall refrain from putting themselves in situations or acting in a manner that could significantly affect the fair, objective, independent, and/or effective performance of their duties and responsibilities in the Company while transacting with third parties. As such, we do not solicit and accept gifts from Third Party entities.

In cases when solicitation and acceptance of gifts cannot be avoided, handling of such cases should conform to the rules and procedures prescribed in this document, which is also in accordance with the corporate governance principles of fairness, accountability, integrity, and transparency.

IV. Scope and Applicability

This Policy applies to and shall be implemented by, all members of the Board of Directors (each a "Director" and collectively, the "Directors"), Officers (each, an "Officer" and collectively, the "Officers"), and Employees (each, an

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“Employee” and collectively, the “Employees”) of Manila Electric Company (“MERALCO” or the “Company”).

The scope of this policy covers only solicitation or acceptance of gifts from Third Party. Personal gifts are not covered by this policy.

V. Definitions – For purposes of this policy

- 1) **Bribe** – includes any money, fee, commission, credit, gift, gratuity, thing of value, compensation, personal business and the like, benefits or advantage of any kind that is, directly or indirectly, provided to or received by anyone in his personal capacity for the purpose of obtaining favorable treatment in connection with a business transaction.
- 2) **Consultants** – includes professional consultants, advisors, firms, partnerships, counsels, or such other professional entities or individuals rendering professional or specialized expert services to MERALCO as well as advisors of the Company who may be appointed by the Board of Directors or management.
- 3) **Customers** – individuals or entities with existing contracts (active, disconnected, or terminated) with and avail or intending to avail of services from MERALCO.
- 4) **Employee** – all persons other than Officers, under the employ and in active payroll of MERALCO, including temporary, consultants and probationary employees.
- 5) **Gifts** – may be a right or thing of value, like cash or cash equivalent, loan, fee, reward, commission, allowance, employment, travel and benefits.

Following are examples of gifts referred to on this document:

- a) **Entertainment** – refers to any form of hospitality such as meals for Directors, Officers, and Employees given by Third Parties. It also covers spectator and participative activities (i.e., parties, shows, concert, golf, fishing, and other similar activities).

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- b) **Expensive Gifts** – gifts with equivalent money value or market price above the nominal value.
- c) **Perishable Gift** – refers to items such as food, flowers or other similar items subject to decay, spoilage and expiration within a month.
- d) **Non-perishable Gift** – this includes non-food or non-beverage item, as well as any food or beverage that does not fall under the scope of perishable gifts, such as, but not limited to, gift baskets with bottled/preserved food, packed biscuits/cookies, canned goods or liquor.
- e) **Personal Gift** – refers to gifts solicited or received from friends, relatives, co-employees and entities with no existing or expected transactions with the receiver.
- f) **Sponsored Travel** – any travel, accommodation and/or attendance/ participation in conferences/ conventions/ seminars/ trainings, international or domestic, whether for personal or business purposes, the costs of which are fully or partially paid for by Third Parties.
- g) **Token Gifts** – gifts of nominal value (regardless of whether it is perishable or non-perishable).
- 6) **Giver** – a person or entity (Third party) giving the gift.
- 7) **Nominal Value** – it is the equivalent money value or market price of a gift when purchased. It is the price limit set by management for a gift to be considered acceptable.
- 8) **Officers** – employees with the rank of Vice President and up who are recognized by the Board of Directors of MERALCO.
- 9) **Receiver** – a MERALCO director, officer or employee who receives the gift.
- 10) **Relatives** – relatives of up to fourth degree, by consanguinity, affinity or legal adoption, including, the Directors' and Employee's spouse,

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parents, children (and their spouses), siblings (and their spouses), nieces and nephews (limited to children of a brother or sister) [and their spouses], grandparents, and aunts and uncles (limited to brothers or sisters of a parent); and a domestic partner and his relatives of up to the third degree, by consanguinity or affinity or legal adoption.

- 11) **Third Party** – an individual, entity, organization and/or its representatives that has existing and/or expected business dealings with the Company. This includes but shall not be limited to prospective or existing suppliers, contractors, buyers, customers, government agencies, or all other business partners who are or may be similarly situated.

VI. Detailed Policy Statements

Gifts being offered should be politely refused and the Giver should be informed of the company's "No Gift" policy. The "No Gift" policy includes, but is not limited to, the following:

- 1) Cash, check, gift certificates, other cash equivalents or items that can be easily converted to cash of any amount, regardless of the occasion or situation.
- 2) Receipt of Gifts as part of any purchases made by the Company.
- 3) Gifts solicited or received from Third Party.

A. EXCEPTION CASES

Solicitation and acceptance of Gifts from Third Parties shall be avoided unless it falls under the exception cases below (Note: In no case shall cash or cash equivalent gifts be treated as exceptions.):

1. GIFTS FOR PERSONAL USE

- a) Gifts received from unknown giver.
- b) Gifts offered out of courtesy and when giver is insistent.

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- c) Token gifts given during seminars, conventions, or on occasions of rejoicing or celebrations like Christmas or birthdays may be accepted and kept by the receiver.
- d) Whenever a Director, Officer, or Employee is invited to participate as speaker, facilitator, or reactors in conferences or seminars sponsored or organized by Third Parties, Gifts/tokens of appreciation offered to or received may be kept by the receiver; Provided that the other speakers, facilitators and/or reactors are also given similar gifts/tokens of appreciation by said Third Parties.
- e) Courtesy discounts given to Directors, Officers, and Employees by Third Parties due to personal purchases of products and services from Third Parties, are allowed; Provided, that such discounted purchases are made openly and the same terms are made available to all Directors, Officers, and Employees.
- f) Raffle tickets (or prizes won from such raffle tickets) and other promotional items given to the Company, its Directors, Officers, and Employees for their attendance to certain events (including but shall not be limited to athletic or social events, or Christmas parties and the like), conferences, seminars, or product presentations of Third Parties may be accepted and kept by the receiver/winner regardless of the value; Provided, however, that the other participants are likewise entitled to such raffle tickets and given equal opportunity to win prizes.

Due regard to the frequency of gifts received, the accumulated value which should not exceed the nominal value, and benefit for the Company shall be considered at all times.

2. GIFTS FOR COMPANY USE

- a) It is acceptable for the Company to solicit or accept Gifts or donations for Corporate Social Responsibility (CSR) programs or initiatives, including outreach or charitable works of the Company's officially recognized employee organizations, such as medicines for medical missions, food and supplies for calamities, and materials for community development, provided that the

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solicitation or acceptance shall be through the Corporate Social Responsibility Office.

- b) However, in the event that the Company will only accept or solicit donations from selected Third Parties, the conditions for such selection shall be disclosed to all (including other relevant Third Parties).
- c) Solicitations for company use other than CSR programs must be justified and approved by the President or his authorized representative.

B. ENTERTAINMENT

A Director, Officer, or Employee shall use his best judgment in determining the propriety and frequency of accepting various forms of Entertainment offered by Third Parties.

1. Business meetings in locations that do not conform to accepted standards of propriety and are not conducive for business purposes shall be avoided.
2. Directors, Officers, and Employees shall not use property belonging to Third Parties, their employees, agents and/or representatives such as, but not limited to, vehicles, beach houses, resorts, and vacation houses whether for their personal benefit or as Company representative(s) for entertainment purposes.
3. Directors, Officers, and Employees shall refrain from requesting for or soliciting any form of Entertainment from a Third party including sponsorship for Company activities, non-Company supported charitable works, and/or personal events such as birthdays, weddings, baptisms, etc., or from accepting such Entertainment where such acceptance could impair their objectivity in the performance of their duties and obligations to the Company.

Allowed exceptions are the following:

- a) Meals during business meetings are acceptable.

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- b) Acceptance of invitations to theater, concerts or social/sporting events are permissible; Provided, however, that such invitations are generally available to others in the same community, category or industry.

C. SPONSORED TRAVEL

It is the Company that sponsors its Director, Officer, or Employee's attendance in conferences, conventions, and exhibits, which may include travel, accommodation and/or registration expenses.

The Director, Officer, or Employee is obliged to refuse offers of free travel and/or accommodation to conferences, conventions, exhibits, product presentations or other similar events from Third Parties.

The following exceptions are allowed:

- a) Travels sponsored by industry/professional organizations not associated with any Third Party are acceptable.
- b) Complimentary travel and accommodation for trainings from Third Parties may be permitted if these are part of an approved/existing contract and are deemed to benefit the Company.
- c) There are instances when Third Parties provide Sponsored Travel to Directors, Officers, or Employees to local and/or international business/industrial site to demonstrate actual performance of their products/systems. Acceptance of such sponsored invitation should be justified by the following:
 - i. The purpose of the travel should be business in nature and has a direct benefit to the future performance and business of the Company.
 - ii. Knowledge of Directors, Officers, and Employees assigned/chosen for the travel would be valuable to the evaluation of the system and directly related to his job function.

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- d) Other exceptional and justified cases as may be approved by the Chairman of the Board (for Directors) or the President and CEO (for Officers and Employees), allowing Directors, Officers, or Employees to accept Sponsored travel to conferences, conventions, and such events from Third Parties. CGO should be provided with a copy of the approved documents for reference purposes.

VII. Responsibilities

- 1) **Nomination and Governance Committee** reviews and approves the implementation of this policy.
- 2) The **Organization Heads and Superiors** are tasked to monitor, ensure, and enforce compliance to this policy within their area of jurisdiction. They are also responsible for classifying or categorizing, and recording the gifts received.
- 3) **All Directors, Officers, and Employees** of the Company are responsible to have full knowledge of and must agree to abide by the provisions of this policy. They must also report any observed violations of this policy to their respective superior.
- 4) **Corporate Social Responsibility Office (CSRO)** - shall take custody of all gifts turned-over by the organizations/offices. They shall also handle the receipt and disposition of these gifts in accordance with their charter or the rules approved by Management.
- 5) **Corporate Audits** shall perform a random/surprise audit on compliance of offices, directors, officers and employees of the company to this policy and recommend appropriate measures to further improve the policy.
- 6) The **Corporate Governance Office (CGO)** monitors the implementation and compliance of organizations, and recommends appropriate improvements to this policy.

VIII. Implementing Rules and Regulations

A. Classification and Categorization of Gifts

1. It is the duty of a Director, Officer, or Employee who is offered or receives a Gift to **immediately disclose** the offer or receipt thereof to

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his BRU or Superior for appropriate direction/instruction and proper handling. (Refer to Disclosure Guide)

2. The nominal amount will be defined and approved by the Nominations and Governance Committee of the Board and will be reviewed whenever appropriate.
3. The BRU head or superior will classify or categorize the gifts received by their office as follows:
 - i. Gift Classification (Token, Perishable, Non-Perishable, Entertainment, Sponsored Travel)
 - ii. Gift Value – assess the gift value based on prevailing market price and determine if it is nominal or expensive.

B. Gift Registry

Gifts received must be disclosed in the Online Gift Registry Facility in HR Express to be submitted to and approved by the BRU Head.

The table below shows the required timing of disclosure within the year.

Gifts disclosed to the BRU Head must be recorded in the Gift Registry of the Office immediately upon disclosure. The Gift Registry must be made available for audit at any time. (Please refer to Appendix A for the Gift Registry Form)

Status	Date of Disclosure
With Gifts Received	Within 15 calendar days upon receipt of the gift/s.
No Gifts Received	No disclosure needed. Record of employees with no gifts disclosed will be automatically tagged by the System as “No Gifts Received,” by January 15th of succeeding year.

C. Disclosure Guide

RECEIVER:	DISCLOSE TO:
Employee	BRU Head
BRU Head	Next Level Superior

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Officer	President/CEO or CGO
Director	Chairman of the Board

D. Gift Disposition

The following rules shall be applied in disposing the received gifts:

Gift	Disposition	Responsible
1. Cash or Cash Equivalent	<u>From Customer:</u>	
	a) Disclose b) Turn-over to BRU Head	Receiver of Gift
	c) Turn-over to Business Center Head handling Customer account.	BRU Head of Receiver of Gift
	d) Credit to Customer's Electric Bill e) Write Customer to inform her/him of the policy and the credit to his bill	Business Center Head
	<u>From Unknown Identity or Other Third Party :</u>	
	a) Disclose b) Turn-over to BRU Head	Receiver of Gift
	c) Turn-over to CSR Office.	BRU Head of Receiver of Gift
2. Token	a) Disclose b) Can be kept by Receiver	Employee, Officer or Director
3. Expensive Gifts	<u>Perishable Item:</u>	
	a) Disclose b) Turn-over to BRU Head	Receiver of Gift
	c) Share to all employees within the organization	BRU Head of Receiver of Gift
	<u>Non-Perishable Item:</u>	
	a) Disclose b) Turn-over to BRU Head	Receiver of Gift
	c) Turn-over to CSR Office.	BRU Head of Receiver of Gift

	POLICY ON SOLICITATION AND ACCEPTANCE OF GIFTS	PM-CGO-2014-02 Rev. Code: 0	Page 13 of 14
Section: Corporate Governance		Effectivity Date: July 10, 2014	
Subject: Amended Policy on Solicitation and Acceptance of Gifts		Sensitivity Classification: Company Use	

4. Gifts turned-over to CSRO will be used as donation to recipients of the company's outreach programs. Receipt and acknowledgement of donations should follow the existing policy and procedures implemented by the CSRO. Solicitation of donations for this purpose should be coursed and approved by the CSRO Head.

IX. Consequences of Violations

Any Director, Officer, or Employee who fails to comply with this policy shall be, upon due process, subjected to applicable penalties and sanctions as stated in the Company Code on Employee Discipline.

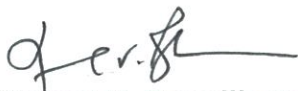
In cases where consultants fail to comply with this policy, upon due process, they shall be subjected to applicable penalties and sanctions as stated in their contract with the Company or termination of said contract.

X. Effectivity

This amended Company policy on Solicitation and Acceptance of Gifts was released and took effect on July 10, 2014. It supersedes the previous on Solicitation and Acceptance of Gifts that was approved and adopted by the Company on December 15, 2010.

All existing policies, systems, practices, and related implementing guidelines concerning the same matters covered by this Policy are deemed superseded by this Policy. In the event of any inconsistency between the policy and guidelines contained in this Policy and the terms of other existing policies, systems, practices, and related implementing guidelines, this Policy shall prevail.

Signed:



Manuel V. Pangilinan
Chairman of the Board



Oscar S. Reyes
President and CEO





Code on Right Employee Conduct

August 1, 2012



MESSAGE



Dear Fellow Employees,

This is the first time after 36 years that a revision was undertaken to shift the paradigm of discipline to a positive mechanism applicable to today's work and regulatory environment. The original Code was issued on January 13, 1973 and was reissued on January 1, 1976. I have the privilege of presenting to you the updated version of our Company Code on Employee Discipline, which we will now call our Code on Right Employee Conduct (COREC).

Our Company considers correct and proper employee conduct as the basic thrust in achieving our corporate objectives and as a means in the furtherance of good corporate governance and personal development. It likewise encourages adherence to our corporate values, namely:

- 1. Customer Service*
- 2. Performance*
- 3. Accountability and Empowerment*
- 4. Integrity and Transparency*
- 5. Teamwork and Collegiality*
- 6. Malasakit*
- 7. Makabayan*

Innovation and safety, although unwritten, remains as core values that should be inherent in our culture.

Know this book by heart and let it be our guide to proper employee behavior as we continue to move forward for the success of our Company.

OSCAR S. REYES
President & CEO

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GUIDING PRINCIPLES

This Code shall apply to all employees in the active payroll of the Manila Electric Company.

While we have endeavored to make this Code comprehensive, it cannot cover every situation related to employee conduct. In some cases, we must use our judgment in the appropriateness of its application. You may also consult your Supervisor/Office Manager or the responsible HR office if there are uncertainties.

Our Company is a public utility responsible for vital public interests; therefore, we must observe honesty and good faith in the performance of our duties and in our dealings with the stakeholders of the Company.

This Code basically contains the corrective aspect of an employee’s conduct, which is derived from our Corporate Governance Manual and Code of Ethics. It also subsumes and, is in effect, correlated with the Safety Code and the Information Security Code.

The Code on Right Employee Conduct further stresses that our company safeguards confidential information and we are under serious obligation at all times to maintain its sanctity.

In the course of our employment, conflict situations and/or associations should be avoided because the same might impair our ability to perform work in the Company’s best interest.

Lastly, but equally important, it shall be the responsibility of Office Managers and Supervisors to disseminate Company policies, procedures, rules and regulations to employees under their supervision.

RULE 1. ATTENDANCE AND PUNCTUALITY:

- A. Tardiness for five (5) times, or an accumulated tardiness of one-hundred (100) minutes, whichever comes first, within any thirty (30)-day period shall constitute excessive tardiness¹ and shall be considered as a single and separate violation. Five (5) minutes at most is allowed as a grace period for latecomers.
- B. Unauthorized and unexcused absence from work for one-half (1/2) day or at most two (2) days shall be considered as simple absence.
- C. In cases where the unauthorized and unexcused absence from work extends for more than two (2) but not more than five (5) consecutive working days, these shall be considered as multiple absences.
- D. Unauthorized and unexcused absences from work that exceed five (5) consecutive working days shall constitute excessive absences.
- E. Failure to time-in and time-out in the assigned time capture device two (2) times within a 30-day period.
- F. Non-conformity with the company’s sick leave policy, including unjustified refusal to undergo physical examination or diagnostic procedures as required.

¹ Counted from first tardiness falling within any 30-day period.

SCHEDULE OF PENALTIES
VIOLATIONS WITHIN A 12-MONTH PERIOD

<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Reprimand	3-day suspension	5-day suspension	10-day suspension
Reprimand	5-day suspension	10-day suspension	15 calendar days suspension
5-day suspension	10-day suspension	15 calendar days suspension	Dismissal
		Dismissal	
Reprimand	3-day suspension	5-day suspension	10-day suspension
Reprimand	1-day suspension	3-day suspension	5-day suspension

RULE 2. WORK PERFORMANCE AND STANDARDS.

- A. Acts or omissions constituting negligence or carelessness causing loss, damage or prejudice to the Company or resulting in death or injury to persons.
- B. Leaving work area, loafing, loitering, sleeping or performing personal matters while on duty.
- C. Failure to wear prescribed uniform and/or to properly display/present company I.D. while on duty or within company premises.
- D. Failure to disclose or update company required information² within the prescribed period or within thirty (30) days from effective date of such change or status.
- E. Failure on the part of an employee who has knowledge of any violation of this Code and of other Company work rules to take steps to prevent and/or report the same or erroneous/improper application of company rules or policies.
- F. Gross and habitual neglect by the employee of his duties.

RULE 3. EMPLOYEE BEHAVIOR

- A. Engaging another employee or other persons in a fight or prodding or goading another employee or person to engage in a fight during working time and/or within company premises
- B. Using abusive, threatening or profane language or showing gross disrespect to any person during working time and/or within company premises.
- C. Planting evidence or imputing a false offense or discreditable act against another employee.

² Address, civil status, dependents, etc.

SCHEDULE OF PENALTIES

<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Reprimand to dismissal, depending upon the gravity of the offense. (For damage to property or injury to persons, refer to ANNEX “B”.)			
Reprimand	1-day Suspension	3-day Suspension	5-day Suspension
Reprimand	1-day Suspension	3-day Suspension	5-day Suspension
Reprimand	1-day Suspension	3-day Suspension	5-day Suspension
Reprimand to dismissal, depending upon the prejudice caused to the company.			
Dismissal			
5-day Suspension	10-day Suspension	15 calendar days Suspension	Dismissal
Reprimand	1-day Suspension	3-day Suspension	5-day Suspension
30 calendar days Suspension or Dismissal depending upon the prejudice caused.			

- D. Harassing or retaliating against an employee (e.g. a whistle blower, witness and the like).
- E. Sexual harassment; immoral conduct during working time and/or within company premises, including exhibition or distribution of pornographic materials.
- F. Vandalism, deliberate destruction³ or damage to Company property regardless of place or time.
- G. Assaulting or intentionally causing, physical injuries to another person over matters related to work.
- H. Possession or use of firearms, deadly weapons, or hazardous materials within Company premises or during working time, unless authorized in writing by the company.
- I. Drinking of alcoholic beverages during working time or on Company premises, except on Company-authorized occasions or areas.
- J. Participating in any illegal narcotic or drug transaction such as pushing, possessing, using, or causing to be brought or used, narcotic drugs into Company premises, except when such drugs take the form of medicine prescribed by a physician.
- K. Smoking in non-designated areas.
- L. Refusal to submit to reasonable inspection conducted within Company premises by authorized Company personnel.

³ Includes the intentional introduction of computer viruses and unauthorized deletion/alteration of application systems/programs.

<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
30 calendar days Suspension	Dismissal		
Suspension or dismissal, depending upon the gravity of the offense.			
Refer to Annex “B”			
30 calendar days Suspension to Dismissal, depending upon the gravity of the offense.			
30 calendar days Suspension	Dismissal		
10-day suspension	15 calendar days suspension	Dismissal	
Dismissal			
Reprimand	1-day Suspension	3-day Suspension	5 calendar days Suspension
3-day Suspension	5-day Suspension	15 calendar days Suspension	30 calendar days Suspension

- M. Entering company premises or performing work while under the influence of liquor or narcotics.
- N. Violation of the company’s Gift Policy.
- O. Willful disobedience by the employee of the lawful orders of his superior in connection with his work.
- P. Misappropriating, or withholding, Company funds.
- Q. Directly or indirectly tampering with electric meters or metering installations of the Company or the installation of any device and other means of pilfering electricity.
- R. Theft of property belonging to another person committed during working time or on company premises, or of company property regardless of place or time.
- S. Knowingly giving false or misleading information/documents or concealing material facts which cause or tend to cause prejudice to the company such as disclosure requirements of the company, application for employment, benefits and the like.
- T. Falsifying timesheets or time records/data; making or allowing erroneous entries of time data; swiping/scanning the identification card (ID) of another. The employee who induced, allowed or benefited from the foregoing act shall suffer the same penalty.
- U. Soliciting or receiving money, gift, share, benefits or favor from any person, or through the mediation of another as a condition for the performance of one’s duty or to perform an act prejudicial to the Company
- V. Commission of a crime or offense by the employee against the person of his employer or his duly authorized representatives.
- W. Any improper act, omission, conduct or behavior analogous to the provisions of this rule and prejudicial to the interests of the Company.

<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Reprimand	1-day suspension	3-day suspension	5-day suspension
Reprimand to dismissal, depending upon the gravity of the offense			
		Dismissal	
		Dismissal	
		Dismissal	
		Dismissal	
		Dismissal	
		Dismissal	
		Dismissal	
Reprimand to dismissal, depending upon the gravity of the offense			

RULE 4. CONFIDENTIALITY OF WORK AND INFORMATION. –

- A. Hacking or cracking, or unauthorized access, use, removal, publication, concealment, importation, deletion, alteration, copying, reproduction, modification, storage, uploading or downloading documents, information and/or programs which may be prejudicial to the company or otherwise infringes upon intellectual property rights.
- B. Without proper authority, revealing, releasing, transferring or divulging confidential information or data to individuals other than authorized persons⁴.
- C. Fraud or willful breach by the employee of the trust reposed in him by his employer or duly authorized representative;

RULE 5. CONFLICT OF INTEREST. –

- A. Violation of the company’s Conflict of Interest Policy.
- B. Trading of stocks covered by the Black Out Policy. (for applicable employees only)

RULE 6. USE OF COMPANY PROPERTY. –

- A. Hitchhiking in Company trucks, pick-ups, vans, jeeps and similar operating vehicles except with the previous authority of the Office Manager to which the vehicle is assigned. In such cases, the employee who allowed such hitchhiking without authority, the employee driver/user and the employee hitchhiker shall all be liable.
- B. Loading and transporting personal effects/cargo in company vehicles without any authority.

⁴ “Authorized persons” are those who by virtue of their positions must know of confidential matters, like the officers of the Company, Internal Auditors, and Lawyers of the Company.

<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Suspension to dismissal, depending upon the gravity of the offense.			
Suspension to dismissal, depending upon the gravity of the offense.			
Dismissal			
Reprimand to dismissal, depending upon the gravity of the offense.			
Reprimand to dismissal, depending upon the gravity of the offense.			
1-day Suspension	3-day Suspension	5-day Suspension	15 calendar days Suspension
Reprimand	1-day Suspension	3-day Suspension	5-day Suspension

- C. Operating, without previous authority, or tinkering with, Company properties such as motor vehicles, operating machines, computer hardware, communication equipment and special tools or equipment the operation or use of which require specialized skills or training.
- D. Failure by the operator, driver or user to report immediately any damage to or defects of Company properties.
- E. Sharing of access privileges (e.g. System log-on, log-on user I.D., and the like)
- F. Unauthorized use, lending or improper care of Company property.

RULE 7. HIRING AND/OR ASSIGNMENT OF RELATIVES⁵. –

- A. It shall be the responsibility of the Office Manager to ensure that no employee shall be hired or assigned under the direct line of supervision of a relative⁶ or relationship by reason of wedding, baptismal or sponsorship (i.e. the godparents; goddaughter; godson; or “*kumpare/kumare*”) of the Employee or of his spouse or children.
- B. No person shall be hired if he/she already has a total of two (2) relatives in the company within the 3rd civil degree of consanguinity or affinity, including first cousins.

RULE 8. VOLUNTARY SEPARATION. –

Failure on the part of an employee voluntarily separating from the company to serve a 30-day advance written notice and to continue working during the said period.

⁵ For purposes of these rules, relationships of the full or half blood are considered the same. Exceptions to these rules may be authorized by top management (**G1 AND G0**) on a case-to-case basis.

⁶ Up to the 3rd degree of consanguinity or affinity and first cousins.

<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
3-day Suspension	10-day Suspension	15 calendar days Suspension	Dismissal
Reprimand	3-day Suspension	5-day Suspension	15 calendar days Suspension
Reprimand to dismissal, depending upon the gravity of the offense.			
Reprimand to dismissal, depending upon the gravity of the offense			

Reprimand	1-day suspension	3-day suspension	5-day suspension
Reprimand	1-day suspension	3-day suspension	5-day suspension

Dismissal

RULE 9. GENERAL PROVISIONS

- 1) The penalties for repeated violations of the same provision of this Code shall be higher than the penalty for the latest violation. The 12-month limitation period for repeat violations shall only apply to Attendance and Punctuality.
- 2) If at the time of the commission of the latest offense, the employee has been previously penalized for at least two (2) other different provisions of this Code or of other Company policies, the latest offense shall be punishable by the next higher penalty for the said offense.
- 3) Where the fourth violation of the same provision is punishable by a penalty less than dismissal, the fifth and subsequent violations shall be meted out a more drastic penalty including that of dismissal.
- 4) When a single act constitutes two or more offenses under this Code, or when an offense is a necessary means for committing the other, the penalty for the more/most serious offense shall be imposed.
- 5) The proper penalty provided for in this Code shall be implemented as follows:
 - A. Penalties below dismissal shall be recommended by the immediate superior (at least Team Leader level) and approved by the next level Head, with the concurrence of the Area and Group Head.
 - B. The penalty of dismissal shall be recommended by the office manager concerned and elevated up to the Management Disciplinary Committee (MDC).
- 6) All disciplinary actions shall be recorded in the employee's 201 file.

- 7) All Supervisors and Office Managers shall ensure that the due process is given to employees charged with an offense.
- 8) A verbal warning may be made first before a penalty is imposed for light offenses⁷ and shall not be considered a penalty nor become part of the employee's 201 record.
- 9) The Office Manager may place the employee under preventive suspension pending the result of the investigation if the penalty provided for the offense involves possible dismissal and the employee's continued presence at work poses a serious and imminent threat to the company or to his co-employees.
- 10) The imposable penalty in a particular case may be reduced or increased upon the recommendation of the Office Manager concerned, with the approval of the Group Head.
- 11) An employee under suspension or preventive suspension shall not be allowed to enter company premises and use company facilities during the period covered by the suspension, which includes his rest/off days. The employee may only be allowed to do so for official or business purposes but he shall be escorted by Security.
- 12) Suspension penalties shall be counted as working days unless otherwise specified as calendar days.
- 13) Violation of safety rules, regulations and general safety practices promulgated by the company is basically covered by the Safety Code.

⁷ Light offenses are those that start with a graduated penalty of reprimand.

GLOSSARY

Definitions. - The following words and phrases, as used in this Code, shall have the meaning indicated unless a different one is plainly denoted in the text.

- A. COMPANY means the Manila Electric Company.
- B. COMPANY PREMISES mean all landholdings and buildings, including sub-stations and all other properties **USED**, owned or rented by the Manila Electric Company. It also covers the working area occupied by employees assigned on the field including Company vehicles and places where official company events are being held.
- C. COMPANY PROPERTY - means all things which are used, owned or rented by, or licensed to, the Manila Electric Company, including documents, information, programs or intellectual creations of its employees created during the course of employment as a result of the performance of their assigned duties.
- D. DEADLY WEAPON - Any firearm, whether loaded or unloaded, or any device designed as a weapon and capable of producing death or serious bodily injury, or any other instrument which, in the manner in which it is used or intended to be used, is calculated or likely to produce death or serious bodily injury.
- E. EMPLOYEE means all persons under the employ and in the active payroll of the Manila Electric Company.
- F. FIREARM - includes rifles, muskets, carbines, shotguns, revolvers, pistols and all other deadly weapons from which a bullet, ball, shot, shell or other missile may be discharged by means of gunpowder or other explosives. The term also includes air rifles and air pistols not classified as toys under the provisions of existing laws, rules and regulations.

GLOSSARY

- G. NARCOTICS - mean drugs that produce a condition of insensibility and melancholy dullness of mind with delusions and may be habit forming. Included in this definition are marijuana, shabu, ecstasy, hashish, codeine, barbiturates, benzodiazepines and their derivatives, and all preparations made from them or any of them. Also included are those classified as “dangerous drugs” which are either “prohibited” or “regulated” within the meaning of prevailing laws.
- H. PORNOGRAPHIC MATERIALS - mean any obscene or licentious film, drawing, cut-out, writing, picture, computer image, graphic, video and audio clips and the like, showing the private parts of the human anatomy.
- I. PROFANE LANGUAGE - means words, phrases, or signs uttered or done with malice, irreverence, or contempt.

ANNEX “B”

Cost of Damage or Injury	1st Offense	2nd Offense	3rd Offense	4th Offense	5th Offense
Below P10,000	Reprimand	3-day Suspension	5-day Suspension	10-day Suspension	20-calendar day Suspension
P10,000 to P50,000	3-day Suspension	5-day Suspension	10-day Suspension	20-calendar day Suspension	Dismissal
Above P50,000 to P100,000	5-day Suspension	10-day Suspension	20-calendar day Suspension	Dismissal	
Above P100,000 to P250,000	10-day Suspension	20-calendar day Suspension	Dismissal		
Above P250,000 to P500,000	20-calendar day suspension	Dismissal			
Above P500,000 or Death	Dismissal				

NOTE: In addition to the penalty herein provided, the employee may be made to pay for the cost incurred in the damaged/lost item or injury, as the case may be.

UNDERTAKING

I have received a copy of the new Code on Right Employee Conduct (COREC) and it is my responsibility as an employee to read and understand its provisions.

___ Day of _____, 2012

PRINTED NAME & SIGNATURE

THE NEW MERALCO CORPORATE VALUES



CUSTOMER SERVICE

Passion in knowing and understanding our customers and responding to their needs, with the objective of ensuring total customer satisfaction and loyalty because we believe that our customers are our reason for being.

PERFORMANCE

Creating and enhancing value for all our stakeholders (customers, employees, investors and the communities we serve). Proactively seeking and implementing opportunities that drive and sustain higher levels of organizational performance and growth, cost-effectiveness and efficient delivery of services. Organizational agility, a sense of urgency and creativity are key to achieving these.

ACCOUNTABILITY / EMPOWERMENT

Accepting responsibility, assuming ownership and taking full accountability for all our actions, whether decisions or behaviors in the delivery of services and management of resources, in our public and private spheres in whatever level we are in the organization.

INTEGRITY / TRANSPARENCY

Faithfully and fully living up to all responsibilities and obligations as employees of a power and energy company; behaving at all times in accordance with ethical and corporate governance standards.

TEAMWORK / COLLEGIALITY

Harmonious collaboration, synergy and motivation among our people at all levels and across all activities; moving with a greater sense of purpose and sharing responsibility for the Company's success towards "One Meralco".

MALASAKIT

Identifying ourselves with the Company; giving total dedication and commitment to Meralco as exemplified by performing our very best in every endeavor; with great concern for the Company, its resources and its stakeholders - customers, employees, investors and the communities we serve.

MAKABAYAN

Commitment to making a positive impact in the lives of the Filipino people by doing our share in the interest of nation-building and undertaking high-impact initiatives that support and contribute to the economic and social development of the Country.



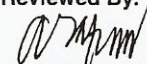
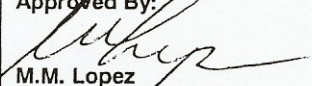
 MERALCO	COMMITTEE CHARTER EXECUTIVE COMMITTEE	Rev. Code:	Page 1 of 1
CORPORATE COMMITTEES	Section:	Effectivity Date:	
	Sub-Section:	Sensitivity Classification: COMPANY USE	

GENERAL OBJECTIVE:

The Executive Committee shall between sessions of the Board of Directors have all the powers of the board of Directors in the management of the business and affairs of the Company and shall have power to authorize the seal of the Company to be affixed to all papers which may require it, subject to the limitations provided by Section 35 of the Corporation Code. The taking of any action by the Executive Committee shall be conclusive evidence that the Board of Directors was not at the time of such action in session.

COMPOSITION

The Executive Committee shall be composed of five (5) Board members, one of whom shall be an independent director or his alternate to hold office for one year and/or until respective successors shall be designated.

Prepared By: Organization Planning & Dev't	Reviewed By:  A. S. Atanacio Head, Org Planning & Development	Approved By:  M.M. Lopez Chairman & CEO
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REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
City of Mandaluyong, Metro Manila

Company Reg. No. 102

**CERTIFICATE OF FILING
OF
AMENDED BY-LAWS**

KNOW ALL MEN BY THESE PRESENTS:

This is to certify that the Amended By-Laws of

MANILA ELECTRIC COMPANY

copy annexed, adopted on March 22, 2013 by the Board of Directors pursuant to the power conferred and ratified by the stockholders on May 28, 2002 owning at least two-thirds of the outstanding capital stock, certified by a majority of the Board of Directors and countersigned by the Assistant Corporate Secretary of the Corporation, was approved by the Commission on this date, pursuant to the provisions of Section 48 of the Corporation Code of the Philippines, Batas Pambansa Blg. 68, approved on May 1, 1980 and attached to the other papers pertaining to said corporation.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Mandaluyong City, Metro Manila, Philippines, this 7th the day of August, Twenty Thirteen.


FERDINAND B. SALES
Acting Director

Company Registration and Monitoring Department



COVER SHEET

P	W	-	1	0	2				
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S.E.C. Registration Number

M	A	N	I	L	A		E	L	E	C	T	R	I	C		C	O	M	P	A	N	Y
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(Company's Full Name)

L	O	P	E	Z		B	U	I	L	D	I	N	G	,		O	R	T	I	G	A	S	
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A	V	E	N	U	E	,		P	A	S	I	G		C	I	T	Y						
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(Business Address: No. Street City / Town / Province)

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Contact Person

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Company Telephone Number

1	2		3	1
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Month Day
Fiscal Year

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FORM TYPE

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Month Day

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Secondary License Type, if Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Republic of the Philippines)
City of Pasig) S.S.

SECRETARY'S CERTIFICATE

I, **WILLIAM S. PAMINTUAN**, Filipino, of legal age, with office address at 8th Floor, Lopez Building, Meralco, Ortigas Avenue, Pasig City, after having been sworn, in accordance with law, depose and state that:

1. I am the duly elected and qualified Assistant Corporate Secretary of Manila Electric Company, a corporation duly organized and existing under and by virtue of the Republic of the Philippines, with principal office at Lopez Building, Ortigas Avenue, Pasig City.
2. To the best of my knowledge, no action or proceeding has been filed or is pending before any Court involving an intra-corporate dispute and/or claim by any person or group against the Board of Directors, individual directors and/or major corporate officers of the Corporation as its duly elected and/or appointed directors or officers or vice versa.¹

Pasig City, 8th day of July, 2013


WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me on this JUL 09 2013 day of _____
2013, in PASIG CITY, affiant exhibiting his TIN No. 146473562000 issued on
_____ at _____.


ATTY. FREEDOM LAFRANCIA, NAVIDAD
NOTARY PUBLIC
PASIG, PATEROS, TAGUIG, AND SAN JUAN
ISSUED ON FEBRUARY 20, 2012 AT PASIG CITY
APPOINTMENT NO. 77 (2012-2013)
OLL NO. 53655 / IBP NO. 913518 / 01/08/13 RSM CHAPTER
PTR NO. 8457659 / 01/15/13 PASIG CITY
4TH FLOOR LOPEZ BLDG. ORTIGAS AVENUE, PASIG CITY

Doc No. 1121
Page No. 23
Book No. ✓
Series of 2013.

¹ There are cases, other than those involving intra-corporate dispute and/or claim, that have been filed or are pending against the Board of Directors, individual directors and/or major corporate officers of the Corporation as its duly elected and/or appointed directors or officers or vice versa (see "Annex A" for details).

Annex A

a. Civil Cases

SUBTYPE	CASE TITLE	CASE NO.
Damages	MAGGIE SUELTO, ET. AL. (PABAHAY 2000) VS. MERALCO, HEREIN REPRESENTED BY MANOLO M. LOPEZ AND/OR JOSE DE JESUS	CIVIL CASE NO. 461-M-2009
Damages	EMMA LARDIZABAL, ET. AL. (PABAHAY 2000), REPRESENTED BY THE BOARD OF DIRECTORS OF PABAHAY CONSUMERS AFFAIR LEGAL CENTER, INC. VS. MERALCO, HEREIN REPRESENTED BY MANOLO M. LOPEZ &/OR JOSE DE JESUS	CA-G.R. CV NO. 96303
Service Irregularity	GLORIA CO VS. MERALCO REPRESENTED BY ITS PRESIDENT AND/OR THE BRANCH MANAGER, ROOSEVELT BRANCH	Q-03-50948
Billing Adjustment	G. G. SPORTSWEAR MFG. CORP., REPRESENTED BY ITS PRESIDENT NARI K. GIDWANI VS. MERALCO, REPRESENTED BY ITS PRESIDENT MANUEL M. LOPEZ, MANUEL L. TUASON, BRANCH MANAGER, MERALCO MAKATI CITY	01-424
Service Irregularity	JOHNNY CATAYONG VS. MERALCO AND MANUEL TUASON	01-1727
Damages	LITO ROSAL, ET. AL. (PABAHAY 2000), REPRESENTED BY THE BOARD OF DIRECTORS OF PABAHAY CONSUMERS AFFAIR LEGAL CENTER, INC. VS. MERALCO, HEREIN REPRESENTED BY MANOLO M. LOPEZ &/OR JOSE DE JESUS	CIVIL CASE NO. 417-M-2010
Damages	QUINTIN CANAYA VS. MERALCO, HEREIN REPRESENTED BY MANOLO M. LOPEZ &/OR JOSE DE JESUS	CIVIL CASE NO. 416-M-2010
Service Irregularity	IVY CORONADO, NONATO RODILLADO, AND ANTONIO VARGAS REPRESENTED BY HIS WIFE, ANNIE VARGAS VS. MERALCO, MS. M. P. DERPO, HEAD, COMMONWEALTH AVE. BRANCH, QUEZON CITY, A CERTAIN MR. CACHO, BR. INSPECTOR, JOGI AND LEO, BOTH BR. FIELD REPRESENTATIVES	Q-0247581

Service Irregularity	MARIE ANN R. ZAFRA VS. MERALCO, THE PRESIDENT/CEO, THE CHAIRMAN & MEMBERS OF THE BOARD OF DIRECTORS, NELLO AMURAO, RUBEN KALAW, GINO CRUZ, RONALD RAMOS, NEIL RODEL, DINDO VALDERAMA, JOHN DOE, PETER DOE & JAMES DOE	CIVIL CASE NO.422- M-2008
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b. Labor Cases

SUBTYPE	CASE TITLE	CASE NO.
Illegal Dismissal	VICENTE VILLANUEVA VS. NATIONAL LABOR RELATIONS COMMISSION, MERALCO AND/OR MANUEL M. LOPEZ	G.R. NO. 176893
Illegal Dismissal	CELESTINO G. SANTOS VS. NATIONAL LABOR RELATIONS COMMISSION, MERALCO AND MANUEL M. LOPEZ	G.R. NO. 193266
Illegal Dismissal	(FILE NO: LABOR-ID-11-0001) PASTOR P. SAJORDA, JR. VS. MERALCO MANAGEMENT & LEADERSHIP CTR./ NINO SUAREZ/ VIVIEN ARNOVIT/ MANNY PANGILINAN/ AGNES FIDELINO	NLRC NCR 10-14725- 10
Illegal Dismissal	ARNOLD M. ROMEN VS. MERALCO &/OR MANUEL M. LOPEZ/ JESUS FRANCISCO, AND CALAPAR SERVICES, INC., AND MR. VIRGILIO P. TAMAYO	NLRC NCR NO. LAC 01-000235-08
Illegal Dismissal	CARLOS S. ORDENA VS. MERALCO AND MANUEL M. LOPEZ	NLRC NCR CASE NO. 10-11415-07
Illegal Dismissal	HARLITO CARBONELL VS. MERALCO AND MANUEL LOPEZ	NLRC NCR CASE NO. 00-04-03498-06
Illegal Dismissal	VIRGILIO ESPIRITU VS. NLRC, MERALCO AND MANUEL M. LOPEZ	CA-G.R. SP NO. 108139
Illegal Dismissal	LEONARDO S. ANGELO, JR. VS. MERALCO AND MANOLO LOPEZ	G.R. NO. 189768
Illegal Dismissal	(FILE NO: LABOR-ID-10-0003) MERALCO/ MANUEL M. LOPEZ VS. NLRC, EDDIE R. DUNGO, ET. AL.	CA-G.R. SP No. 124534

Illegal Dismissal	(FILE NO: LABOR-ID-10-0008) THE LATE ROGER F. NOCEJA, REP. BY HIS HEIRS LOLITA, RYAN, ROBERT, ROGER, RONNIE AND LORIZZA, ALL SURNAMED NOCEJA VS. MERALCO, RUBEN SAPITULA, & MANUEL PANGILINAN	NLRC LAC NO. 05-001322-11
Illegal Dismissal	(FILE NO: LABOR-ID-10-0009) MERALCO VS. JOSELITO L. DE LUNA, ET. AL.	CA-G.R. SP NO. 124664
Illegal Dismissal	(FILE NO: LABOR-ID-11-0002) RANDY A. DAYO VS. MERALCO, MANUEL V. PANGILINAN, PRESIDENT/ E.V. CARASIG, HEAD HUMAN RESOURCE OPERATION	NLRC LAC No. 03-0010883-12
Regularization	(FILE NO: LABOR-REG-11-0002) ROGELIO G. REYES VS. MERALCO/ MERALCO INDUSTRIAL ENG'G. SERVICE CORP. &/OR MANNY PANGILINAN/ JESUS FRANCISCO	CA G.R. SP No. 126766
Illegal Dismissal	(FILE NO: LABOR-ID-11-0010) JETHRO FAJARDO VS. MERALCO & MANNY PANGILINAN	NLRC NCR Case No. 07-10774-11
Underpayment & illegal Deduction	(FILE NO: LABOR-OTH-UP-11-0004) BERNARD L. ANONUEVO VS. MERALCO/ 3RD LANTING SECURITY & WATCHMAN AGENCY &/OR MANNY PANGILINAN & ATTY. LANTING	NLRC LAC No. 01-000517-12
Illegal Dismissal	(FILE NO: LABOR-ID-11-0011) PROCESO FEBRERO, JR. VS. MERALCO, MANNY PANGILINAN/ AIRBORNE MAINTENANCE & ALLIED SERVICES INC., ENRIQUE PELEGRIN	NLRC LAC Case No. 07-002072-12
Illegal Dismissal	(FILE NO: LABOR-ID-11-0017) WILFREDO S. TAN & PABLO R. BAUTISTA VS. MERALCO, MANNY PANGILINAN/ RETRIEVERS, INC., NATHANIEL G. CRUZ	NLRC LAC Case No. 09-002487-12
Illegal Dismissal	(FILE NO: LABOR-ID-11-0018) REI A. CAGUAY VS. LANTING SECURITY & WATCHMAN AGENCY, ATTY. THOMAS LANTING & MS. NIMFA LANTING/ MERALCO, THE PRESIDENT	NLRC LAC Case No. 07-002060-12
Illegal Dismissal	(FILE NO: LABOR-ID-12-0002) JONALIE B. ANOS VS. J. G. TECHNICAL SERVICES, INC. &/OR JORGE P. GUSILATAR, JR./ MERALCO &/OR MANNY PANGILINAN	NLRC NCR Case No. 03-04388-12
Illegal Dismissal	(FILE NO: LABOR-ID-12-0005) BERNARDO L. ANONUEVO VS. 3RD LANTING SECURITY & WATCHMAN AGENCY/ LANTING SECURITY AGENCY/ MERALCO/ LIBRADA A. LANTING/ ALBERTO S. LANTING/ MANNY PANGILINAN	NLRC NCR 06-06-09075-12

Illegal Dismissal	NARCISO MATIS, NEMENCIO HIPOLITO, JR., RAYMUNDO ZUNIGA AND GERARDO DE GUIA VS. NLRC, MERALCO AND/OR MANUEL M. LOPEZ	CA-G.R. SP NO. 113273
Illegal Dismissal	RICARDO R. IGNACIO VS. MERALCO AND MANUEL M. LOPEZ	NLRC NCR CASE NO. 0-07-05757-2006
Regularization	MARIZER B. MIRANDA VS. MERALCO/ MR. RAMON B. SEGISMUNDO/ DR. EFREN VICALDO/ MR. OSCAR REYES	CA-G.R. SP No. 125292
Illegal Dismissal	JOVEN L. MALUBAY, ET. AL. VS. MERALCO / MANOLO M. LOPEZ / JESUS P. FRANCISCO	CA-G.R. SP NO. 108884
Illegal Dismissal	SENEN S. SENA, FRANCISCO M. VIDAL & ELDEFONSO V. SAMBAJON VS. MERALCO, MANNY V. PANGILINAN/ JOLLYE ALLIED SPORTS SVCS. INC., JOSE B. ALDANES	NLRC NCR Case No. 08-12717-11

c. Criminal Cases

SUBTYPE	CASE TITLE	CASE NO.
RPC	PELITA CATIMON VS. MERALCO, REP. BY ITS PRESIDENT MANUEL M. LOPEZ, AND ALL OTHER OFFICERS RESPONSIBLE THEREIN, AND MR. REYNALDO JURIAL	
RPC	NONINO, INC. VS. MANUEL M. LOPEZ AND MANUEL MACATANGAY	I.S. NO. 07-593
RPC	FERDINAND P. LOPEZ VS. MANILA ELECTRIC COMPANY, MANUEL M. LOPEZ CEO, JESUS P. FRANCISCO CHIEF EXECUTIVE, DANTE NATHANIEL L. CACHOLA, JOHN DOE	I.S. NO. 07-7286
Plunder and Violation of Sec. 3 © of RA 3019	LAND BANK OF THE PHILIPPINES VS. CONCHITA MINAS, ET. AL.	OMB-C-C-09-0113-D

AMENDED BY-LAWS

OF THE

MANILA ELECTRIC COMPANY

(Latest amendment approved by the SEC on September 6, 2010)

ARTICLE I

MEETINGS OF STOCKHOLDERS

SECTION 1. **ANNUAL MEETING.** - The annual meeting of the stockholders shall be held on the last Tuesday of May in each year at the principal office of the Company, or at such other places in Metro Manila as may be fixed by the Board of Directors or the Chairman of the Board and specified in the notice, at such day and hour as the Board or the Chairman shall direct.

SECTION 2. **SPECIAL MEETINGS.** - Special meetings of the stockholders may be called by the Chairman of the Board or by order of the Board of Directors whenever he or they may deem it necessary, and shall be so called whenever persons holding of record at least one-fourth of -outstanding stock of the Company entitled to vote shall in writing request the same. Special meetings shall be held at the principal office of the Company or at such other place in Metro Manila as may be specified in the call.

SECTION 3. **VOTING.** - At all meetings of the stockholders, each stockholder entitled to vote thereat shall be entitled to one vote for each share held of record by

him, which vote may be given personally or by attorney or proxy authorized in writing. The instrument authorizing an attorney or proxy to act shall be filed with the Office of the Corporate Secretary of the Company not later than twenty (20) business days prior to the scheduled stockholders meeting. In the election of directors each stockholder entitled to vote for directors may accumulate and distribute his votes in accordance with provisions of law applicable in such case.

SECTION 4. **QUORUM.** - The holders of record for the time being of a majority of the stock issued and outstanding and entitled to vote represented in person or by attorney or proxy shall constitute a quorum for the transaction of business, but in the absence of a quorum the stockholders entitled to vote who are present or represented at the time and place for which a meeting shall have been called may adjourn the meeting for any period.

SECTION 5. **NOTICE OF MEETING.** - Written notice of the annual and of any special meeting of stockholders shall be given to each stockholder entitled to vote thereat by posting the same in a postage prepaid letter, addressed to each such stockholder at his last known address or at the address last left by him with the Secretary of the Company, or by delivering the same to him personally, at least twenty eight (28) working days before the meeting. A copy of the notice of meeting shall likewise be made available for download at the Company website. If any stockholder shall have filed with the secretary his letter of appointment of any attorney or proxy, whose address is registered with the Secretary, the notices may be sent to such attorney or proxy instead of to such stockholder. The notice of a

special meeting shall state briefly the object of the meeting and, except as herein otherwise specifically provided, no other business shall be transacted at such meeting. Nevertheless, if all the stockholders entitled to vote at any meeting, either annual or special, shall, in person or by attorney or proxy in writing, waive notice of such meeting, no notice of such meeting shall be required, and such meeting shall be valid, and any corporate action may then be taken. No notice of any meeting need be published in any newspaper. (As amended on 22 March 2013)

The Board of Directors shall fix the record date which will determine the stockholders entitled to notice and attend a scheduled stockholders meeting.

SECTION 6. **AUDITORS AND INSPECTORS OF ELECTION.** - The Board of Directors shall appoint auditors and inspectors to canvass and inspect ballots at all stockholders meeting.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. **ELECTION.** - There shall be a Board of Directors of such number, within the limits at the time provided by law, as may from time to time be determined by the formal assent of the stockholders of the corporation entitled to elect directors, at a regular or special meeting of such stockholders, at which a quorum shall be present. All directors shall be stockholders in their own right. The directors may be elected by ballot at the annual meeting.

SECTION 2. **NOMINATIONS.** - The Nomination Committee shall prepare a Final List of Candidates which shall be made available to the Securities and Exchange Commission (SEC) and to all stockholders through the filing and distribution of the Information Statement. Only nominees whose names appear in the Final List of Candidates shall be eligible for election as Independent Directors. No further nomination shall be allowed on the floor during the actual annual stockholders meeting.

The Company adopts the procedure for the nomination and election of independent directors prescribed under Rule 38 of the Implementing Rules and Regulation Code, as amended.

SECTION 3. **QUORUM.** - The directors shall act only as a board, and the individual directors shall have no power as such. A majority of the whole number of directors shall constitute a quorum for the transaction of business, and every decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act; but one or more directors present at the time and place for which a meeting shall have been called may adjourn any meeting from time to time until a quorum shall be present.

SECTION 4. **MEETINGS.** - There shall be a first meeting of the Board of Directors, for organization, immediately after their election, of which meeting no notice shall be required. Thereafter regular meetings may be held at such time and

in such places, and upon such notice, if any, as the Board of Directors may by resolution prescribed. Special meetings of the Board may be called by the Chairman or by written request of any two directors, upon at least one day's notice of the time and place of holding the same, given personally or by letter, telegram or telephone. Meetings may be held at any time and place without notice if all the directors are present or of those not present waive notice in writing before or after the meeting.

SECTION 5. **QUALIFICATION.** - All directors must possess the following minimum qualifications and such additional qualifications under any amendments to the Corporation Code, Securities and Regulation Code, the Code of Corporate Governance issued by the Securities and Exchange Commission and other relevant laws, rules and regulations in effect at the relevant time:

- (a) must own at least one (1) share of stock of the Company of which he is a director, standing in his name in the books of the Company;
- (b) must possess integrity and probity;
- (c) as much as possible, must have a practical understanding of business in general and of the business of the Company, in particular; and
- (d) must have attended a seminar in corporate governance conducted by a duly recognized private institution or government entity or must have issued an undertaking to attend such a seminar as soon as practicable.

(As amended on 22 March 2013)

SECTION 6. **VACANCIES.** - If any vacancy shall occur among the directors by death, disqualification or otherwise by removal, such vacancy may be filled, pending action by the stockholders, at any regular or special meeting of the Board of Directors, by vote of a majority of all the remaining directors. Any such vacancy may be filled by stockholders entitled to elect directors, by ballot, at any meeting or adjourned meeting, whether the meeting shall have been called to fill such vacancy or not. The stockholders at any such meeting entitled to elect directors may also receive the resignation of any director and fill the vacancy thereby caused for the remainder of the year. Directors may be disqualified or removed and the vacancies so caused filled as prescribed by law, rules or regulation.

SECTION 7. **COMPENSATION.** - All Directors may receive reasonable per diems for their attendance at each regular or special meeting of the Board of Directors and Board Committees and additional compensation, as such, whether in the form of a fixed retainer, bonus or stock grant, or a combination thereof, as may be approved by the^{majority vote}of the outstanding capital stock and the majority vote of the Board of Directors; Provided, That the total value of such^{majority vote of the}additional compensation, in whatever form so given, shall not exceed one percent (1%) of the net income before tax of the Company during the preceding year; but nothing herein contained shall be construed to preclude any director from serving the Company in any other capacity and receiving compensation therefor. (As amended on 22 March 2013)

SECTION 8. EXECUTIVE COMMITTEE. – The Board of Directors may, by a majority vote of the whole Board, designate five (5) of their number to constitute an Executive Committee, one of whom shall be an independent director with an alternate who will also be an independent director, to hold office for one year and/or until respective successors shall be designated, which committee shall between sessions of the Board of Directors have all the powers of the Board of Directors in the management of the business and affairs of the Corporation and shall have power to authorize the seal of the Corporation to be affixed to all papers which may require it. The taking of any action by the Executive Committee shall be conclusive evidence that the Board of Directors was not at the time of such action in session. The Secretary or a member of the Executive Committee shall keep the minutes of its proceedings; and all such proceedings shall be from time to time reported to the Board of Directors, and shall be subject to revision or alteration by the Board; provided that no rights of third persons shall be affected by such revision or alteration. A majority of the Executive Committee shall constitute a quorum at any meeting. The Executive Committee may take action without a meeting on the written approval of such action by a majority of the committee. A majority of the directors may fill vacancies in the Executive Committee. The executive committee may from time to time, subject to the approval of the Board of Directors prescribe rules and regulations for the calling and conduct of meetings of the committee, and other matters relating to its procedure and the exercise of its powers.

ARTICLE III

OFFICERS

SECTION 1. **DESIGNATIONS.** - The Board of Directors shall annually, at its first meeting after the election of directors by the stockholders, appoint a Chairman and Vice Chairman of the Board of Directors, a President, one or more Vice-Presidents, a Treasurer and a Secretary, and may also from time to time appoint Assistant Treasurers, Assistant Secretaries, and such other officers and agents as they deem proper. The Chairman of the Board of Directors and the President shall each be a director; other officers need not be stockholders. The Treasurer may also be a Vice President. The Secretary shall be a resident and a citizen of the Republic of the Philippines. Every officer shall hold office only during the pleasure of the Board of Directors, and all vacancies among such officers, however arising, shall be filled by the Board of Directors.

SECTION 2. **COMPENSATION.** - The salary or compensation of all officers and agents elected or appointed by the directors shall be fixed by the Board.

SECTION 3. **DUTIES.** - Subject to the direction and control of the stockholders, the Board of Directors shall have charge of all the business of the Company and the administration of its affairs; and all officers, agents and employees of the company shall be subject to immediate removal by the Board of Directors with or without cause.

SECTION 4(A). **THE CHAIRMAN OF THE BOARD.** - The Chairman of the Board of Directors shall preside at all meetings of the Board of Directors and stockholders and shall exercise such other powers as may be conferred upon by the Board of Directors.

SECTION 4(B). **THE VICE CHAIRMAN.** - The Vice Chairman of the Board of Directors shall perform the duties of the Chairman of the Board of Directors in the latter's absence or temporary incapacity. He shall preside over the meetings of the Board of Directors and stockholders in the absence of the Chairman of the Board and the President. He shall perform such other duties as the Board of Directors may designate from time to time.

SECTION 5(A). **THE PRESIDENT.** - The President shall be the Chief Executive Officer of the Company. He shall have general supervision, direction and control of the business and affairs of the Company. He shall sign all certificates of stock and all instruments required to be executed on the part of the Company, except as otherwise provided by the by-laws or by the Board of Directors, or the Executive Committee. He shall preside at the meetings of the stockholders and the Board of Directors in the absence of the Chairman of the Board. He shall perform such other duties as the Board of Directors may designate from time to time.

SECTION 5(B). **THE VICE PRESIDENTS.** - The Vice Presidents shall respectively perform such duties as the Chairman of the Board, President or the Board of Directors shall from time to time designate or require. In the absence of the President from Metro Manila, they shall in the order of their appointment perform the duties of the latter.

SECTION 6(A). **THE TREASURER.** - The Treasurer shall deposit all moneys and other valuable effects of the Company in such trust companies, banks or depositories as the Board of Directors shall from time to time designate or in the absence of such designation as he shall determine. He shall have authority to receive and give receipts for all moneys paid to the Company from any source whatsoever and to endorse checks, drafts and warrants in its name and on its behalf. Proper accounts shall be kept in his office of all receipts and disbursements made by him for the Company, with the vouchers in support thereof, which shall be submitted to any auditor or auditors appointed by the stockholders or directors for inspection as and when required. Except as may from time to time be otherwise ordered by the Board of Directors, the Treasurer shall keep all business and corporate records not required to be kept by the Secretary. He shall at all times be subject to the control of the Board: of Directors, and shall perform such other duties as the Chairman of the Board, Vice Chairman or Board of Directors may from to time direct. He may be required by the Board of Directors to give bond, to the satisfaction of the Board of whomsoever it may designate, for the faithful performance of his duties.

SECTION 6(B). **THE ASSISTANT TREASURERS.** - The Assistant Treasurer(s), if and when appointed by the Board of Directors, shall have power, with such limitation or conditions as the Board may fix, to sign checks and drafts upon banks and depositories of the Company, and to endorse checks and drafts for deposit with such banks or depositories to the credit of the Company. The Assistant Treasurers shall perform such other duties as may from time to time be prescribed by the Board of Directors or Chairman of the Board. They shall, if the Board of Directors so require, give a bond in such an amount as the Board may direct, for the faithful performance of their duties.

SECTION 7(A). **THE SECRETARY.** - The Secretary shall record all the votes and proceedings of the stockholders and of the directors in a book for that purpose. He shall have charge of the corporate seal of the Company, and attest the same when affixed to any document. He shall countersign all certificates of stock. He shall keep at the principal office of the Company the stock and transfer books and therein keep record of all stock showing the names of stockholders (and registered attorneys or proxies) alphabetically arranged, with the addresses to which notices may be sent, the installments paid and unpaid on all stock for which subscription has been made and the date of payment of any installment, and a record of every transfer of stock with the date thereof and by and to whom made. He shall perform such duties as pertain to his office or as the Chairman of the Board, Vice Chairman or Board of Directors may require.

SECTION 7(B). **THE ASSISTANT SECRETARIES.** - The Board may delegate to the assistant secretaries all or any part of the duties of the secretary.

ARTICLE IV

CONTRACT AND OBLIGATIONS

SECTION 1. - No agreement, contract or obligations involving the payment of money or the credit or liability of the Company, shall be made without the approval of the board of directors, except by an officer or agent thereunto generally or specifically authorized by the Board of Directors.

ARTICLE V

SHARES AND THEIR TRANSFERS

SECTION 1. - Subscribers for shares of stock shall not be required to pay any interest upon their unpaid subscription except after the same shall have been called for payment and become delinquent.

SECTION 2. **CERTIFICATES.** - Each holder of stock shall be entitled to a stock certificate signed by the President and Secretary or Assistant Secretary of the Company certifying the class and number of shares owned by him. All such certificates representing shares of a particular class shall be numbered and registered in the order in which they are issued, and on the records of the Company there shall be entered the name of the person owning the shares represented by

such certificate when issued, with the number of shares and the date thereof, and the amount paid in on account of the par value thereof, and in case of cancellation the date of cancellation. Every certificate returned to the Company for the exchange or transfer of shares shall be cancelled, and no new certificate shall be issued upon the exchange or transfer of shares until the old certificate has been thus returned and cancelled.

The signatures of the President and Secretary or Assistant Secretary of the Company on all certificates of stock may be imprinted mechanically by the use of plate signature machine.

The corporate seal of the Company shall be printed on all certificates of stock.

SECTION 3. **TRANSFERS.** - Transfers of shares shall be made only on the books of the Company on the surrender of the certificate or certificates for such shares properly endorsed. The transfer books may be closed by the board for such period as may be deemed advisable previous to and on the day of any meeting of the stockholders, and for dividend purposes.

No transfer of share shall be made nor allowed to be recorded in books of the corporation and no corresponding stock certificate shall be issued, if such transfer of shares and issuance of stock certificate shall be in violation of and contrary to the provisions of Article Seventh of the ARTICLES OF INCORPORATION.

SECTION 4. **ADDRESSES.** - Every stockholder and transferee, and every attorney or proxy for any stockholder, shall furnish the Secretary with an address at which notice of meetings and all other notices from any officer of the Company may be served upon or mailed to him, and in default thereof notice may be addressed to him either at his last known address or at the office of the Company in Metro Manila.

SECTION 5. **LOST CERTIFICATE.** - The Board of Directors, subject to such rules and regulation as they may from time to time adopt, may order a new certificate or certificates of stock to be issued in the place of any certificate or certificates of the Company alleged to have been lost or destroyed; but in every such case the owner of the lost certificate or certificates shall first cause to be given to the Company a bond, with sufficient surety, satisfactory to the Board of Directors, in such sum, not less than the par or any then higher market value of such lost or destroyed certificate or certificates of stock, as the Board may in their discretion require, as indemnity against any loss or claim that the Company may incur by reason of such issuance of such new stock certificates; but the directors may, in their discretion, refuse to replace any lost certificates, save upon the order of some court having jurisdiction in such matter.

ARTICLE VI

DIVIDENDS, SURPLUS AND FINANCE

Section 1. - The Board of Directors shall have the power and authority to fix and determine, and from time to time vary, the amount to be reserved, over and above its capital stock paid in, as working capital, to meet contingencies, to provide for the equalization of dividends and/or for other purposes; to direct and determine the use and disposition of the working capital and of any amounts so reserved; to use and apply the surplus or any part thereof in acquiring the bonds or other obligations or shares of capital stock of the Company, to such extent, in such manner and upon such terms as the Directors shall deem expedient (and shares of capital stock so, purchased or acquired may be resold, and shall not be deemed to have been retired, unless such shares shall have been retired for the purpose of reducing the capital of the Company in the manner provided by law); to determine whether any, and if any, what part, of the net profits or surplus shall be declared and paid as dividends; to fix the times for the declaration and payment of dividends; and generally to fix and determine the use and disposition of any net profits or surplus.

Against any reserve or surplus so established, there may be charged losses at any time incurred by the Company, also dividends or other distribution upon stock. Such reserve or surplus may be reduced from time to time by the Board of Directors for the purposes above specified, or by transfer from such reserve or surplus to capital account or otherwise.

SECTION 2. - The Board of Directors shall also have power and authority to create a surplus, to be known as the "Capital Surplus" of the Company, and at any time, and from time to time, to transfer and credit to such capital surplus all or any part of the surplus or net profits of the Company available for dividends. In case any amount shall be so transferred and credited to capital surplus, the same shall not thereafter, without affirmative vote or written consent of the holders of a majority of the voting stock of the Company, be declared or paid, or made the basis of the declaration of payment, of dividends (other than stock dividends) on any class of stock of the Company from time to time outstanding, it being the intent of this provision that all amounts transferred and credited to capital surplus shall thereafter have the same status as if the same had been paid to the Company in payment for shares of its capital stock.

SECTION 3. - Anything herein to the contrary notwithstanding, the powers of the Board of Directors, as set forth in this. ARTICLE VI, are subject in all respects to, and are governed by, the provisions of the Articles of Incorporation of the Company, as amended.

SECTION 4. - The fiscal year of the Company shall begin on the first day of January and end on the 31st day of December in each calendar year.

ARTICLE VII

SEAL

The corporate seal, unless otherwise ordered by the Board of Directors, shall consist of a circular design on which is inscribed the words and numbers:

Manila Electric Company

MERALCO

Metro Manila, Philippines

1919

ARTICLE VIII

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Each director and officer of the Company, whether or not then in office, and in the event of his death, his legal representatives, shall be indemnified by the Company with respect to any acts or omissions alleged to have occurred subsequent to the adoption of this By-Law provision, against (1) all costs and expenses reasonably incurred by or imposed upon him in connection with or resulting from any action, suit or proceeding prosecuted to final determination on the merits to which he or his personal representative may be made a party by reason of his being or having been a director or officer of the Company or of any other company which he serves as a director or officer at the request of the Company, except any costs or expenses incurred by or imposed upon him in relation to matters as to which he shall

be finally adjudged: to be liable, and (2) all costs and expenses incurred or imposed upon him in connection with or resulting from any such action, suit or proceeding which is settled with the approval of the court having jurisdiction thereof but only in such amount (which shall not include any sum ordered to be paid to the Company by him) as such court shall determine and find to be reasonable in the circumstances.

No present or future director or officer of the Company (or his legal representative) shall be liable for any act, omission, step or conduct taken or had in good faith after December 24, 1957, which (whether by condition or otherwise) is required, authorized, or approved, or is otherwise in compliance with or in reliance upon a regulation, rule, order or determination issued or made by a department, agency, board, commission or authority pursuant to any statute of the Republic of the Philippines, any Province, or any other political subdivision thereof, whether or not such regulation, rule, order or determination shall have been subsequently amended, rescinded or determined by judicial or administrative authority to be invalid or illegal, or which is taken in contesting in good faith the validity or legality of any such regulation, rule, order or determination. In any action, suit or proceeding based on any act, omission, step or conduct, as in this paragraph described, the provision hereof shall be brought to the attention of court. In the event that any of the foregoing, provisions of this paragraph is found by the court not to constitute a valid defense on the ground that such provision is not applicable to the particular class of plaintiff, each such director or officer (or his legal representatives) shall be reimbursed for, or indemnified against all expenses and liabilities reasonably incurred by him or imposed on him, in connection with or resulting from any such

action, suit or proceeding (other than for any sum ordered to be paid to the Company by him). Such expenses and liabilities shall include, but shall not be limited to, judgments, court costs and attorneys fees.

The foregoing rights of indemnification shall not be exclusive of any other rights to which any director or officer (or his legal representatives) may be entitled as a matter of law nor of any rights of indemnification to which any director or officer (or his legal representatives) may be entitled under any By-Law of the Company heretofore in effect.

ARTICLE IX

AMENDMENTS

These By-Laws may be added to, altered, amended or repealed, or new By-Laws may be adopted by the Board of Directors of the Company at any regular or special meeting duly called for the purpose.

IN WITNESS WHEREOF, we have hereunto set our hands and seals this 5th day of May, 1919.

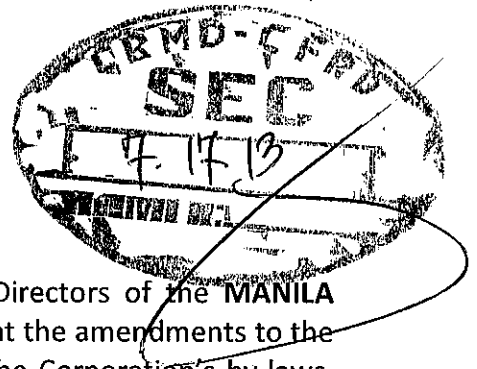
(SGD.) J. C. ROCKWELL (SEAL)

(SGD.) R. W. SPOFFORD (SEAL)

(SGD.) D. M. SHAW (SEAL)

(SGD.) JAMES ROSS (SEAL)

(SGD.) J. G. LAWRENCE (SEAL)



DIRECTORS' CERTIFICATE

WE, the undersigned members of the Board of Directors of the **MANILA ELECTRIC COMPANY** (the "Corporation"), hereby certify that the amendments to the Section 5, Article I, Section 5 and Section 7, Article II of the Corporation's by-laws, are true and correct, and that the same were approved by the unanimous vote of the Board of Directors at its Meeting held on 22 March 2013 at 13th Floor, Lopez Building, Ortigas Avenue, Pasig City and the vote of stockholders representing at least two-thirds (2/3) of the outstanding capital stock at the Annual Stockholders' Meeting held on 28 May 2013 at Meralco Theatre, Ortigas Avenue, Pasig City. The power of the Board of Directors to add, alter, amend, repeal, or adopt new By-Laws under Article IX was conferred and ratified by the Stockholders at their Annual Meeting on 28 May 2002.

The amended provisions of the attached Amended By-Laws are quoted hereunder:

Article I Meetings of Stockholders

"SECTION 5. NOTICE OF MEETING. - Written notice of the annual and of any special meeting of stockholders shall be given to each stockholder entitled to vote thereat by posting the same in a postage prepaid letter, addressed to each such stockholder at his last known address or at the address last left by him with the Secretary of the Company, or by delivering the same to him personally, at least twenty eight (28) working days before the meeting. A copy of the notice of meeting shall likewise be made available for download at the Company website. xxx"

Article II Board of Directors

SECTION 5. QUALIFICATIONS. - All directors must possess the following minimum qualifications and such additional qualifications under any amendments to the Corporation Code, Securities and Regulation Code, the Code of Corporate Governance issued by the Securities and Exchange Commission and other relevant laws, rules and regulations in effect at the relevant time:

- (a) must own at least one (1) share of stock of the Company of which he is a director, standing in his name in the books of the Company;
- (b) must possess integrity and probity;
- (c) as much as possible, must have a practical understanding of business in general and of the business of the Company, in particular; and
- (d) must have attended a seminar in corporate governance conducted by a duly recognized private institution or government entity or must have issued an undertaking to attend such a seminar as soon as practicable."

xxx

"SECTION 7. COMPENSATION. - All Directors may receive reasonable per diems for their attendance at each regular or special meeting of the Board of Directors and Board Committees and additional compensation, as such, whether in the form of a fixed retainer, bonus or stock grant, or a combination thereof, as may be approved by
~~majority vote of the outstanding capital stock~~ the Board of Directors; Provided, That the total value of
~~and the majority vote of the~~ such additional compensation, in whatever form so given, shall not exceed one percent (1%) of the net income before tax of the Company during the preceding year; but nothing herein contained shall be construed to preclude any director from serving the Company in any other capacity and receiving compensation therefor."

[The rest of the page has been intentionally left blank]

IN WITNESS WHEREOF, this Certificate is signed this APR 25 2013 day of March 2013 in Pasig City.



MANUEL V. PANGILINAN
TIN: 914-481-801
Chairman of the Board

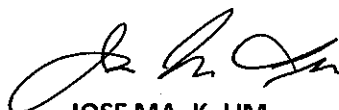


RAMON S. ANG
TIN: 118-247-725
Vice Chairman

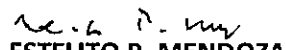
MANUEL M. LOPEZ
TIN: 100-749-139
Director



RAY C. ESPINOSA
TIN: 113-248-897
Director



JOSE MA. K. LIM
TIN: 100-930-065
Director


ESTELITO P. MENDOZA
TIN: 106-190-582
Director



ARTEMIO V. PANGANIBAN
TIN: 106-197-693
Director



VICENTE L. PANLILIO
TIN: 115-321-338
Director



ERIC O. RECTO
TIN: 108-730-891
Director

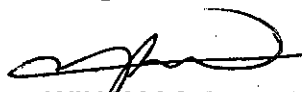


OSCAR S. REYES
TIN: 136-623-569
Director



PEDRO E. ROXAS
TIN: 104-738-165
Director

Countersigned:

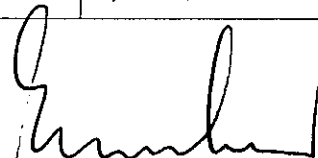


Atty. WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED and SWORN to before me this APR 25 2013 of 2013 at Pasig City, the following individuals exhibiting to me their government issued ID's as indicated below:

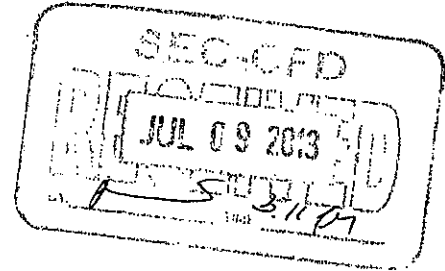
NAME	GOVERNMENT ISSUED ID	VALID UNTIL
MANUEL V. PANGILINAN	Passport No. EB0160000	April 27, 2015
RAMON S. ANG		
MANUEL M. LOPEZ	Passport No. DP0007682	Dec. 29, 2015
JOSE MA. K. LIM	Passport No. EB5936209	July 15, 2017
RAY C. ESPINOSA	Passport No. EB6814744	Nov. 22, 2017
ESTELITO P. MENDOZA	Passport No. EA0010949	January 20, 2017
ARTEMIO V. PANGANIBAN	Passport No. DE0000999	January 20, 2017
VICENTE L. PANLILIO	Passport No. XX2640167	Dec. 5, 2013
ERIC O. RECTO	Passport No. EB4084549	Nov. 15, 2016
OSCAR S. REYES	Passport No. XX2143931	Sept. 28, 2013
PEDRO E. ROXAS	Passport No. EB0094507	April 12, 2015

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 Series of 2013


ATTY. EDITO E. CEDRO, CPA
 NOTARY PUBLIC
 for and in Pasig, Patéros, Taguig & San Juan
 Appt. No. 76 (2012-2013) 2-20-12 Pasig City
 Until December 31, 2013
 8th Flr Lopez Bldg., Ortigas Ave., Pasig City
 Tel. No. (02) 1622-3444
 Attorney's Roll No. 52528
 IBP No. 913524 / 1-08-13 RSM Chapter
 PTA No. 0467086/1-18-13/Pasig City

Republic of the Philippines

PASIG CITY) S.S



UNDERTAKING

I, **WILLIAM S. PAMINTUAN**, Filipino, of legal age, with office address at 8th Floor, Lopez Building, Meralco, Ortigas Avenue, Pasig City, after having been sworn, in accordance with law, depose and state that:

1. I am the duly elected and qualified Assistant Corporate Secretary of Manila Electric Company (the Company), a private corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Lopez Building, Ortigas Avenue, Pasig City.
2. The Securities and Exchange Commission (SEC) had earlier imposed a penalty of P28,700.00 to the Company due to alleged inaccuracies and incompleteness of its 2012 General Information Sheet. The Company then requested for reconsideration of the SEC penalty through its letter dated 04 April 2013 now still pending decision.
3. In the event that its request for reconsideration be denied by the SEC with finality, the Company hereby undertakes to comply with the SEC's decision on the matter.

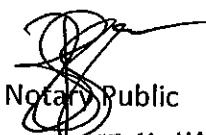
This Affidavit is executed to attest to the truth of the foregoing and for whatever legal purpose and intent it may serve.

Pasig City, 8th day of July, 2013


WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me on this JUL 09 2013 day of 2013, in PASIG CITY, affiant exhibiting his TIN No. 146 47 356 2000 issued on _____ at _____.

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Book No. ✓
Series of 2013.


Notary Public
ATTY. FREEDOM IANFE M. NAVIDAD
NOTARY PUBLIC
PASIG, PATROS, TAGUIG, AND SAN JUAN
ISSUED ON FEBRUARY 20, 2012 AT PASIG CITY
APPOINTMENT NO. 77 (2012-2013)
ROLL NO. 53655 / IOP NO. 913518 / 01/08/13 RSM CHAPTER
PTR NO. 2457659 / 01/15/13 PASIG CITY
5TH FLOOR LOPEZ BLDG. ORTIGAS AVENUE, PASIG CITY



	BOARD CHARTER MERALCO	Rev. Code: 5	Page 1 of 5
Section : Board of Directors	Effectivity Date : 26 March 2012		
Subject : Audit and Risk Management Committee	Sensitivity Classification : CONFIDENTIAL		

A. Purposes

The primary purpose of the Audit and Risk Management Committee (the "Committee") is to assist the MERALCO Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the risk management process, and the company's process of monitoring compliance with laws and regulations.

B. Authority

The Committee shall have the authority, duties and responsibilities as set out herein and such other duties and powers as may be delegated to the Committee by the Board.

In the performance of its duties and responsibilities, the Committee is empowered to:

- Have resources and authority appropriate to discharge its responsibilities as set out in this Charter, including the authority to engage external auditors for special audits, reviews and other procedures and to obtain advice from special counsel and other experts or consultants to assist in the conduct of investigation, without need for Board approval;
- Seek any information it may require from any employee, director, agent or advisor and all such persons will be directed to cooperate with the request made by the Committee;
- Meet separately with any Company officer, the chief audit executive and/or the external auditors or outside counsel to discuss any matter that the Committee or any of the foregoing persons or firms believe should be discussed privately; and
- Resolve any disagreements between Management and the auditors regarding financial reporting.

C. Duties and Responsibilities

To carry out its purposes, the Committee shall have the following duties and responsibilities.

1. With respect to financial reporting process and internal control system
 - 1.1 Advise Management and the external auditors that they are expected to provide to the Committee a timely analysis of significant/critical financial reporting issues and practices particularly as they relate to the completeness, accuracy and fairness of the quarterly and annual financial statements before submission to the Board with particular focus on the following matters:
 - a. appropriateness of accounting policies and practices;
 - b. judgmental issues and estimates;
 - c. adequacy of disclosure, including as to unusual items;
 - d. consistency within the financial statements;

Reviewed By:


(Ret.) Chief Justice Artemio V. Panganiban
Chairman, Audit & Risk Management Committee

Approved By:


Ambassador Manuel M. Lopez
Chairman of the Board

	<p align="center">BOARD CHARTER</p> <p align="center">MERALCO</p>	Rev. Code: 5	Page 2 of 5
Section : Board of Directors	Effectivity Date : 26 March 2012		
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- e. any significant audit adjustments; and
 - f. the going concern assumption;
- 1.2 Review with Management and the external auditors the results of the audit of the financial statements, including any difficulties encountered;
 - 1.3 Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses;
 - 1.4 Consider the effectiveness of the Company's internal control system, including information technology security and control; and
 - 1.5 Obtain and consider any reports or communications submitted to the Committee by the external auditors.
2. With respect to the auditing process

Internal Auditor

- 2.1 Review the appointment or replacement of the Internal Audit Head or chief audit executive who shall functionally report directly to the Committee, and ensure that the internal audit organization shall be free from interference by outside parties in the performance of its work;
- 2.2 Review and approve the annual internal audit plan and any update on the Company's Internal Audit Charter. The plan should include the audit scope, resources and budget necessary to implement the same;
- 2.3 Advise the chief audit executive that he or she is expected to provide to the Committee summaries of and, as appropriate, significant reports to Management prepared by the Internal Audit and Management's responses thereto;
- 2.4 Require the chief audit executive to render to the Committee an annual report on the internal audit organization's activities and performance relative to the audit plans and strategies approved by the Committee, which report shall include significant risk exposures and control issues, corporate governance issues and other matters requested by the Committee or the Board; and
- 2.5 Require a statement from the chief audit executive that the activities of the internal audit organization are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing or ISPPA; if otherwise, a disclosure that the internal audit organization has not yet fully achieved compliance with the ISPPA.

Reviewed By:

(Ret.) Chief Justice Artemio V. Panganiban
Chairman, Audit & Risk Management Committee

Approved By:

Ambassador Manuel M. Lopez
Chairman of the Board

	BOARD CHARTER MERALCO	Rev. Code: 5	Page 3 of 5
Section : Board of Directors	Effectivity Date : 26 March 2012		
Subject : Audit and Risk Management Committee	Sensitivity Classification : CONFIDENTIAL		

External Auditor

- 2.6 Review and evaluate procedures and criteria for the selection, appointment, performance evaluation and if appropriate, the termination of services of the external auditors and recommend the same to the Board and if required, to the Shareholders, for approval;
 - 2.7 Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;
 - 2.8 Review and approve in consultation with the chief audit executive and the head of the Finance organization, all audit and non-audit services to be performed by the external auditors and the related fees to be paid for such services; and ensure that non-audit services, if allowed or approved, are disclosed in the Company's annual report;
 - 2.9 Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company (Statement of Independence) and evaluate any relationships or services disclosed in such Statement that may impact the objectivity, independence or quality of services of the external auditors and take appropriate action in response to such Statement to satisfy itself of the external auditor's independence; and
 - 2.10 Ensure that the external auditors or its lead audit partner of the external auditing firm assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations.
3. With respect to enterprise risk management
 - 3.1 Oversee the Company's risk management framework, the policies and processes adopted by Management with respect to risk identification and assessment, development of risk management strategies and monitoring of risk management performance; and
 - 3.2 Oversee Management's risk management activities and require Management to provide a report and discuss with the Committee about the Company's significant or major risk exposures, if any, and the steps taken by Management to manage and monitor such risks.
 4. With respect to legal and regulatory compliance
 - 4.1 Monitor compliance and adherence by the Company with all applicable laws and regulations pursuant to which the Company conducts its operations and business activities; and
 - 4.2 Obtain regular updates from Management and Company's legal counsel regarding compliance matters including findings of any examinations by regulatory agencies and any auditor observations.

Reviewed By:

(Ret.) Chief Justice Artemio V. Panganiban
Chairman, Audit & Risk Management Committee

Approved By:

Ambassador Manuel M. Lopez
Chairman of the Board

	BOARD CHARTER MERALCO	Rev. Code: 5	Page 4 of 5
Section : Board of Directors		Effectivity Date : 26 March 2012	
Subject : Audit and Risk Management Committee		Sensitivity Classification : CONFIDENTIAL	

5. Other responsibilities

- 5.1 Report its activities to the Board on a regular basis and make such recommendations with respect thereto and other matters as the Committee may deem necessary or appropriate;
- 5.2 Conduct or authorize an investigation into any matter that falls within its scope of responsibilities;
- 5.3 Review and assess the adequacy of this Charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law and regulation;
- 5.4 Evaluate the Committee's performance on a regular basis; and
- 5.5 Perform other activities related to this Charter as requested by the Board of Directors.

D. Members

1. The Committee shall be composed of at least three (3) Board members, who shall preferably have accounting and finance backgrounds, two of whom shall be Independent Directors and another with audit experience, and only such Member-Directors shall have voting rights. The Chairman shall be an Independent Director. Each member of the Committee ("Member") shall have at least an adequate understanding of the Company's financial management systems and environment. The Members, including the Chairman thereof, shall be appointed by the Board of Directors annually.
2. The Board of Directors may appoint one or more persons to serve as advisor(s) to the Committee ("Advisors"). Advisors shall have the right to attend and speak at any meeting of the Committee, but shall have no right to vote in respect of any action by the Committee.
3. The Chairman of the Committee or any Member or Advisor may be removed from office only by the Board of Directors.

E. Meetings

1. The Committee shall hold meetings at such times and places as it considers appropriate provided that not less than four (4) meetings shall be held each year.
2. Meetings of the Committee shall be convened by the Chairman of the Committee as and when he considers appropriate and the Chairman shall convene a meeting upon the request of a majority in number of the voting Members.
3. The Committee shall appoint a Secretary who shall prepare minutes of meetings of the Committee and keep books and records of the Committee.

Reviewed By:

(Ret.) Chief Justice Artemio V. Panganiban
Chairman, Audit & Risk Management Committee

Approved By:

Ambassador Manuel M. Lopez
Chairman of the Board

	BOARD CHARTER MERALCO	Rev. Code: 5	Page 5 of 5
Section : Board of Directors		Effectivity Date : 26 March 2012	
Subject : Audit and Risk Management Committee		Sensitivity Classification : CONFIDENTIAL	

4. A Committee meeting shall be convened by not less than three (3) calendar days' notice in writing, specifying the place, date and time for the meeting and the general nature of the businesses to be transacted at the meeting.
5. Notwithstanding that a meeting is called by shorter notice, it shall be deemed to have been duly convened if it is so agreed by the Members present in the meeting at which there is a quorum. A Member may consent to short notice and may waive notice of any meeting of the Committee and any such waiver may be retrospective.
6. Each Member/Advisor shall give to the Secretary of the Committee an address and a facsimile number for the service of notices of meetings of the Committee.
7. Notice of a meeting of the Committee shall be deemed to be duly given to a Member/Advisor if it is given to him personally, in writing or orally, or sent to him by mail or facsimile transmission to his address or facsimile number, as appropriate, given by him to the Secretary of the Committee in accordance with Section (6) above.
8. The quorum for a meeting of the Committee shall be a majority of the voting Members present throughout the meeting.
9. Members and Advisors may participate in a meeting of the Committee through teleconference or video conference by means of which all persons participating in the meeting can hear each other.
10. Resolutions at a meeting of the Committee at which there is a quorum shall be passed by a simple majority of votes of the voting Members present at such meeting. Each voting Member, including the Chairman of the Committee shall have one (1) vote. In case of an equality of votes, the Chairman of the Committee shall not have a second or casting vote.

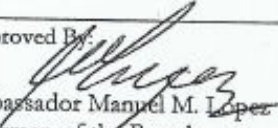
F. Amendment or Alteration of this Charter

This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by resolutions of the Board of Directors.

Reviewed By:


(Ret.) Chief Justice Artemio V. Panganiban
Chairman, Audit & Risk Management Committee

Approved By:


Ambassador Manuel M. Lopez
Chairman of the Board



Annex I

	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	Rev. Code: 3	Page 1 of 4
Section : Board of Directors		Effectivity Date : Sept. 28, 2009	
Subject : Nomination and Governance Committee		Sensitivity Classification : Confidential	

A. Functions

The Nomination and Governance Committee shall make recommendations to the Board on the qualified nominees for election as Directors, improvements on board organization and procedures, mechanisms for evaluating performance of the Board, the Board Committees and Management and the continuing education of the Board including that for individual Directors.

B. Responsibilities

1. Review and monitor the structure, size and composition of the Board and make recommendations to ensure that the Board has the required number of Independent Directors with the qualifications and none of the disqualifications as provided in applicable laws, regulations, listing rules and the Company's policies.
2. Screen and shortlist qualified individuals nominated for election as Directors in order to ensure that all nominations are fair and transparent and in accordance with applicable laws, regulations, listing rules and the Company's policies.
3. Identify and recommend qualified individuals for nomination and election as additional Directors or to fill Board vacancies as and when they arise. The election of such additional or replacement Directors shall be done in accordance with applicable laws and regulations.
4. Ensure that the Company shall have at least two (2) Independent Directors or such number of Independent Directors which constitute at least twenty percent (20%) of the members of the Board, whichever is lesser.
5. Review with the Board on an annual basis the appropriate skills and characteristics required on the Board in the context of the strategic direction of the Company.
6. Review and endorse to the Board recommendations of the Compliance Officer in relation to violations of provisions and requirements of the Revised Code of Corporate Governance and other corporate governance rules applicable to the Company, including the Company's Manual on Corporate Governance.
7. Recommend Committee assignments, including Committee Chairmanships, to the full Board for approval after receiving advice from the Chairman of the Board and CEO and with consideration of the desires of individual Board members.
8. Review annually the Charters of all Board Committees and recommend to the Board any needed changes. In reviewing the Charters of the Board Committees, the Committee should consult with the concerned Board Committee. The Committee's recommendation on any change in any of the Charters shall be submitted to the Board for approval.

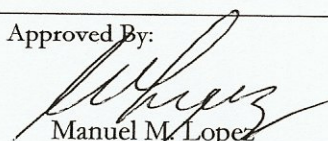
Prepared By:

Reviewed By:

Approved By:



Nomination and Governance
Committee


 Manuel M. Lopez
 Chairman of the Board

	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	Rev. Code: 3	Page 2 of 4
Section : Board of Directors		Effectivity Date : Sept. 28, 2009	
Subject : Nomination and Governance Committee		Sensitivity Classification : Confidential	

9. Specify annually elements of the Board's Corporate Governance improvement program and recommend to the Board the development of corporate governance principles, structure, best practices and rules for adoption by the Company, and assist the Board in the implementation thereof.
10. Design an orientation program for new Directors and related continuing education program for existing Directors.
11. Review annually the prescribed Full Business Interest Disclosure of all incoming Directors and officers.
12. Assess the effectiveness of the Board's processes and procedures in the election or replacement of Directors.

C. Members

1. The Nomination and Governance Committee shall preferably have at least three (3) voting Directors, one of whom must be an Independent Director. The Company's HR Head may be appointed as a non-voting member. The members of the Committee including the Chairman thereof shall be appointed by the Board of Directors annually.
2. The Board of Directors may appoint one or more persons to serve as advisor(s) to the Committee. Advisors shall have the rights to attend and speak at any meeting of the Committee, but shall have no right to vote in respect of any action of the Committee.
3. The Chairman or any member or advisor of the Committee may be removed from office only by the Board of Directors.

D. Meetings

1. The Committee shall hold meetings at such times and places as it considers appropriate provided that not less than four (4) meetings shall be held each year.
2. Meetings of the Committee shall be convened by the Chairman of the Committee as and when he considers appropriate and the Chairman shall convene a meeting upon the request of a majority in number of the voting Members of the Committee.
3. A Committee meeting shall be convened by not less than three (3) calendar days' notice in writing, specifying the place, date and time for the meeting and the general nature of the businesses to be transacted at the meeting.

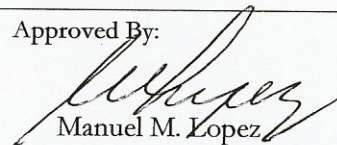
Prepared By:

Reviewed By:

Approved By:



Nomination and Governance
Committee



Manuel M. Lopez
Chairman of the Board

	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	Rev. Code: 3	Page 3 of 4
Section : Board of Directors		Effectivity Date : Sept. 28, 2009	
Subject : Nomination and Governance Committee		Sensitivity Classification : Confidential	

4. Notwithstanding that a meeting is called by shorter notice, it shall be deemed to have been duly convened if it is so agreed by the Members of the Committee present in the meeting at which there is a quorum. A Member may consent to short notice and may waive notice of any meeting of the Committee and any such waiver may be retrospective.
5. Each Member/Advisor shall give to the Secretary of the Committee an address and a facsimile number for the service of notices of meetings of the Committee.
6. Notice of a meeting of the Committee shall be deemed to be duly given to a Member/Advisor if it is given to him personally, in writing or orally, or sent to him by mail or facsimile transmission to his address or facsimile number, as appropriate, given by him to the Secretary of the Committee in accordance with Section (5) above.
7. The quorum for a meeting of the Committee shall be a majority of the voting Members of the Committee present throughout the meeting.
8. Members and Advisors of the Committee may participate in a meeting of the Committee through teleconference or video conference by means of which all persons participating in the meeting can hear each other.
9. Resolutions at a meeting of the Committee at which there is a quorum shall be passed by a simple majority of votes of the voting Members present at such meeting. Each Member, including the Chairman of the Committee shall have one (1) vote. In case of an equality of votes, the Chairman of the Committee shall not have a second or casting vote.

E. Remuneration of Members

No fees or other remuneration shall be payable to the Members/Advisors of the Committee in respect of their services provided in connection with the Committee or in respect of their attendance at meetings of the Committee, save and except fees or remuneration authorized and approved by the Board and/or any fees or remuneration such Member/Advisor would otherwise be entitled to in his capacity as consultant, advisor or employee of the Company.

F. Minutes and Records

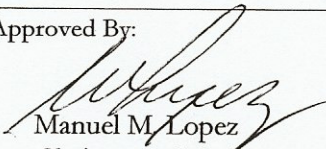
1. The Committee shall appoint a Secretary who shall prepare minutes of meetings of the Committee and keep books and records of the Committee.

Prepared By:

Reviewed By:

Approved By:


Nomination and Governance
Committee


Manuel M. Lopez
Chairman of the Board

	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	Rev. Code: 3	Page 4 of 4
Section : Board of Directors		Effectivity Date : Sept. 28, 2009	
Subject : Nomination and Governance Committee		Sensitivity Classification : Confidential	

2. The Committee shall cause records to be kept for the following:
 - (a) appointments and resignations of the Members/Advisors of the Committee;
 - (b) all agenda and other documents sent to the Members/Advisors of the Committee; and
 - (c) minutes of proceedings and meetings of the Committee.
3. Any such books and records shall be open for inspection by any Member/Advisor of the Committee upon reasonable prior notice during usual office hours of the Company.

G. Resources and Authorities

The Committee shall have the resources and authorities appropriate to discharge its functions, duties and responsibilities including the authority to obtain advice from external consultants and functional specialists within the Company.

H. Committee Reports and Performance Evaluation

1. The Committee shall report its activities to the Board on a regular basis and make such recommendations with respect thereto and other matters as the Committee may deem necessary or appropriate.
2. The Committee shall prepare and review with the Board of Directors an annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of its Charter, set forth the goals and objectives of the Committee for the ensuing year and include any recommendation to the Board of Directors on any improvements to the Charter deemed necessary or desirable by the Committee.

I. Amendment or Alteration of this Charter

This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by resolutions of the Board of Directors.

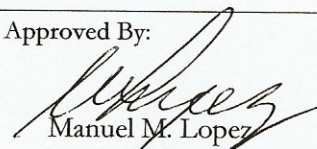
Prepared By:

Reviewed By:

Approved By:



Nomination and Governance
Committee



Manuel M. Lopez
Chairman of the Board



Annex J

	ORGANIZATIONAL CHARTER MERALCO	Rev. Code: 4	Page 1 of 4
Section: Board of Directors		Effectivity Date: November 2, 2011	
Sub-Section: Remuneration and Leadership Development Committee		Sensitivity Classification: Confidential	

A. FUNCTIONS

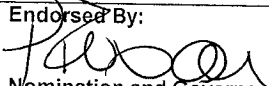
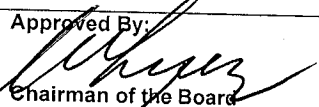
The Remuneration and Leadership Development Committee shall assist and advise the Board of Directors with respect to the Company's compensation, retirement and key benefits, and leadership development of the Company as appointed in accordance with the Company's By-Laws, as well as executives with the rank of AVP and up.

It shall also assist the Board in evaluating the appropriate compensation for the Board of Directors.

B. KEY RESPONSIBILITIES

To perform these functions, the following are the specific responsibilities of the Committee:

1. Provide guidance to the Board in the formulation and development of a Remuneration Philosophy consistent with the Company's culture, strategy and business environment in which it operates; and, recommend approval thereof by the Board of Directors. It shall also review the effectiveness and appropriateness of the Company's Philosophy and strategy at least every 2 years or whenever necessary.
2. Exercise functional oversight on matters pertaining to Remuneration and Leadership Development, specifically in the areas of:
 - Development and administration of Remuneration Programs, including but not limited to Retirement Plan and long-term incentive plans to ensure alignment with over-all philosophy and strategy.
 - Development and administration of Leadership Development/Succession Planning and Retention programs for executives and officers which include career development, promotions and performance evaluation.
3. Review and endorse for Board ratification all promotions to the rank of Vice President up to Sr. EVP for positions below the CEO/COO/CFO.

Reviewed by:  Compensation and Benefits Committee	Endorsed By:  Nomination and Governance Committee	Approved By:  Chairman of the Board
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	ORGANIZATIONAL CHARTER MERALCO		
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4. Performs staff support functions as may be delegated by the Board in the performance evaluation, succession planning and remuneration for the CEO/COO/CFO/Corporate Secretary.
5. Evaluate the appropriate compensation for the Board of Directors.

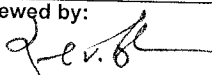
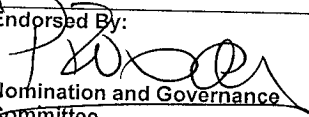
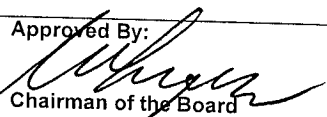
C. COMPOSITION

1. The Committee shall be composed of at least three (3) members of the Board of Directors, one of whom shall be an independent director. The members of the Committee including the Chairman thereof shall be appointed by the Board of Directors annually.
2. The Board of Directors may appoint one or more persons to serve as advisor(s) to the Committee. Advisors shall have the right to attend and speak at any meeting of the Committee, but shall have no right to vote in respect of any action by the Committee.
3. The Chairman or any member or advisor of the Committee may be removed from office only by the Board of Directors.

D. COMMITTEE PROCEDURES

a. Meetings

1. The Committee shall hold meetings at such times and places as it considers appropriate provided that not less than four (4) meetings shall be held each year.
2. Meetings of the Committee shall be convened by the Chairman of the Committee as and when he considers appropriate and the Chairman shall convene a meeting upon the request of a majority in number of the voting Members of the Committee.
3. A Committee meeting shall be convened by not less than three (3) calendar days' notice in writing, specifying the place, date and time for the meeting and the general nature of the businesses to be transacted at the meeting.
4. Notwithstanding that a meeting is called by shorter notice, it shall be deemed to have been duly convened if it is so agreed by the Members of the Committee present in the meeting at which there is a quorum. A Member may consent to short notice and may

Reviewed by:  Compensation and Benefits Committee	Endorsed By:  Nomination and Governance Committee	Approved By:  Chairman of the Board
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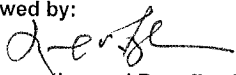
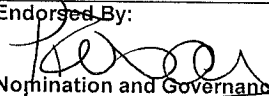
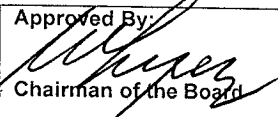
	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	<p>Rev. Code: 4</p>	<p>Page 3 of 4</p>
<p>Section: Board of Directors</p>	<p>Effectivity Date: November 2, 2011</p>		
<p>Sub-Section: Remuneration and Leadership Development Committee</p>	<p>Sensitivity Classification: Confidential</p>		

waive notice of any meeting of the Committee and any such waiver may be retrospective.

5. Each Member/Advisor shall give to the Secretary of the Committee an address and a facsimile number for the service of notices of meetings of the Committee
6. Notice of a meeting of the Committee shall be deemed to be duly given to a Member/Advisor if it is given to him personally, in writing or orally, or sent to him by mail or facsimile transmission to his address or facsimile number, as appropriate, given by him to the Secretary of the Committee in accordance with Section (5) above.
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8. Members and Advisors of the Committee may participate in a meeting of the Committee through teleconference or video conference by means of which all persons participating can hear each other
9. Resolutions at a meeting of the Committee at which there is a quorum shall be passed by a simple majority of votes of the voting members present at such meeting. Each Member, including the Chairman of the Committee shall have one (1) vote. In case of an equality of votes, the Chairman of the Committee shall not have a second or casting vote.

b. Minutes and Records

1. The Committee shall appoint a Secretary who shall prepare minutes of meetings of the Committee and keep books and records of the Committee
2. The Committee shall cause records to be kept for the following:
 - a. Appointments and resignations of Members/Advisors of the Committee;
 - b. All agenda and other documents sent to the Members/Advisors of the Committee; and
 - c. Minutes of proceedings and meetings of the Committee
3. Any such books and records shall be open for inspection by any Member/Advisor of the Committee upon reasonable prior notice during usual office hours of the Company.

<p>Reviewed by:</p>  <p>Compensation and Benefits Committee</p>	<p>Endorsed By:</p>  <p>Nomination and Governance Committee</p>	<p>Approved By:</p>  <p>Chairman of the Board</p>
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	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	<p>Rev. Code: 4</p>	<p>Page 4 of 4</p>
<p>Section: Board of Directors</p>	<p>Effectivity Date: November 2, 2011</p>		
<p>Sub-Section: Remuneration and Leadership Development Committee</p>	<p>Sensitivity Classification: Confidential</p>		

E. REMUNERATION OF MEMBERS

No fees or other remuneration shall be payable to the Members/Advisors of the Committee in respect of their services provided in connection with the Committee or in respect of their attendance at meetings of the Committee, save and except fees or remuneration authorized and approved by the Board and/or any fees or remuneration such Member/Advisor would otherwise be entitled to in his capacity as consultant, advisor or employee of the Company.

F. RESOURCES AND AUTHORITIES

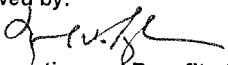
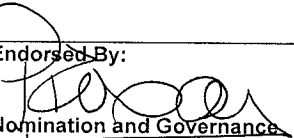
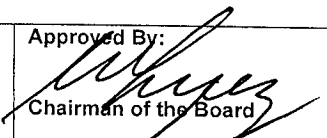
The Committee shall have the resources and authorities appropriate to discharge its functions, duties and responsibilities including the authority to obtain advice from external consultants and functional specialists within the Company.

G. COMMITTEE REPORTS AND PERFORMANCE EVALUATION

1. The Committee shall report its activities to the Board on a regular basis and make such recommendations with respect thereto and other matters as the Committee may deem necessary or appropriate
2. The Committee shall prepare and review with the Board of Directors an annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of its Charter, set forth the goals and objectives of the Committee for the ensuing year and include any recommendation to the Board of Directors on any improvements to the Charter deemed necessary or desirable by the Committee.

H. MINUTES AND RECORDS

This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by resolutions of the Board of Directors.

<p>Reviewed by:</p>  <p>Compensation and Benefits Committee</p>	<p>Endorsed By:</p>  <p>Nomination and Governance Committee</p>	<p>Approved By:</p>  <p>Chairman of the Board</p>
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	ORGANIZATIONAL CHARTER MERALCO	Rev. Code: 2	Page 1 of 2
Section : Board of Directors		Effectivity Date : June 25, 2007	
Subject : Finance Committee		Sensitivity Classification : Confidential	

A. Functions

The Finance Committee is appointed by the Meralco Board of Directors to review the financial operations of the Company and matters regarding the acquisitions/divestiture of or investments in companies, business or projects. It endorses recommendations to the Board as deemed appropriate or approves actions within its delegated authority.

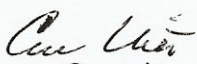
B. Responsibilities

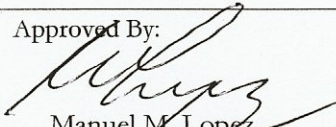
1. To review, advise and recommend approval, decision or action on financial matters involving the management and operation of the Company. Such reviews include but are not limited to the following:
 - a) Establishment of and changes to financial and treasury policies.
 - b) All major financing transactions.
 - c) Issuance of shares, share repurchases, valuation of shares, and other such activities involving existing shares.
 - d) The Company's corporate plans and budgets.
 - e) Major procurement and supply contracts and variations worth P50 million and above.
 - f) Proposals for dividends and transfers to reserve.
 - g) Any actual, potential, major exception or occurrence which has, or may have, a major financial impact on the Company.
 - h) Capitalization of subsidiary or associated companies including guarantees, financial support, undertakings, and indemnities in respect of investments or liabilities.
 - i) Proposed Principal Agreements with Government, Joint Ventures and Shareholders' Agreement, Major Acquisitions, Divestment and Property Redevelopment.
 - j) Investments worth P50 million and above except for investment transactions defined under the Investment Policy.
2. To address and deal with such other matters as maybe delegated by the Board to the Committee.

Prepared By:

Reviewed By:

Approved By:


Finance Committee


Manuel M. Lopez
Chairman of the Board

	<p align="center">ORGANIZATIONAL CHARTER</p> <p align="center">MERALCO</p>	Rev. Code: 2	Page 2 of 2
Section : Board of Directors		Effectivity Date : June 25, 2007	
Subject : Finance Committee		Sensitivity Classification : Confidential	

C. Members

The Finance Committee shall preferably have at least three (3) voting Directors, one of whom must be independent.

The Chief Financial Officer and the Treasurer of the Company shall be the non-voting representatives of Management in this Committee.

D. Meetings

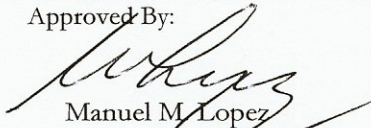
The meetings and proceedings are governed by the provision contained in the Company's Articles of Incorporation for regulating the meetings and proceedings of Directors. Summaries of matters discussed at such meetings are to be tabled at the next succeeding meeting of the Board.

Prepared By:

Reviewed By:

Approved By:


Finance Committee


Manuel M. Lopez
Chairman of the Board