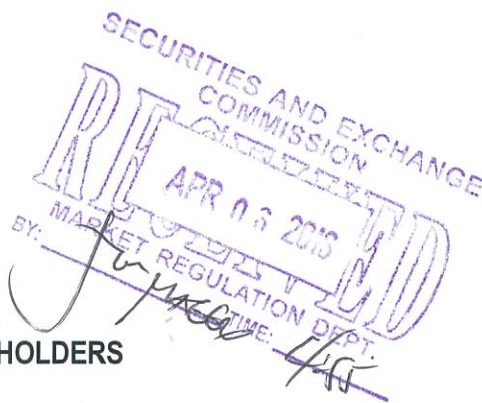




NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO ALL STOCKHOLDERS
Manila Electric Company (Meralco)

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Meralco will be held at the Meralco Theatre, Lopez Building, Ortigas Avenue, Brgy. Ugong, Pasig City on Tuesday, May 31, 2016, at 10:00 a.m. with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on May 26, 2015
4. Report of the President and Chief Executive Officer
5. Prospect / Outlook from the Chairman
6. Approval of the 2015 Audited Financial Statements
7. Ratification of Acts of the Board and Management
8. Election of Directors for the ensuing year
9. Appointment of External Auditors
10. Other business that may properly be brought before the meeting
11. Adjournment

Minutes of the 2015 Annual Meeting of Stockholders will be available for examination during office hours at the Office of the Corporate Secretary and at the website of Meralco, www.meralco.com.ph.

The Board has fixed the close of business on **March 11, 2016** as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting. The stock and transfer books of Meralco will not be closed.

In accordance with Article I, Section 3 of the Company's Amended By-Laws, any instrument authorizing a proxy to act shall be submitted to and received at the principal office of Meralco on or before **May 2, 2016, 5:00 p.m.**, addressed to the attention of the Corporate Secretary c/o Corporate Governance and Compliance Office, Ground Floor, Lopez Bldg., Meralco Center, Ortigas Avenue, Brgy. Ugong, Pasig City. Validation of proxies is set on **May 18, 2016, 10:00 a.m.** at Lopez Building, Brgy. Ugong, Ortigas Avenue, Pasig City.

Registration will begin at 7:00 a.m. Please bring this notice, registration card with barcode and any form of identification such as driver's license, SSS ID, TIN card and passport to facilitate registration.

Pasig City, February 29, 2016

SIMEON KEN R. FERRER
Corporate Secretary



Annex "A"

**AGENDA
DETAILS AND RATIONALE**

1. **Call to Order.** The Chairman of the Board of Directors, Mr. Manuel V. Pangilinan, will call the meeting to order.
2. **Certification of Notice and Quorum.** The Corporate Secretary, Atty. Simeon Ken R. Ferrer, will certify that copies of this Notice were sent to Stockholders of record as of March 11, 2016 and will certify the number of attendees, whether in person or by proxy, for the purpose of determining the existence of quorum to validly transact business.
3. **Approval of the Minutes of the Annual Meeting of Stockholders held on May 26, 2015.** Copies of the draft Minutes are available for examination during office hours at the Office of the Corporate Secretary and at the website of Meralco, www.meralco.com.ph. Stockholders will be asked to approve the draft Minutes and acknowledge the completeness and accuracy thereof. Below is the text of the proposed resolution:

"RESOLVED, that the Stockholders of the Corporation hereby approve the Minutes of the Annual Stockholders' Meeting held on May 26, 2015."

4. **Report of the President and Chief Executive Officer** – The Report summarizes the milestones and key achievements of Meralco and provides a clear picture of how Meralco reached its goals during the past year 2015.
5. **Prospect/Outlook from the Chairman** – The Report provides the Stockholders with a view of the opportunities and challenges to be faced by Meralco and its Management's goals and strategies for the year 2016.
6. **Approval of the 2015 Audited Financial Statements** – Meralco's audited financial statements, highlights of which are explained in the President's Report and in the Information Statement, will be presented to the Stockholders for approval. Copies of the 2015 Audited Financial Statements, previously approved by the Board of Directors, were also submitted to the Securities and Exchange Commission and the Bureau of Internal Revenue. Below is the proposed resolution:

"RESOLVED, that the audited financial statements for the year ended December 31, 2015 be, as the same are hereby, approved."

7. **Ratification of Acts of the Board and Management** – Ratification of the acts of the Board of Directors and Management crucial to the successful performance of the Company in 2015 will be sought from the Stockholders. Below is the proposed resolution:

"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 26, 2015 up to the date of this meeting be as they hereby are, confirmed, ratified and approved."

8. Election of Directors for the ensuing year – Copies of the *curriculum vitae* and profiles of the candidates to the Board of Directors are provided in the Information Statement for the examination of the Stockholders. For this year, the candidates to the Board are the following:

- a) Ms. Anabelle Lim Chua
- b) Atty. Ray C. Espinosa
- c) Mr. James L. Go
- d) Mr. John L. Gokongwei, Jr.
- e) Mr. Lance Y. Gokongwei
- f) Mr. Jose Ma. K. Lim
- g) Ambassador Manuel M. Lopez
- h) Retired Chief Justice Artemio V. Panganiban
- i) Mr. Manuel V. Pangilinan
- j) Mr. Oscar S. Reyes
- k) Mr. Pedro E. Roxas

Please refer to pages 5-15 of the Information Statement for the profile of the nominees to the Board.

Stockholders will be given the opportunity to elect the directors who will serve for the term 2016-2017 by way of individual voting administered by a third party.

9. Appointment of External Auditors –Meralco's external auditors for 2016-2017, tasked with the preparation of the annual audited financial statements, will be appointed by the Stockholders. This is upon favorable recommendation by the Audit Committee. Below is the text of the proposed resolution:

"RESOLVED, that SGV & Company, Certified Public Accountants, be, as they hereby are, re-appointed as external auditors of the Company for the year 2016-2017."

Please refer to pages 28-29 of the Information Statement for the profile of SGV & Company.

10. Other business that may properly be brought before the meeting – Stockholders may be requested to consider such other issues/matters as may be raised throughout the course of the meeting.

11. Adjournment – After all business has been considered and resolved, the Chairman shall declare the meeting adjourned.

WE ARE NOT SOLICITING YOUR PROXY

Stockholders who will not, are unable or do not expect to attend the meeting in person but would like to be represented thereat may choose to execute and send a proxy form to the Office of the Corporate Secretary on or before 5:00 p.m., May 2, 2016. A sample proxy form is provided below. Other forms are available at MERALCO's website www.meralco.com.ph

PROXY

The undersigned stockholder of MANILA ELECTRIC COMPANY (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as attorney-in-fact and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on May 31, 2016 and at any of the adjournments thereof for the purpose of acting on the following matters:

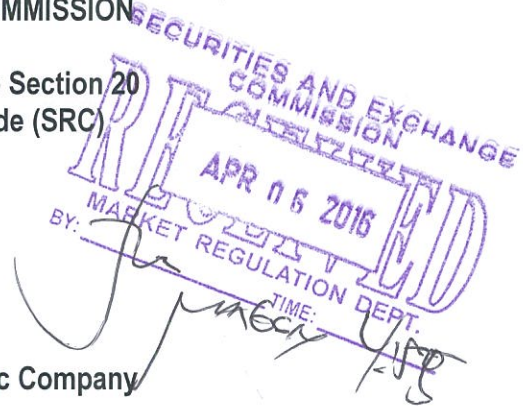
1. Approval of the Minutes of the Annual Meeting of Stockholders held on May 26, 2015
☐Yes ☐No ☐Abstain
2. Approval of 2015 Audited Financial Statements
☐Yes ☐No ☐Abstain
3. Ratification of Acts of the Board and Management
☐Yes ☐No ☐Abstain
4. Election of Directors for the ensuing year
 - 4.1 Ms. Anabelle L. Chua ☐Yes ☐No ☐Abstain
 - 4.2 Atty. Ray C. Espinosa ☐Yes ☐No ☐Abstain
 - 4.3 Mr. James L. Go ☐Yes ☐No ☐Abstain
 - 4.4 Mr. John L. Gokongwei, Jr. ☐Yes ☐No ☐Abstain
 - 4.5 Mr. Lance Y. Gokongwei ☐Yes ☐No ☐Abstain
 - 4.6 Mr. Jose Ma. K. Lim ☐Yes ☐No ☐Abstain
 - 4.7 Ambassador Manuel M. Lopez ☐Yes ☐No ☐Abstain
 - 4.8 Retired Chief Justice Artemio V. Panganiban ☐Yes ☐No ☐Abstain
 - 4.9 Mr. Manuel V. Pangilinan ☐Yes ☐No ☐Abstain
 - 4.10 Mr. Oscar S. Reyes ☐Yes ☐No ☐Abstain
 - 4.11 Mr. Pedro E. Roxas ☐Yes ☐No ☐Abstain
5. Appointment of External Auditors
☐Yes ☐No ☐Abstain

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

DATE

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
Information Statement Pursuant to Section 20
of the Securities Regulation Code (SRC)



1. Check the appropriate box:

- () Preliminary Information Statement
(✓) **Definitive Information Statement**

2. Name of Registrant as specified in its charter: **Manila Electric Company**
3. Country of Incorporation: **Philippines**
4. SEC Identification Number: **PW-102**
5. BIR Tax Identification Number: **000-101-528-000**
6. Address of principal office: **Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City 1605**
7. Telephone Numbers: **(632) 633-4553**
8. Date, time and place of meeting of security holders:

Date : May 31, 2016

Time : 10:00 a.m.

Place : Meralco Theatre, Lopez Building, Ortigas Avenue, Pasig City

9. Approximate Date on which the Information Statement is first to be sent or given to security holders:
April 20, 2016
10. Securities registered pursuant to Sections 8 and 12 of the SRC:

**Number of Shares Outstanding
(Par Value at P10.00 per share)**

a. Common Stock - **1,127,098,705**

b. Debt Securities - **PhP18.5 Billion Bonds**

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

Yes ☒ No ☐

If so, disclose the name of the Exchange: **Philippine Stock Exchange**

INFORMATION REQUIRED IN INFORMATION STATEMENT

Date, Time and Place of Meeting of Security Holders

- Date : Tuesday, May 31, 2016
- Time : 10:00 a.m.
- Place : Meralco Theatre, Lopez Building,
Ortigas Avenue, Brgy. Ugong, Pasig City

Principal Office: Lopez Building, Ortigas Avenue,
Brgy. Ugong, Pasig City

The approximate date on which copies of the Information Statement are first to be sent or given to stockholders is April 20, 2016.

Dissenter's Right of Appraisal

A stockholder may exercise the right of appraisal (i.e. the right to dissent and demand payment of the fair value of his shares) in the instances provided under the Corporation Code of the Philippines, as follows: 1) 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 respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; 2) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; 3) in case of merger or consolidation; and 4) investment of corporate funds in another corporation or business. (Sections 81 and 42 of the Corporation Code)

Manila Electric Company or *MERALCO* adopts the procedure laid down in Section 82, Title X, of the Corporation Code for a valid exercise of appraisal right.

No corporate actions, however, will be taken up during the meeting involving any of the foregoing instances in which a stockholder may exercise the right of appraisal.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) No current director or officer, or nominee for election as director or any of his associate, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

(b) No director has informed the Company that he intends to oppose any action to be taken at the annual stockholders' meeting.

Voting Securities and Principal Holders Thereof

As of March 11, 2016 the total outstanding shares/voting shares is 1,127,098,705 common shares, of which 3.99% or 45,023,919 shares are owned by foreign stockholders. Each share is entitled to one (1) vote. Voting rights are vested exclusively on common.

All stockholders of record as of March 11, 2016 are entitled to receive a notice of the meeting.

**THE COMPANY IS NOT SOLICITING PROXIES FOR THE
ANNUAL STOCKHOLDERS' MEETING.**

Cumulative Voting for Directors - At all elections of Directors, each stockholder may vote the shares registered in his name in person or by proxy for as many persons as there are Directors, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected.

Security Ownership of Certain Record and Beneficial Owners

Based on *MERALCO's* stock and transfer book, the security ownership as of March 11, 2016 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	394,059,235	34.96%
Common	JG Summit Holdings, Inc. 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City No relationship with Issuer	Same as the record owner	Filipino	305,689,397	27.12%
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	169,064,807	15.00%
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	168,796,331	14.97%

Beacon Electric Asset Holdings, Inc. (Beacon Electric) is a special purpose company jointly owned by PLDT Communications and Energy Ventures, Inc. (PCEV), and Metro Pacific Investments Corporation (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. (JGS) 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, JGS has business interests in other sectors, including power generation and insurance. The Company conducts its businesses throughout the Philippines, but primarily in and around Metro Manila and in the regions of Visayas and Mindanao. JGS, 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 JGS, or any other representative designated by the President of JGS, is duly authorized as proxy to vote its *MERALCO* shares as he may deem proper or beneficial to JGS.

Metro Pacific Investments Corporation was founded in 1986, an investment holding company, is engaged in water utilities, toll roads, electricity distribution, and healthcare service businesses in the Philippines. It 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.

PCD Nominee Corporation is a wholly-owned subsidiary of the Philippine Depository and Trust Corporation (PDTC). Originally, stock certificates were issued to investors every time they acquired shares of the Company. However, with the Philippine Central Depository's (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. (STSI). Only certificated shares are recorded in *MERALCO*'s books, which may be voted by the registered owners or their proxies.

Security Ownership of Management

As of March 11, 2016, the securities owned beneficially, directly or indirectly, by directors 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%
Common	Angelito D. Bermudo	- (Direct)	Filipino	0.00%
Common	Ramon B. Segismundo	6,500 (Direct)	Filipino	0.00%
Common	Betty C. Siy-Yap	- (Direct)	Filipino	0.00%
Common	Aaron A. Domingo	- (Direct)	Filipino	0.00%
Common	Rafael L. Andrada	20,000 (Direct)	Filipino	0.00%
Common	Ruben B. Benosa	22,992 (Direct)	Filipino	0.00%
Common	Helen T. De Guzman	26,093 (Direct)	Filipino	0.00%
Common	Ivanna G. Dela Peña	21,000 (Direct)	Filipino	0.00%
Common	William S. Pamintuan	- (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	- (Direct)	Filipino	0.00%
Common	Ferdinand C. Alejandro	8,952 (Direct)	Filipino	0.00%
Common	Bennette D. Bachoco	- (Direct)	Filipino	0.00%
Common	Joseph Allan C. Baltazar	- (Direct)	Filipino	0.00%
Common	Rolando M. Cagamp	- (Direct)	Filipino	0.00%
Common	Edgardo V. Carasig	- (Direct)	Filipino	0.00%
Common	Bernard H. Castro	463 (Direct)	Filipino	0.00%
Common	Marthyn S. Cuan	- (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	Ferdinand O. Geluz	13,877 (Direct)	Filipino	0.00%
Common	Victor Emmanuel S. Genuino	- (Direct)	Filipino	0.00%
Common	Nixon G. Hao	2,791 (Direct)	Filipino	0.00%
Common	Ernie G. Imperial	460 (Direct)	Filipino	0.00%
Common	Dexter C. Lee	- (Direct)	Filipino	0.00%
Common	Fortunato C. Leynes	6,000 (Direct)	Filipino	0.00%
Common	Jose Mari P. Melendres	- (Direct)	Filipino	0.00%
Common	Raymond B. Ravelo	- (Direct)	Filipino	0.00%
Common	Jose Rainier A. Reyes	- (Direct)	Filipino	0.00%
Common	Nestor P. Sarmiento	323 (Direct)	Filipino	0.00%
Common	Liza Rose G. Serrano-Diangson	34,983 (Direct)	Filipino	0.00%
Common	Manuel Lorenzo L. Tuason	22,180 (Direct)	Filipino	0.00%
Common	Jose Ronald V. Valles	- (Direct)	Filipino	0.00%
Common	Jose Antonio T. Valdez	- (Direct)	Filipino	0.00%

As of March 11, 2016, the securities owned beneficially by the nominees for election to the Board of Directors 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	Artemio V. Panganiban	1 (Direct)	Filipino	0.00%
Common	Pedro E. Roxas	1,000 (Direct)	Filipino	0.00%
Common	Anabelle L. Chua	60 (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 11, 2016 is 2,832,467 shares or 0.25% of *MERALCO*'s total outstanding shares.

Voting Trust Holders

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

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.

Directors and Executive Officers

As of March 11, 2016, the names of the incumbent Directors, nominees for election as 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

Filipino, 69 years old

Chairman of the Board of Directors

Chairman of the Executive Committee

Chairman, Remuneration and Leadership Development Committee

Director of Manila Electric Company 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 Boards of Listed Companies:

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

Membership in Boards 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 Hospital
- 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 Corporation, Manila North Tollways Corporation and Meralco PowerGen Corporation.
- 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

Filipino, 49 years old

Vice-Chairman of the Board of Directors

Member, Executive Committee

Member, Nomination and Governance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Remuneration and Leadership Development Committee
Director of Manila Electric Company 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 Boards of Listed Companies:

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

Membership in Boards of Non-listed Companies:

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

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 Corporation., Cebu Air, Inc. and JG Summit Petrochemicals Corporation;
- Vice-Chairman and Chief Executive Officer of Robinsons Land Corporation.
- Vice-Chairman of Robinsons Retail Holdings, Inc.;
- Chairman of Robinsons Bank Corp.;
- Trustee, Ateneo de Manila University

JOHN L. GOKONGWEI JR.

Filipino, 89 years old
Member, Executive Committee
Member, Finance Committee
Director of Manila Electric Company since March 31, 2014

Education and Training:

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

Membership in Boards 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 Boards of Non-listed Companies:

- Gokongwei Brothers Foundation, Inc.
- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Robinsons Bank Corp.
- United Industrial Corporation 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
- Deputy Chairman and Director for United Industrial Corporation Limited
- Chairman and Chief Executive Officer for Robinsons Retail Holdings, Inc.

OSCAR S. REYES

Filipino, 69 years old

President and Chief Executive Officer

Director of Manila Electric Co 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 Boards of Listed Companies:

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

Membership in Boards of Non-listed Companies:

- Meralco PowerGen Corporation
- Redondo Peninsula Energy Inc.
- Meralco Industrial Engineering Services Corporation.
- Meralco Energy, Inc.
- CIS Bayad Center, Inc.
- PacificLight Power Pte Ltd.
- Eramen Minerals Inc.
- Republic Surety & 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
- Asian Eye Institute

RAY C. ESPINOSA

Filipino, 59 years old

Chairman, Finance Committee

Member, Nomination and Governance Committee

Director of Manila Electric Company 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 Boards of Publicly Listed Companies:

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

Membership in Boards 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.
- TV5 Network Inc.
- Business World Publishing Corp.
- Digitel Crossing, 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

Filipino, 76 years old

Member, Audit Committee

Member, Risk Management Committee

Member, Finance Committee

Member, Nomination and Governance Committee

Director of Manila Electric Company 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 Boards of Listed Companies:

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

Membership in Boards of Non-listed Companies:

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

Positions and Memberships in Other Organizations and Corporations:

- Chairman and Chief Executive Officer of JG Summit Holdings, Inc. and Oriental Petroleum and Minerals Corporation.

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

JOSE MA. K. LIM

Filipino, 63 years old

Member, Audit Committee

Member, Risk Management Committee

Member, Remuneration and Leadership Development Committee

Member, Nomination and Governance Committee

Director of Manila Electric Company 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 Boards of Non-listed Companies:

- Beacon Electric Asset Holdings
- Indra Philippines, Inc.
- 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
- Pacific Global Aviation Inc.
- Neo Oracle Holdings Inc.
- Metro Pacific Hospital Holdings Inc.
- Light Rail Manila Consortium
- AIF Tollroads Holdings
- MetroPac Water Investments Corp.

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 College, Riverside College, Philippine Disaster Recovery Foundation, and IdeaSpace Foundation, Inc.
- Founding Member and Treasurer of the Shareholders Association of the Philippines

MANUEL M. LOPEZ

Filipino, 73 years old

Member, Finance Committee

Director for Manila Electric Company 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 Boards of Listed Companies:

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

Membership in Boards of Non-listed Companies:

- 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., 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

Filipino, 66 years old

Member, Executive Committee

Member, Nomination and Governance Committee

Director of Manila Electric Company 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 Boards of Listed Companies:

- Philippine Long Distance Telephone Company

Membership in Boards 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 TV Inc.

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 Foundation, Inc. and Philippine Disaster Recovery Foundation
- Member, Analitika, DLSU-Graduate School of Business Council of Advisors, Management Association of the Philippines, BBC-Livelihood Foundation Inc., Pacific Basin Economic Council
- Partner Member, Philippine Business for Social Progress

ARTEMIO V. PANGANIBAN

Filipino, 79 years old

Independent Director

Chairman, Audit Committee

Chairman, Risk Management Committee

Member, Executive Committee

Independent Director of Manila Electric Company 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 Boards 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

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

Filipino, 59 years old

Independent Director

Chairman, Nomination and Governance Committee

Member, Finance Committee

Member, Audit Committee

Member, Risk Management Committee

Member, Remuneration and Leadership Development Committee

Independent Director of Manila Electric Company since May 25, 2010

Education and Training:

- BS Business Administration, University of Notre Dame Indiana, USA

Membership in Boards of Listed Companies:

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

Membership in Boards 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

Nominees for Election to the Board of Directors

With the exception of Napoleon L. Nazareno, all of the above incumbent directors have been nominated for re-election at the annual stockholders' meeting. In addition, Ms. Anabelle L. Chua has been nominated as a regular director.

Below is the qualification of Ms. Chua:

ANABELLE L. CHUA

Filipino, 55 years old

Member, Finance Committee

Member, Audit Committee

Member, Risk Management Committee

Education and Training:

- BS Business Administration and Accountancy, University of the Philippines

Membership in Boards of Listed Companies:

- Philippine Stock Exchange Inc.

Membership in Boards of Non-Listed Companies:

- PLDT Communications and Energy Ventures, Inc.
- Digital Telecommunications Phils Inc.
- ePLDT, Inc.
- Infocom Technologies, Inc.
- Vocativ Systems, Inc.
- Parlance Systems, Inc.
- iPlus Intelligent Network, Inc.
- Securities Clearing Corporation of the Philippines
- mySecureSign, Inc.
- Sidera Technologies, Inc.
- Mind Stream, Inc.
- Filcredit Finance and Capital Development Corporation

Positions and Memberships in Other Organizations and Companies

- Chief Financial Officer, Senior Vice President of Corporate Finance and Treasury and Treasurer at Philippine Long Distance Telephone Company
- Chief Financial Officer and Treasurer of Smart Communications, Inc.
- Member, Board of Trustees, PLDT Beneficial Trust Fund, PLDT Foundation, Inc.

Executive Officers

SIMEON KEN R. FERRER, 59, Filipino

Corporate Secretary (since May 26, 2009)

Atty. Ferrer is a Senior Partner and the Head of the Corporate Services Department at SyCip Salazar Hernandez & Gatmaitan. He is also the Chairman of the law firm's Hiring Committee. He is Corporate Secretary of Commonwealth Foods, Inc. and Century Peak Metal Holdings Corp., both public companies, and a Director of several Philippine corporations. 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, 55, 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 28 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., MIESCOR Logistics, Inc., General Electric Philippines Meter and Instrument Co., Inc., Clark Electric Distribution Corporation and Bauang 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, 53, Filipino

Senior Vice President (since September 2010) and 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., MRAIL, Inc. (formerly Miescorrail, Inc.), General Electric Philippines Meter and Instrument Co., Inc., Indra Philippines, Inc., Comstech Integration Alliance, 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.; Vice President of Samahang Basketbol ng Pilipinas (SBP); Treasurer of National Golf Association of the Philippines; Governor for Management Association of the Philippines (MAP) and PBA Governor for the Meralco Bolts. He was formerly a Director of PLDT Global Corporation. Mr. Panlilio holds a Bachelor of Science degree in Business Administration (Computer Information Systems) from the California State University – San Francisco State University and obtained his Masters in Business Administration at J. L. Kellogg School of Management of Northwestern University and The Hong Kong University of Science and Technology.

ANGELITO D. BERMUDO, 56, Filipino**Senior Vice President (since January 2013)**

Mr. Bermudo is the President and Chief Executive Officer of MIESCOR United: MIESCOR, Miescor Builders Inc. and Miescor Logistics Inc.. He was the former President and Chief Executive Officer of AG&P Company of Manila. He also worked with Linde Arabian Contractors, in various key top management roles, in Marketing and Business Development, as a Senior Contracts Manager and then, as Deputy General Manager of Linde's Middle East operations. He is a licensed mechanical engineer. In 2011, he received the Outstanding Alumnus Award for Mechanical Engineering, from the University of the Philippines, College of Engineering. He holds a Master's degree in Business Management from the Asian Institute of Management.

RAMON B. SEGISMUNDO, 58, Filipino**Senior Vice President (since February 2010) and Head, Human Resources and Corporate Services**

Mr. Segismundo is the President and Trustee of Meralco Power Academy and the Chairman of Customer Frontline Solutions, Inc. He is a Board Trustee of One Meralco Foundation, Inc., Meralco Pension Fund, Loyola Meralco Sparks FC and the UP Engineering Research and Development Foundation, Inc. He is a member of the Board of Directors of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Inc., MRAIL, Inc. and General Electric Philippines Meter 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. Mr. Segismundo holds a Bachelor of Science degree in Industrial Engineering and completed his Master in Business Administration, both at the University of the Philippines. He is currently taking up his PhD in Business (General Management) at the Singapore Management University (SMU).

BETTY C. SIY-YAP, 54, 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, MRail, Inc., Meralco Financial Services Corporation, Calamba Aero Power Corporation, Redondo Peninsula Energy, Inc., Atimonan ONE Energy Inc., 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 of the 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 & Co. (a Member of Firm of Ernst & Young Global) from 1995 to 2009. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Masters in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

AARON A. DOMINGO, 52, FILIPINO**Senior Vice President (since May 2015) and Executive Vice President and Chief Operating Officer, MERALCO PowerGen Corp.**

Mr. Domingo is a Director of MERALCO PowerGen Corporation; MPG Mauban LP Corporation (San Buenaventura Power Ltd. Co.); Atimonan One Energy, Inc.; Redondo Peninsula Energy Inc.;

PacificLight Power Pte. Ltd.; and FPM Power Holdings Limited. Prior to helping establish MERALCO PowerGen Corporation in 2010, he served in various executive positions leading the development and investment of wind, gas, coal, and liquid fueled power plants in the North America, Europe, and Asia. He holds a Master of Business Administration from the University of Chicago Graduate School of Business and a Bachelor of Science in Business Administration from Syracuse University.

RAFAEL L. ANDRADA, 56, Filipino

First Vice President (since January 2005) and 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, Lighthouse Overseas Insurance Company Limited and Comstech Integration Alliance, Inc.. 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 is the Treasurer of MERALCO since May 1998 and was formerly a Director of Rockwell Land Corporation and Rockwell Leisure Club, Inc. He is a member of the Financial Executive Institute of the Philippines (FINEX). He holds a Bachelor of Science in Management from the De La Salle University.

RUBEN B. BENOSA, 59, Filipino

First Vice President (since January 2010) and Head, Corporate Logistics Office

Mr. Benosa is also the Chairman of Meralco Financial Services Corporation. He serves as Director of Radius Telecoms, Inc., and MRail, Inc. He was the former Chairman of Customer Frontline Solutions, Inc.; and was formerly a Director of e-Meralco Ventures, Inc., MIESCOR Builders, Inc., and Meralco Energy, Inc. Mr. Benosa holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and completed his Masters in Management at the Asian Institute of Management.

HELEN T. DE GUZMAN, 58, Filipino

First Vice President (since January 2010) and 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 currently the President of the ASIAN Confederation of Institutes of Internal Auditors (ACIIA) and was also the Deputy President, Honorary Secretary and Honorary Treasurer of the same in 2014/2015, 2012/2014, and 2007/2008, respectively. Ms. De Guzman obtained her Bachelor's degree in Commerce major in Accounting from the University of Santo Tomas and her Executive MBA degree from the Asian Institute of Management.

IVANNA G. DELA PEÑA, 61, Filipino

First Vice President (since January 2010) and Head, Regulatory Management Office

Ms. Dela Peña is a Director of Radius Telecoms, Inc., Clark Electric Distribution Corporation and Medical Ambassadors, Philippines. She also served as Director of Share an Opportunity from 2009 to 2014. She holds a Bachelor of Science degree in Statistics and a Master's degree in Business Administration from the University of the Philippines.

WILLIAM S. PAMINTUAN, 54, 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., Kalilayan Power, Inc., MPG Holdings Phils., Inc., MPG Mauban LP Corporation, Redondo Peninsula Energy, Inc., MRAIL, Inc., Meralco Industrial Engineering Services Corporation and First Pacific Leadership Academy, Inc. He was a former Director of MRAIL, Inc.; former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc.; and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

RONNIE L. APEROCHO, 47, Filipino

First Vice President (since January 2015) and Head, Networks

Mr. Aperochó is a member of the Board of Directors of General Electric Philippines Meter and Instrument Co., Inc., MRAIL, Inc., MIESCOR Builders Inc., MIESCOR Logistics Inc. and Meralco Energy Inc.. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and was the topnotcher (Rank No. 1) in the October 1991 Electrical Engineering Board Exams. He holds a Master's Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/ The Hong Kong University of Science and Technology.

ANTONIO M. ABUEL, JR., 47, Filipino

Vice President (since January 2014) and Head, Central Distribution Services

He has been with the company for 25 years. Mr. Abuel used to be the Vice-Chairman and Trustee of the Meralco Savings and Loan Association (MESALA). He also previously served as Chairman, President and Trustee of Meralco Employees Mutual Aid and Benefits Association, Inc. (MEMABA).

IRENEO D. ACUNA, 49, Filipino

Vice President (since January 2013) and Head, Electric Distribution and Development Office

Mr. Acuna leads MERALCO's efforts in bringing its strength in electricity distribution into other areas in the Philippines and abroad. Currently, he is in charge of MERALCO's management of the electric service operations of Cavite Ecozone through a concession contract, Pampanga Electric Cooperative II through an Investment and Management Contract, the Ibadan Electric Distribution Company in Nigeria through a Technical Services Agreement, and various allied services. Mr. Acuña is a Director of Meridian Atlantic Light Company, Ltd, MIESCOR Builders, Inc., Comstech Integration Alliance Inc., Fieldtech Solutions, Inc., and Pure Meridian Hydropower Corporation. He graduated with a Bachelor of Science in Electrical Engineering degree (Top 5) from Far Eastern University – Institute of Engineering and an MBA from the Asian Institute of Management (graduated with distinction).

FERDINAND C. ALEJANDRO, 50, Filipino

Vice President (since January 2015) and Head, HMB – North Business Area

Mr. Alejandro was assigned as Head of HMB South Business Area, Manager in Dasmarinas, Commonwealth and Sta. Maria Business Centers. He was also assigned as Head of Service Quality Assurance. He holds a Bachelor's Degree in Electrical Engineering at Far Eastern University.

ANGELITA S. ATANACIO, 57, Filipino

Vice President (since June 2008) and Head, Management Services & Sr. HR Business Partner for CRS and SIO

Ms. Atanacio is a Director of Meralco Financial Services Corporation. She previously served as Director of MRAIL, Inc. She holds a degree in Bachelor of Science in Industrial Engineering from the University of the Philippines, diploma course in Organization Development from the Ateneo de Manila University, Executive MBA degree from the Asian Institute of Management, Executive MBA degree from the Asian Institute of Management and Master's in Business Administration 761 Developing New Enterprises from Universitas 21 Global.

BENNETTE D. BACHOCO, 47, Filipino

Vice President (since July 2011) and Head, Financial Planning and Reporting

Ms. Bachoco is a Director of MIESCOR Builders, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc. and Meralco Financial Services Corporation. She is the Treasurer of MRAIL, Inc. and Meralco Industrial Engineering Services Corporation. She is also an agent of Meralco Pension Fund. Prior to joining MERALCO, she was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) and was a former Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation. Ms. Bachoco holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Masters in Business Management at the Asian Institute of Management.

JOSEPH ALLAN C. BALTAZAR, 49, Filipino

Vice President (since January 2016) and Head, Network Technology Strategy and Execution

Mr. Baltazar is a Trustee of Meralco Employees Fund for Charity, Inc. He was a former Director and Corporate Secretary of the Grid Management Committee and was a member of the WESM Technical Committee under the Philippine Electricity Market Corporation. Mr. Baltazar is a Registered Electrical Engineer, a graduate of Bachelor of Science in Electrical Engineering at Mapua Institute of Technology.

ROLANDO M. CAGAMPAN, 60, Filipino

Vice President (since January 2015) and Head, Energy Management

Mr. Cagampan was a former Director of MRAIL, 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). He is at present a Trustee (since May 2015) of Meralco Savings and Loan Association. He holds a Bachelor of Science in Electrical Engineering degree from the Mapua Institute of Technology.

EDGARDO V. CARASIG, 50, Filipino

Vice President (since January 2013) and Head, HR Operations

Mr. Carasig is a Director of MIESCOR Builders, Inc., MIESCOR Logistics, Inc. and Customer Frontline Solutions, Inc. He holds a Bachelor of Science in Industrial Management Engineering degree from the De La Salle University.

BERNARD H. CASTRO, 51, FILIPINO

Vice President (since January 2016) and Head, South Distribution Services

Mr. Castro is a licensed electrical engineer. He was the former Central Distribution Services Head and now as South Distribution Head. He has been with the company for 26 years.

MARTHYN S. CUAN, 36, Filipino**Vice President (since January 2011) and Chief Information Officer**

Mr. Cuan is a Director of Radius Telecoms, Inc. and Indra Philippines, Inc. He serves in the advisory committee of AF Payments, Inc. and the Information Technology Management Service Advisory Council of the Philippine National Police. He is a founding trustee of the Philippine Internet of Everything Consortium (PIoEC). He is also a member of Intel's Enterprise Board of Advisors and the Oracle President's Circle. Mr. Cuan is the Vice-President and Co-Founder of IdeaSpace Foundation. Mr. Cuan is currently taking his executive MBA from Kellogg HKUST. He graduated in 2001 from Ateneo de Manila University with a Bachelor of Science degree in Management Information System and Minor in Chinese Studies.

BENJAMIN U. CUSI, 53, Filipino**Vice President (since January 2015) and Network Asset Management**

Mr. Cusi is a Trustee of Meralco Employees Fund for Charity. He was a former President and Director of Meralco Employees Mutual Aid and Benefits Association. He graduated with Bachelor's Degree in Electrical Engineering from the Mapua Institute of Technology.

LAWRENCE S. FERNANDEZ, 47, Filipino**Vice President (since January 2015) and Head, Utility Economics**

Mr. Fernandez received a Bachelor's Degree in Mechanical Engineering from University of the Philippines and 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).

FERDINAND O. GELUZ, 51 Filipino**Vice President (since January 2013) and Head, HMB – Central Business Area**

Mr. Geluz previously served as a Director of Meralco Energy, Inc. He holds a Bachelor of Science in Electrical Engineering degree from the University of the Philippines.

VICTOR EMMANUEL S. GENUINO, 44, Filipino**Vice President (since January 2011) and Head, Corporate Business Group**

Mr. Genuino is a Director of Customer Frontline Solutions, Inc., MIESCOR Logistics, Inc., MIESCOR Builders, Inc. and a Trustee of the Loyola Meralco Sparks Football Club. He was formerly the General Manager, Hong Kong of PLDT Global Corp. Mr. Genuino holds a Bachelor of Arts in Interdisciplinary Studies from the Ateneo de Manila University and a Masters in Business Administration from the J.L. Kellogg School of Management, Northwestern University and The Hong Kong University of Science and Technology.

NIXON G. HAO, 57, Filipino**Vice President (since June 2008) and Head, Engineering Design**

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. He holds a Bachelor of Science in Electrical Engineering degree from the University of the Philippines Diliman. He took the GE Power System Engineering Course in Schenectady, New York and finished his eMBA at the Asian Institute of Management.

ERNIE G. IMPERIAL, 47, Filipino

Vice President (since January 2014) and 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, 42, 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. He graduated magna cum laude with a degree of Business Administration from the University of the Philippines. He has a master's degree in Business Administration from the Wharton School of Business, University of Pennsylvania.

FORTUNATO C. LEYNES, 58, Filipino

Vice President (since January 2006)

Mr. Leynes is currently a Sr. Vice President and Head of Operations of Clark Electric Distribution Corporation. In September 2013, he 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. Mr. Leynes holds a Bachelor of Science in Electrical Engineering from the University of Santo Tomas and a Masters in Business Administration from the Asian Institute of Management.

JOSE MARI P. MELENDRES, 55, FILIPINO

Vice President (since January 2016) and Head, Sub-Transmission Services

Mr. Melendres is a Board of Trustee of Meralco Employees Fund for Charity. Mr. Melendres holds a Bachelor of Science in Electrical Engineering from the Mapua Institute of Technology and a Masters of Science in Electrical Engineering from the University of the Philippines Diliman.

RAYMOND B. RAVELO, 38, Filipino

Vice President (since May 2011) and Head, Strategy and Business Development Office

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

JOSE RAINIER A. REYES, 47, Filipino

Vice President (since January 2013) and Head, HMB South Business Area

Mr. Reyes was formerly the Head of Sales of Globe Telecom. He holds a Bachelor of Science in Commerce, Major in Accounting degree from the University of Santo Tomas and a Masters of Business Administration and Masters in Management Program at the Asian Institute of Management.

NESTOR P. SARMIENTO, 57, Filipino
Vice President (since January 2012)

Mr. Sarmiento is currently seconded to COMSTECH Integration Alliance, Inc. (COMSTECH) as Chief Operating Officer and concurrent Chief Management Advisor for Pampanga II Electric Cooperative, Inc. (PELCO II). Meralco is a Technical Partner of COMSTECH in an Investment Management Contract (IMC) 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. Mr. Sarmiento received his Bachelor of Science in Electrical Engineering from the University of the Philippines-Diliman and completed his Master's degree in Business Administration at the Singapore Management University in Singapore.

LIZA ROSE G. SERRANO-DIANGSON, 56, Filipino
Vice President (since January 2010) and Head, Customer Process

Ms. Serrano-Diangson holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines and a Master in Management from Asian Institute of Management.

MANUEL LORENZO L. TUASON, 53, 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. He also serves as Board Chairman of FieldTech Specialist Inc., a spot-billing Company servicing Electric Cooperatives and Water Utilities nationwide. Mr. Tuason holds a Bachelor of Science degree in Business and a Master of Business Administration from the University of the Philippines-Diliman. He also took a Professional Directors Program at the Institute of Corporate Directors.

JOSE ANTONIO T. VALDEZ, 51, Filipino
Vice President (since January 2011) and 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. Mr. Valdez obtained his Bachelor's degree in Management from the Ateneo de Manila University and his master's degree in Business Management from the Asian Institute of Management.

JOSE RONALD V. VALLES, 45, Filipino
Vice President (since January 2015) and Head, Regulatory Affairs Office

Atty. Valles is the Meralco Regulatory Compliance Officer for Energy Regulatory Commission (ERC) and the WESM Compliance Officer for Philippine Electricity Market Corporation (PEMC). He was also a former Professor of Law for more than 10 years.

Term of Office

The Directors are elected at the annual meeting of stockholders for a term of one year, until their successors are duly elected and qualified.

Nominees

The members of the Board of Directors of *MERALCO* are elected from a Final List of Candidates qualified by its Nomination and Governance Committee. The Final List of Candidates is determined after pre-screening and evaluation of qualifications of the nominees nominated by stockholders of record. The Nomination and Governance Committee is composed of Pedro E. Roxas, as Chairman, and Lance Y. Gokongwei, Napoleon L. Nazareno, Jose Ma. K. Lim and James L. Go as members. The candidates for directors for the ensuing calendar year are:

1. Anabelle L. Chua
2. Ray C. Espinosa
3. James L. Go
4. John L. Gokongwei, Jr.
5. Lance Y. Gokongwei
6. Jose Ma. K. Lim
7. Manuel M. Lopez
8. Artemio V. Panganiban
9. Manuel V. Pangilinan
10. Oscar S. Reyes
11. Pedro E. Roxas

Below is a summary of relevant information regarding the nominees for independent directors:

Name of Nominee	Nominated By	Relationship	Date of First Appointment
Artemio V. Panganiban	Mark Dennis Y.C. Joven	None	May 27, 2008
Pedro E. Roxas	Mark Dennis Y.C. Joven	None	May 25, 2010

MERALCO has adopted the provisions of Rule 38 of the SRC on nominations and election of independent directors. (Article II, Section 2 of the Amended By-Laws, as approved by the SEC on June 14, 2005)

Attendance of Directors in Board and Committee Meetings

Below is the record of attendance of the directors in 2015:

2015 AGM and Board Meeting Attendance				
Director	Designation	May 26, 2015		Board Meetings
		Annual General Meeting	Organizational Meeting	
Manuel V. Pangilinan ¹	Chairman	Present	Present	12/12
Lance Y. Gokongwei	Director	Present	Present	12/12
Manuel M. Lopez	Director	Present	Present	12/12
Jose Ma. K. Lim	Director	Present	Present	10/12
Ray C. Espinosa ²	Director	Present	Present	12/12
James L. Go	Director	Present	Present	11/12
Artemio V. Panganiban ³	Independent Director	Present	Present	12/12
John L. Gokongwei Jr.	Director	Present	Absent	12/12

Napoleon L. Nazareno	Director	Present	Present	11/12
Oscar S. Reyes	Director	Present	Present	12/12
Pedro E. Roxas ⁴	Independent Director	Present	Present	11/12
¹ <i>Chairman, Executive Committee and Remuneration and Leadership Development Committee</i> ² <i>Chairman, Finance Committee</i> ³ <i>Chairman, Audit Committee and Risk Management Committee</i> ⁴ <i>Chairman, Nomination and Governance Committee</i>				

2015 Board Committee Meeting Attendance						
Member	Executive	Nomination and Governance	Audit	Risk Management	Remuneration and Leadership Development	Finance
Manuel M. Lopez	1/1	N/A	N/A	N/A	N/A	11/11
James L. Go	N/A	3/4	4/8	0/1	N/A	10/11
Manuel V. Pangilinan	1/1	N/A	N/A	N/A	4/4	N/A
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	11/11
Lance Y. Gokongwei	1/1	3/4	7/8	1/1	3/4	N/A
Jose Ma. K. Lim	N/A	3/4	5/8	1/1	N/A	N/A
Artemio V. Panganiban ¹	1/1	N/A	8/8	1/1	N/A	N/A
Napoleon L. Nazareno	1/1	4/4	N/A	N/A	4/4	N/A
John L. Gokongwei Jr.	1/1	N/A	N/A	N/A	N/A	11/11
Oscar S. Reyes	N/A	N/A	N/A	N/A	N/A	N/A
Pedro E. Roxas ¹	N/A	4/4	7/8	1/1	4/4	10/11
Anabelle L. Chua ²	N/A	N/A	7/8	1/1	N/A	10/11
¹ Independent Director ² Non-Voting Member						

Significant Employees

The employees are the most valued assets of *MERALCO* and contribute to the attainment of its goals.

Family Relationships

Mr. John L. Gokongwei, Jr., is the brother of Mr. James L. Go and the father of Mr. Lance Y. Gokongwei, also Directors of *Meralco*.

Other than the above, there are no family relationships up to the fourth civil degree, either by consanguinity or affinity, among directors, executive officers, or nominees.

Involvement in Certain Legal Proceedings

No director, nominee for election as director, or executive officer of the Company has been involved in or the subject of, during the past five (5) years up to the latest date, any of the following events that is material to an evaluation of his ability or integrity to serve *MERALCO*: (a) bankruptcy petition; (b) conviction by final judgment in a criminal proceeding; (c) order, judgment, or decree barring, suspending, or limiting involvement in any type of business, securities, commodities, or banking activities; (d) judgment for violation of a securities or commodities law or regulation.

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 2015 and for each of the three years in the period ended December 31, 2015, 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.

Resignation of Directors

To date, no director has resigned or declined to stand for re-election for the Board due to any disagreement with the Company relative to the Company's operations, policies and practices.

Compensation of Directors and Officers

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 (in Millions of Pesos)	PERFORMANCE-BASED PAY ² (in Millions of Pesos)
Chief Executive Officer and 4 most highly compensated executive officers	Projected 2016 ⁴	155	307
	2015 ³	144	58
	2014	133	52
All other key officers, other officers and directors as a group (excluding the CEO and four most highly compensated executive officers)	Projected 2016 ⁴	270	475
	2015	239	84
	2014	208	78

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.

⁴Includes payout of Long-Term Incentive Plan for the period 2013-2015. As stated in MERALCO'S notes on its Consolidated Financial Statement: "MERALCO's LTIP covers qualified executives and is based on MERALCO Group's achievement of specified level of CCNI as approved by the BOD and determined on an aggregate basis for a three-year period as well as executive's 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."

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 PhP120,000 for every board meeting attended and PhP20,000 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 2015:

	Remuneration for AGM and Board Meetings Attended in 2015	Remuneration for Committee Meetings Attended in 2015	Total
EXECUTIVE DIRECTOR			
Oscar S. Reyes	1,440,000	-	1,440,000
EXECUTIVE DIRECTOR	1,440,000	-	1,440,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,440,000	100,000	1,540,000
Lance Y. Gokongwei	1,440,000	280,000	1,720,000
Manuel M. Lopez	1,440,000	240,000	1,680,000
Ray C. Espinosa	1,440,000	220,000	1,660,000
John L. Gokongwei, Jr.	1,440,000	240,000	1,680,000
Jose Ma. K. Lim	1,200,000	180,000	1,380,000
James L. Go	1,440,000	340,000	1,780,000
Napoleon L. Nazareno	1,320,000	160,000	1,480,000
ALL NON-EXECUTIVE DIRECTORS	11,160,000	1,760,000	12,920,000
INDEPENDENT DIRECTORS			
Pedro E. Roxas	1,440,000	500,000	1,940,000

Artemio V. Panganiban	1,440,000	180,000	1,620,000
ALL INDEPENDENT DIRECTORS	2,880,000	680,000	3,560,000
GRAND TOTAL			17,920,000

Independent Public Accountants

The independent public accountants of *MERALCO* is the accounting firm, SyCip Gorres Velayo & Co. (SGV). The audit of the consolidated financial statements of *MERALCO* and subsidiaries was led and certified by the engagement partner, Mr. Martin C. Guantes. Mr. Guantes issued a statement confirming the independence of SGV with respect to the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines adopted by the Philippine Board of Accountancy.

The terms of engagement, scope of services and fees of the external auditor were reviewed and approved by the Audit Committee. The Audit Committee is composed of six members and chaired by independent director, retired Chief Justice Artemio V. Panganiban. The other members of the committee are independent director Pedro E. Roxas, directors Jose Ma. K. Lim, James L. Go and Lance Y. Gokongwei and a non-director, Anabelle L. Chua.

The representatives of SGV will be present during the annual meeting and will be given an opportunity to make a statement or respond to questions, if necessary.

Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditors, and Mr. Martin C. Guantes is the partner-in-charge beginning the audit of the 2014 financial statements.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on accounting and financial disclosure.

External Audit Fees

The External Auditors

The shareholders of *MERALCO* has reappointed SGV and Co. as its external auditors for the year ended December 31, 2015 during the annual stockholders' meeting on May 26, 2015. The signing partner of SGV 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)	2015	2014
Financial statements audit	PhP7.1	PhP7.0
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the Energy Regulatory Commission	0.3	0.3

(b) *Tax Fees*

Not applicable.

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

The Audit 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 Committee any engagement contracting the appointed independent auditors to ensure that their independence will not be compromised.

(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.

OTHER MATTERS

Action with Respect to Reports

The approval of the following will be considered and acted upon at the meeting:

1. Minutes of the Annual Stockholders' Meeting held on May 26, 2015
 - Minutes of the annual meeting of stockholders held on May 27, 2014
 - Report of the President and Chief Executive Officer
 - Approval of the 2014 Audited Financial Statements
 - Ratification of Acts, Resolutions, and Deeds of the Board of Directors and Management
 - Election of Directors for the ensuing year
 - Appointment of External Auditors
2. Report of the President and Chief Executive Officer
3. Prospect / Outlook from the Chairman
4. Approval of the 2015 Audited Financial Statements
5. Ratification of Acts of the Board and Management during the year
 - Approval of petitions, applications, complaints, reports and other submissions to courts, regulatory bodies and other government units and agencies
 - Approval of corporate budget
 - Appointment of officers
 - Approval of projects and investments
 - Approval of credit facilities
 - Appointment of signatories to bank accounts

Voting Procedures

- (a) Each stockholder shall be entitled to one vote for each share.
- (b) The items in the agenda require the affirmative vote of stockholders entitled to vote.
- (c) 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.
- (d) 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.

MANAGEMENT REPORT

Business and General Information

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 (*RES*). The *MERALCO* local *RES*, otherwise known as 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 (*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.

MIESCOR’s services are complemented by its two wholly owned subsidiaries – *MIESCOR* Builders, Inc. (*MBI*) and *MIESCOR* Logistics, Inc. (*MLI*). *MIESCOR* focuses on engineering and construction, industrial facility construction, and electro-mechanical works. *MBI*, on the other hand, serves as the general construction business unit. It also offers testing, commissioning and technical services, while *MLI* handles architectural and fit-out construction works including building and facilities logistics management services like warehouse management, fleet management and manpower service management

Aligned with the company’s long-term strategy, 2015 was focused on being customer and market savvy. Internal processes and management systems were refined to meet international qualifications, gaining certifications based on ISO 9001:2008, ISO 14001:2004, and OSHAS 18001:2007 standards. The company was also able to get repeat business with Cagayan Electric Power and Light Company, Inc. (*CEPALCO*) and NGCP and maintained 100% market retention, a testament of *MIESCOR*’s excellent service.

It was a year of hypergrowth; revenues doubled from the previous year. Major contributors were Minergy's CEPALCO 138 kV Transmission Line, CEPALCO's 2x150 MVA 138 kV/69 kV Kirahon Substation, Malita-Matanao 230 kV Transmission Line and Substations, and AWOC's 115 kV Transmission Line and Switchyard.

Further growth is expected in 2016, which started with a sizable amount of awarded projects. MIESCOR is actively strengthening its competency and presence in other industries such as renewable energy and waterworks and expanding its geographic footprint both locally and internationally.

Corporate Information Solutions, Inc. (CIS) is a wholly-owned subsidiary of *MERALCO*, and was incorporated in 1974 as an IT services and business solutions provider to enterprise clients. In 1997, CIS engaged in outsourced bills payment collection services, which was spun off as CIS Bayad Center, Inc. (Bayad Center), and was incorporated in 2006. Today, Bayad Center offers the largest multi-biller payment collection service in the country, covering more than 4,000 strategically located sites nationwide.

Bayad Center is the leading service provider for close to 200 top corporations, financial and government institutions, giving them and their customers a secure and worry-free payment facility.

To complement its bills payment business, Bayad Center formed its subsidiary **Customer Frontline Solutions Inc. (CFS)**, in 2008. CFS provides outsourced tellering and cashiering services initially for its parent company *MERALCO* and Bayad Center. In 2013, it expanded to service Philippine Long Distance Telephone Company (PLDT), Smart Philippines, Inc., and Sun Cellular, Inc. which generated rapid growth for Bayad Center outside its core business of bills payment.

Bayad Center continues to expand its network as it enables other platforms such as the Touchpay Automated Payment Machines, the International Bills Pay facility for Overseas Filipino Workers (OFWs), and the Bayad Center Online and Mobile Payment Platforms, bringing the service closer to every Filipino here in the country and abroad.

Strengthening its value proposition, Bayad Center also offers remittance cash pick-up, electronic cash management services (i.e. vehicle CTPL insurance processing), prepaid loading and service applications acceptance. With more than 18 solid years in the outsourced payment industry, Bayad Center continues to lead in providing a suite of products and services that is cost effective for the Biller merchants and transaction convenience to the paying public.

Meralco Energy, Inc. (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 (ESCO) through its two flagship services: Strategic Loadside Outsourcing (SLO), and Energy Efficiency (EE) Solutions.

SLO offers customers the opportunity to outsource their load side electricity requirements. This allows customers to focus on their respective core businesses knowing that all their electrical concerns are being handled by nothing less than a *MERALCO* company. Under *MServ*'s SLO services are the 1) Design, Procurement, and Installation of Right-Sized Electrical Facilities; 2) *MERALCO* Managed Services; and 3) Power Quality and Power Factor Services. The company provides "Best in Class"

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 (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. (e-MVI) is a wholly-owned subsidiary of *MERALCO* and was established on June 22, 2000. Its wholly-owned subsidiary, Paragon Vertical, Inc. (*Paragon*), wholly 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, and with industry-best service availability, installation, and restoration times. With this distinctive value proposition, *Radius* is recognized as the preferred last-mile data transport partner of major telecommunications and ICT companies in the country. It is also known as a premium connectivity provider by leading companies in financial services, business process management, retail and distribution, and manufacturing sectors.

Moreover, *Radius* is a Metro Ethernet Forum 2.0-certified Carrier Ethernet provider, and is 1 of only 3 Filipino telecommunications companies to achieve such status. This assures clients that *Radius* connectivity services meet global standards and stay true to the company's commitment of providing world-class connectivity solutions.

In 2013, *Radius* received the Quill Award for Communication Management from the International Association of Business Communicators (IABC) Philippines, and is the first and only *MERALCO* subsidiary to be given such distinction.

Meralco Financial Services Corporation (*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 1030 square meters houses several retail establishments.

Clark Electric Distribution Corporation (*CEDC*), organized on February 19, 1997 is 65%-owned by *MERALCO* and 35%-owned by J Ten Equities, Inc., the holding company of Angeles Electric Corporation. *CEDC* is the registered private distribution utility with a franchise granted by the Clark

Development Corporation (CDC) to own, operate, and maintain a power distribution system and to distribute power exclusively within the Clark Special Economic Zone (CSEZ) by virtue of Executive Order No. 80. The registered office address of the Company is Bldg. N2830, Bayanihan Street, Clark Freeport Zone, Philippines.

CEDC distributes power within the Clark Economic Zone through its four substations with a capacity of 100 MVA at 230kV-69kV level and 106MVA at 69kV-13.8kV level. Its present distribution network consists of 1,496 distribution transformers, 29 circuit-km. linear length of sub-transmission lines, 138.37 circuit-km. linear length of primary lines, and 71.99 circuit-km. linear length of secondary lines. Its system loss has continuously improved from 7.01% in 2002 to 3.94% in 2015. *CEDC*'s supply rates are one of the lowest in Luzon.

CEDC currently awaits the release of PBR reset guidelines from ERC as it has just finished the Fourth Regulatory Year of the Second Regulatory Period of the ERC- approved Annual Revenue Requirement under the PBR for the Regulatory Period October 1, 2011 to September 30, 2015. Clark Electric aspires to be the leading electric utility of choice providing the best value in energy products and services to its customers and a major catalyst in the nation's progress.

Republic Surety and Insurance Company, Inc. (RSIC) is a wholly-owned subsidiary of *MERALCO*, is a professional non-life insurance company committed to managing the totality of its clients' risk exposures. Acquired in 2007, the Company continues to provide *MERALCO* a unique insurance program for its transmission and distribution assets. Republic envisions to become an institution which can understand risk better than any other company in the Philippines, as such, it remains focused in implementing risk management methods with emphasis on risk mitigation, loss control and insurance management.

In 2015, for the fourth consecutive year, Republic has co-organized the Annual Risk Management Summit in the Philippines together with the Society of Risk Management Professionals, Inc. (SRMP), with the theme: "Enterprise-Wide Approach to Risk Management: An integral tool for achieving organizational robustness and sustainability." Republic has also remained in the top spot among non-life insurers in the country in terms of adherence to the ASEAN Corporate Governance Scorecard requirements of the Insurance Commission, signifying its commitment to the fundamental principles of sound strategic business management.

Lighthouse Overseas Insurance Company, Limited (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 (MGen) is a wholly owned subsidiary of *MERALCO*. *MGen* aims to develop, build, own and operate a diversified power portfolio in the next five years and significantly contribute to meeting the country's growing demand for power. Its mission is to pursue the development and construction of highly cost-competitive and reliable power plants to ensure the provision of adequate, reliable and affordable power to customers in the *MERALCO* franchise area and other areas.

MGen owns 22% of Global Business Power Corporation (GBPC) after an additional 2% equity was acquired in June 2014. GBPC owns 552 MW of operating coal power plants and 149.5 MW and 7.5 MW of operating diesel power plants in the Visayas and Mindoro, respectively.

San Buenaventura Power Ltd. Co. (SBPL), a joint venture between MGen and New Growth, B.V. of Thailand's EGCO Group, achieved significant milestones for its 455-MW (net) supercritical coal-fired power plant in Mauban, Quezon in 2015. In May 2015, SBPL secured the Energy Regulatory Commission's (ERC) approval for its power supply agreement with *MERALCO*, allowing *SBPL* to sell the electricity generated by the plant to the distribution utility. The *SBPL* plant, which will provide baseload power supply to electricity consumers in Luzon, will be the first coal plant in the country to use state-of-the-art supercritical technology, which is more efficient than the existing coal plants in the Philippines. In October 2015, SBPL signed a PHP42.15-billion omnibus loan agreement with a consortium of local banks to fund the project. Initial drawdown of the loan was achieved in December 2015. This loan, which is the country's biggest all-peso project finance facility to date, was recognized as the "Asia Pacific Power Deal of the Year" for 2015 by Project Finance International. In December 2016, SBPL also held the ground breaking ceremony for the power plant and issued the notice to proceed to the consortium of Daelim Industrial Co. Ltd. and Mitsubishi Corp., the engineering, procurement and construction (EPC) contractor for the project. Under the EPC contract, the contractor has 42 months from the notice to proceed to complete the SBPL power plant.

On the other hand, despite delays, RP Energy remains committed in bringing in its planned 2x300MW coal-fired power plant in Subic, Zambales. On February 2015, the Supreme Court (SC) issued a decision that upheld the validity of RP Energy's Environmental Compliance Certificate (ECC) including its first two amendments, and the project's Lease & Development Agreement (LDA) with the Subic Bay Metropolitan Authority. RP Energy is working towards financial close and issuance of Notice to Proceed (NTP) to the project contractor. Construction is targeted to start within 2016.

Through Atimonan One Energy, Inc. (A1E), MGen is also developing a 2x600-MW supercritical coal-fired power plant in Atimonan, Quezon Province. In October 2015, A1E secured the ECC for the project. Bids for the EPC have been received in December 2015 and these are currently under assessment. Awarding to the preferred contractor is targeted by the third quarter of 2016. Site preparation works are expected to start by the fourth quarter of this year to be able to complete the first 600-MW unit by early 2021.

MGen also owned 28% effective ownership of PacificLight Power Pte. Ltd. (PacificLight) that has been operating its 2x400-MW since February 2014; a combined cycle turbine power plant mainly fueled by liquefied natural gas (LNG) in Jurong Island, Singapore. In March 2015, PacificLight received two awards under the Singapore Outstanding Entrepreneur Award in recognition of its entrepreneurial spirit and customer service. This was followed by another award in June 2015 when it was named the "SME of the Year," recognizing its excellent services and continuous improvements. Through PacificLight Energy Ptd Ltd (PacificLight Energy), PacificLight supplies electricity to industrial and retail customers in Singapore. PacificLight Energy is also the first Singapore power retailer to introduce a hybrid energy solution in partnership with global solar solutions provider, Renewable Energy Corporation (REC). Known as the "PLEdge to RECharge Green Energy Programme," the program provides consumers with cost-competitive choices while protecting the environment through the adoption of solar energy together with energy generated from natural gas.

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

Comstech with Meralco as its Technical Partner was awarded a 20-year Investment Management Contract (IMC) for the management and operations of Pampanga II Electric Cooperative (PELCO II) in 2014.

Last February 26, 2015, Meralco subscribed to the shares of Comstech representing 60% stake in the company. The management team includes Dennis Anthony H. Uy (President), Nestor P. Sarmiento (Chief Operating Officer), and Ellsworth E. Vitug (Chief Finance Officer).

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:

	2015	2014	2013
Residential	29.96%	29.48%	30.03%
Commercial	39.47%	39.29%	39.03%
Industrial	30.21%	30.86%	30.56%
Streetlights	0.36%	0.37%	0.38%
TOTAL	100.00%	100.00%	100.00%

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

	2015	2014	2013
First Gas Power Corporation or <i>FGPC – Sta. Rita Power Plant</i> and FGP Corp. or <i>FGP – San Lorenzo Power Plant</i>	30.66%	28.47%	28.96%
South Premier Power Corporation or <i>SPPC – Ilijan Power Plant</i>	19.42%	22.79%	20.52%
San Miguel Energy Corporation or <i>SMEC – Sual Coal-fired Plant</i>	9.75%	9.19%	9.23%
Sem-Calaca Power Corporation or <i>Sem - Calaca</i>	8.53%	8.71%	8.11%
AES Corporation or Masinloc Power Partners Co., Ltd. or <i>AES - Masinloc</i>	8.46%	9.19%	8.40%
Quezon Power (Phils.) Ltd.	8.27%	8.88%	7.95%
Therma Luzon, Inc. or <i>TLI – Pagbilao Coal Plant</i>	7.11%	7.02%	7.91%
Philippine Electricity Market Corporation or <i>PEMC, - Wholesale Electricity Spot Market or WESM</i>	5.06%	2.81%	6.13%
National Power Corporation or <i>NPC</i>	0.00%	0.00%	0.24%
Aboitiz Power Renewables, Inc. or <i>APRI – Makban Geothermal Plant</i>	0.00%	0.00%	1.04%
Others	2.74%	2.94%	1.51%
TOTAL	100.00%	100.00%	100.00%

The franchise area of *MERALCO* over specified areas in Luzon is approximately 9,337 square kilometers, covering 36 cities and 75 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 Clark Special Economic Zone

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 franchise or LFT, and business taxes; 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 “Balik Baterya Program”, “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 P100,000 representing renewal and application of permits for new or expansion projects; P9.36 million accounted for the maintenance of Sewage Treatment Plants or STPs and P300,000 for solid waste collection and disposal.

Government Approval and Regulation

MERALCO is subject to regulation by the Energy Regulatory Commission (ERC) and recognizes the rate-making policies of the ERC.

Number of Employees

MERALCO’s total regular employees as of December 31, 2015 is 5,660.

Legal Proceedings

In accordance with the Securities Regulation Code Implementing Rules and Regulations (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 (*MERALCO*) and National Power Corporation (NPC), with Prayer for Provisional Authority, National Power Corporation and Manila Electric Company, 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 (NPC) for the approval of their Settlement Agreement which resolved their dispute concerning their ten (10) year Contract for Supply of Electricity (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 (IPPs). On the other hand, *MERALCO* shall pay NPC the net settlement amount of P14,320 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 (OSG) which are outside the jurisdiction of the ERC.

***MERALCO* v. NPC, Power Sector Assets and Liabilities Management Corporation (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 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 for appeal proceedings.

***MERALCO* v. NPC, Power Sector Assets and Liabilities Management Corporation (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 to question to CA Decision. *MERALCO* and *NPC* filed their respective comments thereon while the OSG filed its Reply. *MERALCO* is awaiting further action of the Supreme Court 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 Court of Appeals (CA) filed by the Office of the Solicitor General (OSG) on November 22, 2010 due to the denial by the RTC 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 14 October 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 Supreme Court (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 Supreme Court in G.R. Nos. 166769 and 166818, where the ERC was directed to request the Commission of Audit (COA) to undertake a complete audit of the books, records and accounts of *MERALCO*, the COA submitted its Report No. 2009-01 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.

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. In a Decision dated 29 February 2016, the CA denied the petition filed by NASECORE.

3. **In the Matter of the Application for Refund of Overcharge (sic)
Distribution Rates in the Residential Rates of Php39 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 customer Genaro C. Lualhati, 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 National Association for Electricity Reforms (NASECORE), Federation of Village Association (FOVA) and Federation of Las Pinas Village Association (FOLVA) on October 22, 2008. *MERALCO* filed its Memorandum on October 24, 2008. On the other hand, *MERALCO* received Mr. Lualhati's Memorandum on October 28, 2008. On September 14, 2010, the ERC issued a Decision dismissing the case. Mr. Lualhati 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 MAP for Regulatory Years (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 regulatory year 2009 of only 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 MAP₂₀₀₉ of PhP1.2227 which reflects a zero Corporate Income Tax (CIT) 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 Court of Appeals. In a Decision dated January 29, 2010, the Court of Appeals 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 Supreme Court. *MERALCO* filed its comment on the petition and the case is awaiting the decision of the Supreme Court.

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 3 October 2011, the ERC provisionally granted *MERALCO*'s proposed MAP of PhP1.6012 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 Mr. Genero C. Lualhati'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 Mr. Lualhati 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 Application for Approval of: a) MAP for RY 2014; and b) Translation of the MAP for RY 2014 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. 2013-056 RC
(Filed on April 1, 2013)

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

- 8. In the Matter of the Application for Approval of: a) MAP for RY 2015; and b) Translation of the MAP for RY 2015 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. 2014-029 RC
(Filed on March 31, 2014)

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

- 9. In the Matter of the Application for Approval of: a) an Interim Average Rate; and b) Translation of the Interim Average Rate 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. 2015-112 RC
(Filed on June 11, 2015)

On June 11, 2015, *MERALCO* filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the *ERC* provisionally approved an Interim Average Rate of ₱1.3810 per kWh and the

rate translation per customer class, which was reflected in the customer bills starting July 2015. On January 7, 2016, MERALCO presented its first witness. The next hearing for the continuation of MERALCO's presentation of its evidence is scheduled on June 17, 2016.

**10. PSALM v. PEMC and MERALCO
(PEMC Resolution Issued Directing the Adjustment of
Settlement Prices in the Wholesale Electricity Spot Market)**

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 Supreme Court appealing the Decision dated August 28, 2009 of the Court of Appeals 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 (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 PEM Board in adjusting the WESM settlement prices for having been carried out beyond the scope of its authority and in violation of the 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 P6.00 per kWh and translate to an increase in the generation charge by about P0.90 and P2.05 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.

**11. In Re Petition for Dispute Resolution. Manila Electric Company
v. Philippine Electricity Market Corporation, National
Transmission Corporation, 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 500kV Line 2 on June 22, 2008, followed by the outage of the 500kV 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 PhP73.944 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 26 December 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 a Comment with Opposition to the Application for Temporary Restraining Order or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the CA issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the CA issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* of the December 1, 2014 Decision of the CA. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the CA denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the SC.

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 *ERC*. Said Petition sought the following reliefs: 1) Refund of the 2.98% transmission line losses in the amount of ₱5.4B, inclusive of the ₱758M 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 24 October 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.

**12. 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 PhP5.6673/kWh in the November 2013 billing to PhP9.1070/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 (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 9 December 2013 Order and acting further on the letter – request of *MERALCO* dated 5 December 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 Office of the Solicitor General (OSG) filed a Manifestation with Motion praying that it be excused from filing a comment on behalf of *ERC* and *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 (*PEPOA*) Comment-in-Intervention. On even date, *MERALCO* received an Order from the SC which directed the Petitioners in said case to implead the Philippine Electricity Market Corporation (*PEMC*) and [some] Suppliers with whom *MERALCO* has existing Power Supply Agreements (*PSAs*), namely, *SEM-Calaca Power Corp.*, *Masinloc Power Partners Corp.*, *Therma Luzon Inc.*, *San Miguel Energy Corp.*, *South Premiere Power Corp.*, and *Therma Mobile, Inc.*, as necessary parties to the case. Consequently, these additional respondents were required (i) to file their respective Comments on the Petitions no later than 20 January 2014 and (ii) to attend the preliminary conference set on 13 January 2014, or to file, on or before 10 January 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 & 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 (GMCP), National Grid Corporation of the Philippines' (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 Therma Mobile, Inc. (TMO) and Therma Luzon, Inc.'s (TLI) Consolidated Comment has been posted on the SC's website. On January 29, 2014, *MERALCO* received a copy of the Power Sector Assets and Liabilities Corporation's (PSALM) 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 ERC 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 (IU) of the ERC. The Investigation Unit 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.

13. *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 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 PhP0.8440/kWh on its customers in their March 2014 billing, until the total incremental fuel costs amounting to Two Billion Forty-Nine Million Five Hundred Twenty-Nine Thousand Three Hundred Forty-Eight Pesos and Fifty-Nine Centavos (PhP2,049,529,348.59) is fully recovered, and (b) to recover the remaining balance of the deferred generation costs equivalent to PhP0.7433/kWh every month, for an additional period of five (5) months starting April 2014 billing, until the balance of Nine Billion Twenty-Five Million Nine Hundred Twenty-One Thousand Two Hundred Eighty-Two Pesos and Six Centavos (PhP9,025,921,282.06) is fully recovered, without prejudice to the resolution of G.R. Nos. 210245 and 210255 by the Supreme Court or *MERALCO*'s pending Omnibus Motion with Manifestation in ERC Case No. 2013-092 MC, or the findings of the ERC's Investigation Unit 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 O&M 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 Temporary Restraining Order issued by the Supreme Court in G.R. No. 21024 and G.R. No. 210255.

PEMC made recalculations based on the afore-quoted Order and on 18 March 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 19 March 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 01, 2014, the ERC released an Order directing *MERALCO* to file its Comment on the *Motion to Dismiss*. On April 07, 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 ERC. 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.

14. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2016, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2015-016

Filed: February 9, 2015

Since the ERC has yet to issue the rules governing the reset for the Fourth Regulatory Period, *MERALCO* needed to secure approval of its CAPEX program before the end of the 3rd Regulatory Period on 30 June 2015. 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).

On 10 April 2015, *MERALCO* filed an Urgent Motion for Issuance of a Provisional Authority ("Urgent Motion") dated 8 April 2015 requesting that it be allowed to immediately implement its priority

projects, the list of which was attached to said Urgent Motion. In said Urgent Motion, MERALCO begged the kind indulgence of the ERC to consider the issuance of a provisional authority for certain urgent projects that must be implemented by the start of the first half of RY 2016, or from 1 July 2015 to 31 December 2015, in order to upgrade the capacity and maintain the robustness of its distribution infrastructure and ensure the continuous provision of safe and reliable service to its customers.

On 15 April 2015, MERALCO filed a Motion of even date attaching a detailed list showing a further breakdown of the projects into business segments especially those that are shared by different business segments. Such list allows for a better appreciation and functional cross-checking, especially with the total costs per major or residual project.

In an Order dated 20 April 2015, the ERC set the instant Application for initial hearing on 26 May 2015. After said hearing, subsequent hearings were held on 25 June 2015, 16 July 2015, 5 August 2015 and 30 September 2015. On September 30, 2015, the parties completed the presentation of their evidence, and the ERC required MERALCO to submit certain documents. With MERALCO's compliance to said directive and the submission by the parties of their respective Formal Offer of Evidence (FOE), the case is submitted for resolution.

In the meantime, the Fourth Regulatory Period started on 1 July 2015. Prior thereto, or on 11 June 2015, MERALCO filed a Very Urgent Motion for Authority to Commence Implementation of RY 2016 Priority Projects with an attached list of the RY 2016 priority projects ("Very Urgent Motion"). These projects consist of twelve (12) major projects amounting to PhP2.192 Billion, and residual projects amounting to PhP6.102 Billion, for a total of PhP8,294,960,719. In an Order dated 19 June 2015, the ERC set the Very Urgent Motion for hearing on 25 June 2015 and the intervenors were given the opportunity to state their various positions on the Very Urgent Motion.

On 3 August 2015, MERALCO also wrote the ERC a letter stating its dire need for guidance on how to move forward in relation to its Application.

On 2 September 2015, MERALCO again filed a Very Urgent Motion to Resolve emphasizing on the urgency to implement its CAPEX projects to ensure reliability and quality of service and avoid further delays. On 5 October 2015, MERALCO filed its Formal Offer of Evidence.

In a Manifestation dated 2 February 2016, MERALCO informed the ERC that it was constrained to implement four (4) of its proposed major CAPEX projects subject of this Application. MERALCO is awaiting the Decision of the ERC on the Application.

15. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2016, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2016-017

Filed: March 8, 2016

As it had no approved CAPEX for RY 2017, on March 8, 2016, MERALCO filed its Application for the approval of authority to implement its CAPEX program for RY 2017 (July 1, 2016 to June 30, 2017).

16. South Premiere Power Corporation v. PSALM

Civil Case No. MC15-9629

RTC Mandaluyong, Branch 208

Filed: September 10, 2015

SPPC and *PSALM* are parties to an Independent Power Producer Administration (*IPPA*) Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint at *RTC* Mandaluyong to nullify the termination notice for lack of factual and legal basis. On said date, the Executive of Judge of *RTC* Mandaluyong issued a 72 hour *TRO*. In an Order dated September 11, 2015, the *RTC* Mandaluyong Branch 208 extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC* granted the prayer for preliminary injunction. *PSALM* has filed motions for reconsideration to question each of the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC* Mandaluyong allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed an *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. The preliminary conference of the case is set on April 14, 2016.

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company 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, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards ("*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 ₱47.06, the closing rate as at December 29, 2015 (the last trading day in December 2015) quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

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

		As at December 31		% Change	
(Amounts in millions, except financial ratios, earnings per share, and operational data)		2015	2014	2015 vs. 2014	
Condensed Statements of Financial Position					
Total assets		₱282,239	₱269,053		5
Current assets		95,295	112,612		(15)
Cash and cash equivalents		50,840	69,469		(27)
Equity attributable to equity holders of the parent		80,276	79,154		1
Total debt		30,308	30,042		1
Current liabilities		93,215	83,528		12
Financial Ratios					
Debt to equity		0.38	0.38		-
Current ratio		1.02	1.35		(24)
Operational Data					
Number of customers (in thousands):					
Residential		5,296	5,097		4
Commercial		474	464		2
Industrial		10	10		-
Streetlight		4	4		-
		Years Ended December 31		% Change	
		2015	2014	2013	
					2015 vs. 2014
					2014 vs. 2013
Condensed Statements of Income					
Revenues	₱258,399	₱266,336	₱298,636	(3)	(11)
Costs and expenses	234,991	240,242	274,486	(2)	(12)
Other income, net of expenses	1,468	374	177	293	111
Income before income tax	24,876	26,468	24,327	(6)	9
Net income	19,189	18,131	17,273	6	5
Net income attributable to equity holders of the parent	19,098	18,053	17,211	6	5
Earnings per share - attributable to equity holders of the parent	16.94	16.02	15.27	6	5
Condensed Statements of Cash Flows					
Net cash provided by operating activities	41,683	37,495	37,144	11	1
Net cash used in investing activities	(42,388)	(12,616)	(30,392)	236	(58)
Net cash used in financing activities	(17,924)	(15,261)	(7,401)	17	106
Financial Ratios					
Profit margin	7%	7%	6%	-	17
Return on equity	24%	23%	23%	4	-
Asset turnover	0.94	0.99	1.13	(5)	(12)
Operational Data					
Electricity sales volume (in GWh)	37,124	35,160	34,084	6	3
System loss (in percentage)[1]:					
MERALCO	6.47%	6.49%	6.92%	-	(6)
CEDC	4.16%	4.37%	4.33%	(5)	1

¹ Based on 12-month moving average

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,337 square kilometers. It provides power to close to 5.8 million customer accounts in 36 cities and 75 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon. Turnover of business establishments in the franchise area accounts for about 50% of the country's Gross Domestic Product ("GDP").

Through Clark Electric Distribution Corporation ("*CEDC*"), a 65%-subsidiary, it holds the power distribution franchise for the Clark Special Economic Zone ("*CSEZ*") in Clark, Pampanga. *CEDC* franchise area covers 320 square kilometers and services 1,914 customer accounts. *CEDC* is a registered private distribution utility granted by Clark Development Corporation ("*CDC*") a franchise to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and Meralco Industrial Engineering Services Corporation ("*MIESCOR*"), dated February 19, 1997.

MERALCO and its directly and indirectly-owned subsidiaries are collectively referred to as the *MERALCO Group*. *MERALCO Group's* business is divided into two segments, namely, power and other services. The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, *CEDC*.

- Power

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

Electricity distribution – This is principally electricity distribution and supply of power to its captive customers on a pass-through basis 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.

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

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

MGen, through San Buenaventura Power Ltd. Co. ("*SBPL*") is currently co-developing a 455 *MW* net capacity supercritical coal-fired power plant in Mauban, Quezon. Separately, it is developing a 2 x 600 *MW* coal-fired power plant in Atimonan, Quezon through Atimonan One Energy Inc., and a 2 x 300 *MW* Circulating Fluidized Bed, coal-fired power plant in the Subic Freeport Zone under Redondo Peninsula Energy, Inc. ("*RP Energy*"). *RP Energy* is a joint venture of *MGen* with Therma Power, Inc. and Taiwan Cogeneration International Corporation – Philippine Branch.

MGen is also 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. *MERALCO* serves as a local *RES* within its franchise area under a separate business unit, *MPower*. Under Retail Competition and Open Access (“*RCOA*”), qualified contestable customers who opt to switch to contestability and become contestable customers may source their electricity supply from competing retail electricity suppliers (“*RESs*”), including *MPower*.

- Other Services

The other services segment is involved principally in electricity-related services, such as; electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, and energy systems management. These services are provided by *MIESCOR*, Miescor Builders, Inc., and Miescor Logistics, Inc. (collectively known as “*MIESCOR Group*”), Corporate Information Solutions, Inc. (“*CIS*”), CIS Bayad Center, Inc. (“*Bayad Center*”), Customer Frontline Solutions, Inc. (“*CFS*”) and Fieldtech Specialist, Inc. (collectively referred to as “*CIS Group*”), *MRail*, Inc. (formerly Miescorrail, Inc.) (“*MRail*”), Republic Surety and Insurance Corporation (“*RSIC*”), Lighthouse Overseas Insurance Limited (“*LOIL*”), Meralco Financial Services, Inc. (“*Finserve*”), e*MERALCO* Ventures, Inc. (“*e-MVI*”) and Meralco Energy, Inc. (“*MServ*”).

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> Power generation <ul style="list-style-type: none"> • <i>MGen</i> and its subsidiaries 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>MIESCOR Group</i> • <i>Finserve</i> • <i>LOIL</i> • <i>RSIC</i> • <i>CIS Group</i> • <i>e-MVI and subsidiaries</i> • <i>MServ</i> • <i>MRail</i> • <i>Comstech</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, 2015, 2014 and 2013.

For the Year Ended December 31, 2015				
	Power ²	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱249,773	₱10,422	(₱1,796)	₱258,399
Costs and expenses	228,206	8,581	(1,796)	234,991
Other income	1,420	48	-	1,468
Net income attributable to equity holders of the parent	17,843	1,346	(91)	19,098

For the Year Ended December 31, 2014				
	Power ³	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 income (expenses)	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				
	Power ⁴	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 income	172	5	-	177
Net income attributable to equity holders of the parent	16,512	761	(62)	17,211

²Principally electricity distribution

³Ibid

⁴Ibid

2015 compared with 2014

REVENUES

The following table shows the composition of *MERALCO Group's* consolidated revenues for the years ended December 31, 2015 and 2014 by business segment.

	2015	%	2014	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ⁵	₱249,773	97	₱261,740	98	(₱11,967)	(5)
Other services	10,422	4	6,894	3	3,528	51
Inter-segment transactions	(1,796)	(1)	(2,298)	(1)	502	(22)
Total	₱258,399	100	₱266,336	100	(₱7,937)	(3)

Total revenues for the year ended December 31, 2015 of ₱258,399 were lower by 3% or ₱7,937 million compared with ₱266,336 million in 2014. The lower consolidated revenues in 2015 is due to the combined effects of (i) lower average distribution tariff and (ii) net lower pass-through generation and other charges as a result of significantly lower fuel prices, the competitively negotiated Power Supply Agreements (“PSAs”) and the amount of contestable supply revenues served by other retail electricity suppliers. The decrease in revenue was partially offset by the increase in energy sales volume driven by increased domestic consumption, benign inflation, warmer temperature and increasing economic activities. The 2014 revenues included the impact of the ₱9.3 billion downward adjustment from Philippine Electricity Market Corporation (“PEMC”). Non-electricity revenues showed marked increase in 2015.

Electricity sales amounted to ₱249,773 million for the year ended December 31, 2015, 5% lower than 2014. Pass-through charges consisting mainly of generation and transmission costs and system loss (“SL”) (excluding related taxes), which represent 78% of electricity sales, were lower by 5% due to (a) the pronounced drop in fuel prices in the second half of 2015; (b) the switch to contestability of qualified contestable customers; and (c) *MERALCO's* implementation of the lower interim distribution rate beginning July 2015.

Non-electricity revenues, which accounted for 4% of consolidated revenues, increased by 51%. The higher revenues were due to (i) the completion of construction and maintenance contracts by *MIESCOR* and its subsidiaries; (ii) increased demand for strategic loadside outsourcing and energy efficiency services of *MServ*; (iii) higher volume of bills payment services, load top-up and remittances served by *Bayad Center* and more tellering seats served by its subsidiary *CFS*; and (iv) additional circuits served and increased monthly recurring fees billed for back-up telecommunications services of Radius Telecoms, Inc. (“*Radius*”).

Power

Revenues from the power segment consists of generation, transmission, distribution, subsidies and other charges related to electricity distribution within the *MERALCO* and *CEDC* franchise areas. *MERALCO* and *CEDC* distribute electricity to industrial, commercial and residential customers, while *MPower* supplies electricity to certain qualified contestable customers within *MERALCO's* franchise area only.

⁵*Ibid.*

In March 2014, the *PEMC* recalculated the prices of power purchases from Wholesale Electricity Spot Market (“WESM”) in December 2013 based on an order of the Energy Regulatory Commission (“ERC”). The resulting adjustment, which amounted to ₱9.3 billion and was a pass-through to the customers, to a large extent, lowered the revenues in 2014.

The composition of revenues of the power segment for the years ended December 31, 2015 and 2014 is summarized as follows:

	2015	%	2014	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Generation charge	₱148,724	60	₱159,281	61	(₱10,557)	(7)
Transmission charge	32,274	13	32,195	12	79	–
Distribution service charges	55,063	22	56,373	22	(1,310)	(2)
System loss charge	13,501	5	13,726	5	(225)	(2)
Subsidies and other charges	211	–	165	–	46	28
Total	₱249,773	100	₱261,740	100	(₱11,967)	(5)

Generation charge represents 60% of electricity revenues in 2015, which is the single largest component. Average generation charge to captive customers was at ₱4.49 per *kWh* for the year ended December 31, 2015 against ₱5.34 per *kWh* (representing average generation charge before the effect of the *PEMC* adjustment) in 2014. Transmission charge represents 13% of the total power revenues or equivalent to ₱0.87 per *kWh* in 2015, slightly lower compared with ₱0.92 per *kWh* in 2014. *MERALCO*'s 12-month moving average *SL* rate as at December 31, 2015 was at 6.47%, 0.02 percentage point lower compared with the 6.49% rate as at December 31, 2014 as a result of its institutionalized *SL* management programs. *CEDC*'s 12-month moving average *SL* rate as at December 31, 2015 was at 4.16%, lower compared with ₱4.37% in 2014.

The lower generation charges are attributable to the significantly lower fuel costs and the effect of tightly negotiated *PSA* prices for the captive customers.

Distribution revenues comprise 22% of the total electric revenues. The average distribution charge per *kWh* decreased by ₱0.12 from ₱1.61 per *kWh* for the year ended December 31, 2014 to ₱1.49 per *kWh* in 2015.

The implementation of an interim average rate of ₱1.3810 per *kWh* beginning July 1, 2015 [*MERALCO*'s 4th Regulatory Period (“*RP*”)] reduced the average distribution charge for the year ended December 31, 2015 to ₱1.49 per *kWh*. The interim rate reflects the reduction of the Second Regulatory Period under recovery component in the Maximum Average Price (“*MAP*”) approved for recovery during the Third Regulatory Period (July 1, 2011 to June 30, 2015). As a result, year-to-date distribution revenues declined by about ₱2.3 billion compared with the same period in 2014 – reflecting the combined effect of lower tariff partially offset by the increase in volume distributed.

Since the start of the *RCOA*, *MPower* serves an increasing number of contestable customers with a suite of competitive product offerings, which benefited its customers, totaling to 212 customers out of the 362 who have switched contestability.

The following table summarizes the customer count as at December 31, 2015 and 2014 and the corresponding electric consumption per customer class for the years ended December 31, 2015 and 2014:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2015	2014	2015	2014	No. of Customers	Electricity Sales
Residential	5,296	5,097	11,121	10,364	4	7
Commercial	474	464	14,654	13,814	2	6
Industrial	10	10	11,216	10,850	–	3
Streetlights	4	4	133	132	–	1
Total	5,784	5,575	37,124	35,160	4	6

Total volume of electricity distributed grew by 6%. The increase in energy sales was driven by the following: (a) much warmer temperature beginning August 2015 due to the onset of “*El Nino*”, (b) higher power plant availability and (c) positive economic conditions with record-low inflation, significantly lower overall electricity prices and healthy *GDP* growth, spurred by growing remittances from overseas Filipinos and Business Process Outsourcing revenues.

MERALCO’s and *CEDC*’s own initiatives to fully serve customers such as (a) early customer prospecting and planning; (b) early energization through faster and better processing, design and facilitation; (c) new customer programs, and (d) a more robust and reliable sub-transmission and distribution system contributed to boosting customer count and energy sales. The positive impact of these conditions is reflected in the consolidated sales volume of 37,124 *GWh* at the end of 2015 versus 35,160 *GWh* in 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 ₱10,422 million for the year ended December 31, 2015 from ₱6,894 million in 2014. The 51% increase in revenues from other services was mainly due to:

- Completed several local Engineering, Procurement and Construction, civil works and electro-mechanical engineering projects of *MIESCOR* Group with revenues amounting to ₱5.4 million, 62% higher compared with 2014.
- Growth in the bill payment transactions of *Bayad Center* by 12% compared with 2014. *Bayad Center* also ventured into spot billing in 2015 by acquiring the major player in that space.
- Doubling of load-side outsourcing contracts and energy efficiency services of *MServ* to ₱2.1 billion compared with 2014.
- Higher revenues from fiber-based data connectivity and internet services of *Radius* which grew over 25% in 2015.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2015 amounted to ₱234,991 million, 2% lower compared with ₱240,242 million in 2014. The details of *MERALCO Group's* consolidated costs and expenses for the years ended December 31, 2015 and 2014 by business segment follow:

	2015	%	2014	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Power ⁶	₱228,206	97	₱237,058	99	(₱8,852)	(4)
Other services	8,581	4	5,012	2	3,569	71
Inter-segment transactions	(1,796)	(1)	(1,828)	(1)	32	(2)
Total	₱234,991	100	₱240,242	100	(₱5,251)	(2)

Power

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

	2015	%	2014	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Purchased power	₱192,117	84	₱203,242	86	(₱11,125)	(5)
Salaries, wages and employee benefits	9,774	4	9,426	4	348	4
Depreciation and amortization	6,607	3	5,863	2	744	13
Contracted services	4,659	2	4,402	2	257	6
Others	15,049	7	14,125	6	924	7
Total	₱228,206	100	₱237,058	100	(₱8,852)	(4)

Costs and expenses of the power segment for the year ended December 31, 2015 amounted to ₱228,206 million, 4% lower compared with ₱237,058 million in 2014.

Purchased power accounted for 84% of the total costs and expenses in 2015. *MERALCO* and *CEDC* do not operate their own generation capacity. All of the electricity distributed are contracted through *PSAs* with generators. Long-term Power Purchase Agreements ("*PPA*") of *MERALCO* are with Independent Power Producers ("*IPPs*"). The imbalance is purchased from the *WESM*. The lower purchased power cost in 2015 was due to (a) lower generation cost as a result of lower fuel prices and competitively negotiated *PSAs*, and (b) the switch of certain qualified contestable customers to contestability who opted to be served by *RESs* other than *MERALCO*.

The volume of energy purchased under long-term *PPAs* with *IPPs*, namely, First Gas Corporation ("the *Sta. Rita Power Plant*"), *FGP Corp.* ("the *San Lorenzo Power Plant*") and Quezon Power (Philippines) Limited Co. ("*QPPL*"), represents 46% of *MERALCO's* Net Systems Input. Purchases from power generators under *PSAs*, and other special programs accounted for 48% with the balance of 6% sourced from the *WESM*.

⁶*Ibid.*

Salaries, wages and employee benefits increased from ₱9,426 million in 2014 to ₱9,774 million in 2015 due mainly to annual adjustments based on terms of the collective bargaining agreement and merit adjustments.

Depreciation and amortization increased by 13% to ₱6,607 million in 2015 from ₱5,863 million in 2014. This is mainly due to completed capital expenditure projects.

Contracted services increased by 6% from ₱4,402 million in 2014 to ₱4,659 million in 2015. This was mainly due to increase in cost of Information System /Information Technology services and consultancy for various system enhancements. Expenses for bill deliveries, collection services, disconnection and reconnection expenses increased also with the increase in customer connections.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims, provision for doubtful accounts, costs of materials, transportation, and other corporate expenses. The increase was mainly due to higher provision for probable losses in 2015 compared with 2014.

Other Services

The cost and expenses of other services business segment in 2015 amounted to ₱8,581 million, 71% higher compared with ₱5,012 million in 2014.

	2015	%	2014	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱3,039	35	₱1,582	37	₱1,457	92
Contracted services	1,354	16	1,195	22	159	13
Depreciation and amortization	303	4	230	4	73	32
Others	3,885	45	2,005	37	1,880	94
Total	₱8,581	100	₱5,012	100	₱3,569	71

The increase in salaries, wages and other employee benefits and contracted services and others is due to increase in headcount for contracts and projects, and regular employees for business expansion activities of the subsidiaries.

Depreciation and amortization in 2015 amounted to ₱303 million, 32% higher compared with ₱230 million in 2014 as a result of capital expenditures of the subsidiaries.

OTHER INCOME (EXPENSES)

The following table shows the breakdown of *MERALCO Group's* consolidated other income, net of expenses, for the years ended December 31, 2015 and 2014 by business segment:

	2015	%	2014	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ⁷	₱1,420	97	₱411	110	₱1,009	245
Other services	48	3	(37)	(10)	85	(230)
Total	₱1,468	100	₱374	100	₱1,094	293

Power

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

	2015	%	2014	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Interest and other financial income	₱1,506	106	₱742	181	₱764	103
Interest and other financial charges	(1,187)	(84)	(1,426)	(347)	239	(17)
Foreign exchange gains	321	23	6	1	315	5,248
Equity in net earnings (losses) of associates and joint ventures	(27)	(2)	295	72	(322)	(109)
Others	807	57	794	193	13	2
Total	₱1,420	100	₱411	100	₱1,009	245

Other income, net of expenses, for the year ended December 31, 2015 amounted to ₱1,420 million, higher than last year's ₱411 million.

In 2015, *MERALCO* recognized the *ERC*-approved carrying charge of ₱198 million for the recovery of the Second Generation Rate Adjustment Mechanism ("*GRAM*") under interest and other financial income. Additional yields on *MERALCO's* investments in government securities contributed to the increase in interest and other financial income. In 2015, *MERALCO* also recognized gain on partial divestment in Indra Philippines, Inc. ("*Indra Philippines*") of ₱135 million.

Interest and other financial charges in 2014 included the accelerated amortization of debt issue costs as a result of the prepayment of certain long-term debt. In 2015, interest and other financial charges decreased due to settlement of certain long-term debt.

⁷*Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of *MERALCO*'s net income attributable to equity holders of the parent for the years ended December 31, 2015 and 2014 by business segment:

	2015	%	2014	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ⁸	₱17,843	93	₱17,647	98	₱196	1
Other services	1,346	7	484	3	862	178
Inter-segment transactions	(91)	–	(78)	(1)	(13)	17
Total	₱19,098	100	₱18,053	100	₱1,045	6

Net income attributable to equity holders of the parent for the year ended December 31, 2015 is higher by 6% compared with last year due to the combined effects of the following: (a) increase in the contribution of operating units, subsidiaries and associates; (b) increase in other income due to approved carrying charge related to the second *GRAM* under recoveries, higher financial income with the deployment of cash in longer tenor instruments; and (c) recognition of gain from partial divestment of interests in *Indra Philippines*.

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 ⁹	₱261,740	98	₱294,849	99	(₱33,109)	(11)
Other services	6,894	3	5,258	1	1,636	31
Inter-segment transactions	(2,298)	(1)	(1,471)	–	(827)	56
Total	₱266,336	100	₱298,636	100	(₱32,300)	(11)

Total revenues in 2014 were lower by 11% at ₱266,336 million compared with ₱298,636 million in 2013. Electric revenues represent 98% or ₱261,740 million of the total revenues.

The lower electric revenues in 2014 is attributable to the (a) billing adjustment (amounting to ₱9.3 billion) by *PEMC* for power purchases from *WESM* for the December 2013 supply month based on an order of the *ERC*; (b) loss of pass-through supply revenue component on the electricity of contestable customers who contracted their power requirements with retail electricity suppliers other than *MPower*; (c) lower pass-through generation charges under competitively negotiated *PSAs*.

⁸*Ibid.*

⁹*Ibid.*

Power

Revenues from the power segment represents *MERALCO* and *CEDC*'s sale of electricity, which includes generation, transmission, distribution charges and subsidies, and *MPower*'s generation revenue as a *RES* 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	₱159,281	61	₱192,558	65	(₱33,277)	(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	₱261,740	100	₱294,849	100	(₱33,109)	(11)

Electricity Revenues

Generation charge accounted for 61% of total electricity revenues in 2014. Average generation charge to captive customers was at ₱5.34 per *kWh* in 2014 compared with ₱5.39 per *kWh* in 2013. Transmission charge represented 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 *SL* rate as at December 31, 2014 was at 6.49%, 0.43 percentage point lower compared with the 6.92% *SL* 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 *SL* management programs. *CEDC*'s 12-month moving average *SL* 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. The 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 retail 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 GWh)		% 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* began on June 26, 2013. Certain qualified contestable customers in the Luzon and Visayas grids whose connected load is at least one (1) *MW* over the past 12 months, opted to source their power supply from *RESs*. As of December 31, 2014, out of 837 qualified contestable customers in the *MERALCO* franchise area, 349 customers opted for contestability and switched their supply requirements to eight (8) *RESs*, including *MERALCO's* local *RES*, *MPower*. Total energy sourced from the eight (8) *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 in 2014 from ₱5,258 million in 2013. The 31% increase in revenues from other services is mainly attributable to *MServ's* additional projects from new clients, *Bayad Center's* increase in bills pay volume, increase in *Bayad Center* sites and higher franchising fees, *Radius's* additional circuits installed for new clients, *MRail'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 ₱240,242 million, 12% lower compared with ₱274,486 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	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power ¹⁰	₱237,058	99	₱271,798	99	(₱34,740)	(13)
Other services	5,012	2	4,159	2	853	21
Inter-segment transactions	(1,828)	(1)	(1,471)	(1)	(357)	(24)
Total	₱240,242	100	₱274,486	100	₱34,244	(12)

¹⁰*Ibid.*

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	₱203,242	86	₱238,198	88	(₱34,956)	(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	₱237,058	100	₱271,798	100	(₱34,740)	(13)

Costs and expenses of the power segment in 2014 amounted to ₱237,058 million, 13% lower compared with ₱271,798 million in 2013. Purchased power accounted for 86% of the total costs and expenses. *MERALCO* and *CEDC* do not operate their own generation capacity. All of the electricity distributed or sold through *MPower* were purchased through contracted *PSAs* with generators, the National Power Corporation ("*NPC*") (up to June 25, 2013), long-term *PPAs* contracted with *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 *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*.

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 ₱5,012 million, 21% higher compared with ₱4,159 million in 2013.

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱1,582	32	₱1,808	43	(₱226)	(13)
Contracted services	1,195	24	955	23	240	25
Depreciation and amortization	230	4	206	5	24	12
Others	2,005	40	1,190	29	815	68
Total	₱5,012	100	₱4,159	100	₱853	21

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 40% of the total costs and expenses, increased by 68% from ₱1,190 million in 2013 to ₱2,005 million in 2014 because of higher insurance claims recognized by RSIC in 2014 due to losses from *Typhoon Glenda*.

OTHER INCOME (EXPENSES)

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 ¹¹	₱411	110	₱172	97	₱239	139
Other services	(37)	(10)	5	3	42	(840)
Total	₱374	100	₱177	100	₱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.

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

	2014	%	2013	%	Increase/Decrease	
					Amount	%
<i>(Amounts in millions)</i>						
Interest and other financial income	₱742		₱1,161		(₱419)	(36)
Interest and other financial charges	(1,425)		(1,475)		50	(3)
Foreign exchange gain	6		354		(348)	(98)
Equity in net earnings (losses) of associates and joint ventures	296		(258)		554	(214)
Others	792		390		402	103
Total	₱411		₱172		₱239	139

Other income net of expenses for the year ended December 31, 2014 amounted to ₱411 million, higher than last year's ₱172 million.

Other income in 2014 included technical services and management fees earned from the technical services agreement with two (2) Nigerian electricity distribution utilities. The contribution of associates and joint ventures resulted in a ₱296 million equity in net earnings in 2014 compared with ₱258 million equity in net losses in 2013.

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.

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, 2014 and 2013 by business segment:

	2014	%	2013	%	Increase/Decrease	
					Amount	%
	<i>(Amounts in millions)</i>					
Power ¹²	₱17,647	97	₱16,512	96	₱1,135	7
Other services	484	3	761	4	(277)	(36)
Inter-segment transactions	(78)	-	(62)	-	(16)	(6)
Total	₱18,053	100	₱17,211	100	₱842	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.

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 ¹³	₱294,849	99	₱282,991	99	₱11,858	4
Other services	5,258	1	3,829	1	1,429	37
Inter-segment transactions	(1,471)	-	(1,550)	-	79	5
Total	₱298,636	100	₱285,270	100	₱13,366	5

Total revenues for the year ended December 31, 2013 amounted to ₱298,636, 5% higher compared with last year's ₱285,270. 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 ₱1.65 per *kWh* in 2013.

Power

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

¹²*Ibid.*

¹³*Ibid.*

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	%
	(Amounts in millions)					
Generation charge	₱192,558	65	₱183,708	65	₱8,850	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
	(134)	—	34	—	(168)	(494)
Interclass, lifeline subsidies and others						)
Power Act Reduction adjustment	(9)	—	(25)	—	(16)	(64)
Total	₱294,849	100	₱282,991	100	₱11,858	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 ₱5.39 per kWh in 2013 versus ₱5.61 per kWh in 2012. Transmission charge on the other hand, represents 10% of total power revenues or an equivalent ₱0.86 per kWh in 2013 compared with ₱0.98 per kWh in 2012. Overall, transmission charge was lower by 9%. Average system loss charge in 2013 was at ₱0.46 per kWh, ₱0.52 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 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 Temporary Restraining Order or TRO, issued by the Supreme Court 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 Supreme Court.

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 GWh)		% 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 ¹⁴	₱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 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

¹⁴*Ibid.*

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 ¹⁵	(₱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.

¹⁵*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 ¹⁶	₱16,512	96	₱15,577	91	₱935	6
Other services	761	4	1,682	9	(921)	(55)
Inter-segment transactions	(62)	-	(142)	-	80	(56)
Total	₱17,211	100	₱17,117	100	₱94	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 ₱1.6474 per kWh.

Other Services

Net income from other services business segment attributable to the equity holders of the parent was 55% lower at ₱761 million in 2013 compared with ₱1,682 million in 2012, which included the gain on divestment from *Rockwell Land* amounting to ₱769 million. *MERALCO* divested its equity shares in *Rockwell Land* in May 2012.

¹⁶*ibid.*

LIQUIDITY AND CAPITAL RESOURCES

The following table shows *MERALCO*'s consolidated cash flows for the years ended December 31, 2015, 2014 and 2013 as well as the consolidated capitalization and other selected consolidated financial data as at December 31, 2015 and 2014:

	For the Year Ended December 31		
	2015	2014	2013
	<i>(Amounts in millions)</i>		
<u>Cash Flows</u>			
Net cash from operating activities	₱41,683	₱37,495	₱37,144
Net cash used in investing activities	(42,388)	(12,616)	(30,392)
Net cash used in financing activities	(17,924)	(15,261)	(7,401)
Net increase (decrease) in cash and cash equivalents	(18,629)	9,618	(649)
<u>Capital Expenditures</u>	11,123	12,582	10,187
	2015	2014	
	<i>(Amounts in millions)</i>		
<u>Capitalization</u>			
Interest-bearing long-term financial liabilities			
Current portion		₱1,895	₱1,899
Noncurrent portion		27,370	27,743
Notes payable		1,043	400
Equity attributable to equity holders of the parent		80,276	79,154
<u>Other Selected Financial Data</u>			
Total assets		282,239	269,053
Utility plant and others		124,913	120,830
Cash and cash equivalents		50,840	69,469

As at December 31, 2015, *MERALCO Group*'s consolidated cash and cash equivalents totalled ₱50,840 million, ₱18,629 million lower compared with ₱69,469 million as at December 31, 2014. Following are the significant sources and uses of consolidated cash and cash equivalents for the year ended December 31, 2015:

Operating Activities

Consolidated net cash provided by operating activities for the year ended December 31, 2015 of ₱41,683 million was 11% higher compared with ₱37,495 million in 2014 as a result of higher balance of working capital.

Investing Activities

Consolidated net cash flows used in investing activities for the year ended December 31, 2015 amounted to ₱42,388 million compared with ₱12,616 million in 2014. Investing activities were mainly driven by funds placed in available-for-sale ("AFS") and held-to-maturity ("HTM") investments totalling ₱31,917 million in 2015.

Financing Activities

Consolidated net cash used in financing activities amounted to ₱17,924 million for the year ended December 31, 2015 compared with ₱15,261 million in 2014. Significant financing activities in 2015 include payments of (a) dividends of ₱16,926 million and (b) debt and interest totaling ₱2,568 million.

Debt Financing

On December 12, 2013, *MERALCO* issued ₱11.5 Billion and ₱7.0 Billion of 7- (puttable in 2018) and 12-year (puttable in 2023) corporate bonds, respectively. The 12-year corporate bonds also include a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds beginning on the 7th year from issue date at an early redemption price of 101%. The put and call options are clearly and closely related to the host instruments, thus, were not recognized separately.

The Bonds were listed in the board of the Philippine Dealing and Exchange Corporation.

The net proceeds from the bond issuance were used to refinance certain loans, which included principal, interest, prepayment penalties and other financing costs.

In March 2014, *MERALCO* entered into a 10-year fixed rate loan with 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, 2015, *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 with the dividends declared 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 related to service applications, which required extension or new distribution facilities beyond a specific distance or standard provisions. 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 outstanding redeemable preferred shares have been called for redemption as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Total unclaimed dividends amounted to ₱250 million as at December 31, 2015 and 2014. Interest is no longer accrued when the preferred shares have been called for redemption.

As at December 31, 2015 and 2014, *MERALCO*'s capital stock consists of:

<i>(Amounts in millions, except par value and number of shares)</i>	2015	2014
Common stock - ₱10 par value		
Authorized - 1,250,000,000 shares	₱12,500	₱12,500
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 Employee Stock Purchase Plan ("*ESPP*") in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

The table below summarizes the cash dividends declared in 2015, 2014 and 2013:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				<i>(In millions)</i>
July 27, 2015	August 26, 2015	September 18, 2015	₱6.76	₱7,619
February 23, 2015	March 23, 2015	April 15, 2015	8.49	9,569
July 28, 2014	August 25, 2014	September 18, 2014	5.91	6,661
March 17, 2014	April 15, 2014	May 8, 2014	6.45	7,270
July 29, 2013	August 27, 2013	September 20, 2013	4.10	4,621
February 25, 2013	March 26, 2013	April 24, 2013	6.10	6,875

On February 26, 2016, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱9.92 a share to all shareholders of record as at March 23, 2016, payable on April 15, 2016.

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 "valuation of regulatory asset base ("*RAB*")", "allowable return" and "permitted cost recoveries". Distribution 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*, taxes, among others.

Performance-Based Regulations ("PBR")

MERALCO is among the Group A entrants to the *PBR*, together with two other private distribution utilities ("*DUs*").

Rate-setting under *PBR* is governed by the Rules for the Setting of Distribution Wheeling Rates ("*RDWR*"). The *PBR* scheme sets tariffs once every Regulatory Period ("*RP*") based on the regulated

asset base of the *DUs*, and the required operating and capital expenditures to meet operational performance and service level requirements responsive to the needs for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the *ERC*. *PBR* also employs a mechanism that penalizes or rewards a *DU* depending on its network and service performance.

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

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 *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 ("*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 *SL* charge. Implementation of the guidelines started with the November 2004 billing cycle.

The *ERC*'s approval of *MERALCO*'s second filing under *GRAM* was questioned before the Supreme Court ("*SC*") for failure by *MERALCO* and the *ERC* to comply with Section 4 (e) Rule 3 of Electric Power Industry Reform Act ("*EPIRA*")'s Implementing Rules and Regulations ("*IRR*") which required publication, notice, and hearing of an application prior to issuance of an Order. On August 16, 2006, the *SC* ruled with finality that strict compliance with the requirements under the *IRR* of the *EPIRA* is jurisdictional and applies to any adjustment to the retail rate, including those for pass-through costs. The *AGRA* was then suspended beginning September 2006 and *MERALCO* may 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 ("*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, *SL* 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 *SL* charges of *DUs*, shifting the reckoning of the *SL* cap from a monthly to an annual reckoning to more fairly reflect the actual *SL* performance of *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, 2015 (covering adjustments from January 2011 to December 2014) as the new deadlines for *DUs* in Luzon to file their respective applications. Subsequent filings shall likewise be every three (3) years thereafter.

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 utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, 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 utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the performance incentive scheme 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 hearings on this case have been completed. As at February 26, 2016, this Petition is pending decision by the *ERC*.

MERALCO's 12-month moving average *SL* rate as at December 31, 2015 was at 6.47%, 0.02 percentage point lower compared with the 6.49% system loss rate as at December 31, 2014, as a result of its institutionalized *SL* management programs. *CEDC*'s 12-month moving average *SL* rate as at December 31, 2015 was at 4.16%.

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' *GDP*, with 37% from Metro Manila.

For the year ended December 31, 2015, *MERALCO* and *CEDC*'s combined energy sales volume was 37,124 *GWh*, 6% higher compared with 35,160 *GWh* in 2014. The growth in sales volume in 2015 was due to external factors conducive to strong power demand, such as (a) the much warmer temperature beginning August 2015 with the onset of "El Nino"; (b) better power plant capacity availability and (c) positive economic conditions of record-low inflation, much lower electricity prices and healthy *GDP* growth, spurred by continuously growing remittances from overseas Filipinos and *BPO* revenues.

MERALCO managed to grow customers by 4% largely from the commercial and residential sectors. MERALCO and CEDC have close to 5.8 million customers as at December 31, 2015.

Average temperature for the year ended December 31, 2015 is hotter by 0.27°C from 27.69°C in 2014 to 27.96°C in 2015.

Electricity Supply

MERALCO and CEDC do not operate its own generation capacity. Both purchase all of the power they distributes from the power supplier generators under PSAs, IPPs and WESM. WESM is a venue where suppliers and buyers trade electricity as a commodity. For the year ended December 31, 2015, MERALCO purchased 46% of its requirements from IPPs, 48% from power supply generators under PSAs, and 6% from the WESM.

IPPs

FGPC and FGP

In compliance with the DOE's program to create a market for the 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 with 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 advances to QPPL US\$2.85 million per annum for 10 years beginning 2008 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, should *MERALCO* dispatches *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay the 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*.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity ("*MEQ*"), provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the *US* and Philippine Consumer Price Index.

Year	<i>MEQ</i> (In million kwh)	Equivalent Amount (In Million)
2016	14,758	₱20,286
2017	14,758	20,416
2018	14,758	20,560
2019	14,758	20,681
2020	14,758	20,804
2021 to 2027	81,631	115,510

Power Supply Generators Under PSAs

The table below summarizes the salient features of the *PSAs/Contract to Sell of Electricity* (“CSE”) with power supply generators:

Date	Power Supplier	Plant/Contracted Capacity	Terms of <i>PSA/CSE</i>
November 12, 2010	Bacavalley Energy, Inc. (“ <i>BEI</i> ”)	4 MW renewable energy generation facility powered by landfill gas in San Pedro, Laguna.	Term of two (2) years from the delivery period commencement date. On March 12, 2015, <i>MERALCO</i> and <i>BEI</i> executed a letter of Agreement extending the CSE until March 16, 2016.
December 12, 2011	South Premiere Power Corporation (“ <i>SPPC</i> ”)	Ilijan Power Plant in Batangas, for the full 1,180 MW 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. (“ <i>MPPCL</i> ”)	The initial contracted capacity is 330 MW, to increase to 430 MW 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 (“ <i>Sem-Calaca</i> ”)	The initial contracted capacity is 210 MW and will be increased to 420 MW 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. (“ <i>TLI</i> ”)	Pagbilao coal-fired power plant with contracted capacity of 350 MW located in Quezon Province	Term of seven (7) years, which may be extended for three (3) years upon agreement of parties.
May 31, 2012	Pangea Green Energy Philippines, Inc. (“ <i>PGEP</i> ”)	Biogas power plant methane gas with a total nominal generating capacity of 1 MW.	Term of two (2) years from the delivery period commencement date, unless amended by the parties. On March 2, 2015, <i>MERALCO</i> and <i>PGEP</i> executed a Letter of Agreement extending the CSE until February 29, 2016.

Date	Power Supplier	Plant/Contracted Capacity	Terms of <i>PSA/CSE</i>
June 26, 2012	San Miguel Energy Corporation (“ <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.
September 27, 2013	Therma Mobile, Inc. (“ <i>TMO</i> ”)	Output of the barged-mounted, bunker oil-fired diesel engines moored at the Fishport Complex in Novatas, Manila.	Term shall expire on June 25, 2017, which may be extended upon mutual agreement of parties.
April 16, 2014	Montalban Methane Power Corporation (“ <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.
May 15, 2014	Philippine Power and Development Corporation (“ <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	<i>SBPL</i>	Supercritical coal-fired power plant for 455 <i>MW</i> (net) capacity and electrical output	Term of 20 years, extendible for another five (5) years at the option of <i>MERALCO</i> .
November 25, 2014	Bacman Geothermal, Inc. (“ <i>BGI</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.

BEI

Purchases from *BEI*, an embedded renewable energy generator, are value added tax (“*VAT*”) zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 16, 2015. In its Order dated December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with motion to the *ERC* for approval of the extended term. As at February 26, 2016, the case is pending approval by the *ERC*.

PSAs with Privitized Plants and IPPAs

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.

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)
2016	3,080	₱40,017
2017	3,080	39,760
2018	2,880	39,481
2019	2,460	34,268
2020	455	8,159
2021	455	8,203
2022-2039	455	157,150

PGEP

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with motion to the *ERC* for approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. On October 29, 2015, the termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a *Manifestation with Motion* with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. As at February 26, 2016, the case is pending decision by the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 MW generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park - Malabon 115 kV line. *TMO* is thus an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 kV line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 kV line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for Provisional Authority. After hearing and submission of the required documents, including the Formal Offer of Evidence (“*FOE*”), the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. On April 6, 2015, the *ERC* approved the Amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*. As at February 26, 2016, the said Omnibus Motion is pending resolution by the *ERC*.

PPDC

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. As at February 26, 2016, the case is submitted for decision by the *ERC*.

SBPL

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. Following a number of hearings, on May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

BGI

On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. Hearings have been completed and as at February 26, 2016, the case is submitted for decision.

Interim Power Supply Agreement (“IPSA”)

On April 1, 2014, *MERALCO* signed two separate *IPSAs* with the wholly-owned subsidiaries of *GBPC*, namely: (1) Panay Power Corporation (“*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. (“*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*, had an initial terms up to June 30, 2014, and were subsequently extended to October 31, 2014, and further up to July 25, 2015. In its various Decisions dated June 2, 2014, July 10, 2014 and March 15, 2015, the *ERC* approved the applications and extensions with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *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 nine (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. On March 16, 2015, the *ERC* approved the *IPSA* with *PPC* and *TPC*.

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 Memorandum of Agreement (“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 January 19, 2016, after the conduct of a price challenge in compliance *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 MW (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 225-MW diesel-fired power plant in Bauang, La Union. The *IPSA*, with a term until February 25, 2017, was filed for approval of the *ERC* on February 10, 2016. The *IPSA* shall become effective upon the approval of the *ERC*.

On January 21, 2016, after the conduct of a price challenge in compliance *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two separate *IPSAs* with *TPC* for the 28 MW (firm) output from its 40 MW diesel-fired power plant in Carmen, Toledo City; and (2) *PPC* for the 45 MW (firm) output from its 72 MW diesel-fired power plant in La Paz, Iloilo City. Both *IPSAs*, with a term until February 25, 2017, were filed for approval of the *ERC* on February 10, 2016. The *IPSAs* shall become effective upon the approval of the *ERC*.

*Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation
 (“Alternergy”)*

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for their 90 MW Wind Farm Renewable Energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*'s Malaya-Teresa 115 kV line. *Alternergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 kV line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO*'s Malaya-Caliraya 115 kV line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 kV line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 kV line until the completion of the construction of the Phase 2 Line or until December 31, 2016. In the Letter Agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalized their agreement as regards the extended use of said line.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, MERALCO signed an Interconnection Agreement with MGI for their 20 MW (with max capacity of 40 MW) Geothermal Facility plant in Sto. Tomas, Batangas, which shall interconnect at MERALCO's FPIP - Los Baños 115 kV line. MGI is an embedded generator. MGI shall construct at its own cost, operate and maintain the 115 kV line connecting its generating facility to MERALCO's system. In its Decision dated September 30, 2013, the ERC approved MGI's application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of MERALCO.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, MERALCO signed an Interconnection Agreement with ATN for the latter's 25.2 MW solar generating facility in Rodriguez, Rizal, to be connected to MERALCO's Novaliches 44 YJ, Diliman 435 VU and Parang 412 YL circuits. ATN is an embedded generator. ATN shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to MERALCO's system.

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 *PBR*

As *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) *SL* charge, (d) lifeline and inter-class rate subsidies, (e) business taxes such as local franchise tax (“*LFT*”); and [ii] the “Rules for the Setting of Distribution Wheeling Rates”, 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*:

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 once every *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) *RYs*. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The 4th *RP* for Group A began on July 1, 2015 and shall end on June 30, 2019.

MAP for RY 2008 and RY 2009

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

MAP for RY 2012

On June 21, 2011, *MERALCO* filed 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 26, 2016, the application is pending final approval by the *ERC*.

MAP for RY 2013

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

MAP for RY 2014

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

MAP for RY 2015

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

4th RP Reset Application

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

Interim Average Rate for RY 2016

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

Capital Expenditures ("CAPEX") for RY 2016

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

CEDC

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

2. Application for Recoveries

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. On June 1, 2015, the ERC approved with modification MERALCO’s application for the confirmation of its over/under-recoveries in its pass-through costs for the period June 2003 to December 2010. The Decision directed MERALCO to collect net under recoveries of ₱909 million, without carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2015, a total of ₱61 million has been billed to the customers.

On July 6, 2012, MERALCO filed 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. On June 1, 2015, the ERC approved with modification MERALCO’s application for the confirmation of its over/under-recoveries in its pass-through costs for the period January to December 2011. The Decision directed MERALCO to collect net under-recoveries of ₱1,535 million, without any carrying charges, starting the next billing cycle until such time that the amount have been collected. As at December 31, 2015, a total of ₱437 million has been billed to the customers.

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 months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. Hearings are ongoing and the next scheduled hearing is on June 14, 2016.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation cost for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation cost for recovery to ₱1,310 million following the receipt of *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.

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

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

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

Deferred Purchased Price Adjustment ("Deferred PPA")

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of *Deferred PPA* transmission line costs related to *QPPL* and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent of ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s *Deferred PPA* under-recoveries of ₱106 million, which is not transmission line fee. On November 4, 2009,

MERALCO filed an MR with the ERC. As at February 26, 2016, the MR is still pending resolution by the ERC.

Application for Recovery of LFT

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

In a Decision dated February 27, 2012, the ERC approved with modifications MERALCO's application. The ERC approved the recovery of LFT amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the ERC, the recovery was reflected as a separate item in the MERALCO billing statement to its customers beginning April 2012. As December 31, 2015, a total of ₱1,894 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 ("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.

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

3. Benefit Sharing Scheme to Lower System Loss

On January 26, 2011, MERALCO, together with Private Electric Power Operators Association, Inc. ("PEPOA") and Philippine Rural Electric Cooperative Association ("PHILRECA"), filed a joint petition to the ERC to initiate rule-making to adopt the *Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users*. This was aimed to encourage the DUs to reduce SL levels below the cap set by the ERC and benefit the end-users through lower system loss charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the *Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities*. As at February 26, 2016, the Joint Petition is pending further action or decision by the *ERC*.

4. *RCOA*

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

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements. The resolution mandates all *DUs* to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least 1 *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information in issuing the certificates of contestability.

On October 22, 2014, the *ERC* issued a resolution suspending the issuance of *RES* licenses. Under the resolution, the *ERC* resolves to hold in abeyance the evaluation of *RES* license applications and suspend the issuance of such licenses until such time that the amendments to the Rules for the issuance of *RES* licenses have been made by the *ERC*.

On July 1, 2015, the *DOE* published Department Circular No. DC2015-06-0010 "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry." The salient points of the circular are as follows:

- a. All contestable customers with average demand of 1 *MW* and above are mandated to secure their respective Retail Supply Contracts ("*RSC*") no later than June 25, 2016.
- b. All contestable customers with an average demand ranging from 750 *kW* to 999 *kW* for the proceeding 12-month period are mandated to secure their *RSCs* no later than June 25, 2016.
- c. Aggregators with aggregated demand not lower by 750 *kW* shall be allowed to compete with *RES*, generation companies and prospective generation companies effective June 26, 2016.
- d. Any electric end user with an average demand ranging from 501 *kW* to below 750 *kW* for the preceding 12 months may be allowed to choose their respective *RES* effective June 26, 2018 subject to the determination of the *ERC* on the basis of its evaluation on the performance of the retail market.
- e. Any *DU* which may incur displaced contract capacity/energy ("*DCC/E*") shall inform the *ERC* of its impending *DCC/E*.

Subsequently, the *ERC* released for comments its proposed Draft Revised Rules for Contestability and "Draft Rules Governing the Issuances of Licenses or Authorization to Retail Electricity Suppliers Prescribing the Requirements and Conditions Therefor" ("*Revised RES Licensing Rules*"). The draft Revised Rules for Contestability proposed the following guidelines:

- a. Contestable Customers shall be given up to June 25, 2016 to contract for their capacity requirements. Mandatory contestability for 1 *MW* customers shall be implemented on June 26, 2016, together with the lowering of contestability to 750 *kW*. All Contestable Customers with an average peak demand of 750 *kW* to 999 *kW* for the preceding 12-month period are also mandated to enter an *RSC*. Contestable Customer with no appointed *RES* by 26 June 2016 will either; (i) serve by the *SOLR*; or (ii) remain captive (special circumstances, but with *ERC* approval).
- b. Any Contestable Customer shall be allowed to enter into a *RSC* with any legitimate prospective Generation Companies, and shall be deemed compliant with the mandatory requirement despite the commercial operation of such plant at a subsequent period of time.
- c. The *DU* shall continue to serve the electricity requirements of the Contestable Customer during the period when the power plant of the Generation Company is still under construction. Such Contestable Customer shall be included in the alternative pricing scheme of the *DU*, i.e. *POP* rates program or time-of-use ("*TOU*") rate or preferential rate.
- d. The aforesaid Generation Companies shall secure the corresponding *RES* license 60 days prior to commercial operation. Any Generation company that failed to put up the power plant as per its *RSC* with the Contestable Customer shall be subject to strict monitoring. To supply the affected Contestable customer, a temporary supplier shall be appointed by the *ERC* and shall be given six (6) months period to secure a *RES* license.
- e. Contestable Customers within a contiguous area with an aggregate demand of at least 750 *kW* shall be allowed on June 26, 2019. Nevertheless, rules for retail aggregation shall be issued separately by the *ERC* prior to its implementation.

The Revised *RES* Licensing Rules proposed new classification of *RES* licenses and new requirements to be complied by *RES*s. The draft also set new limitations and restrictions on *RES* operations.

The comments on this first set of draft Rules were submitted on July 30, 2015 and the public consultation was conducted on August 14, 2015. *MERALCO* is awaiting further action of the *ERC* on this matter.

Subsequently, in a notice dated November 13, 2015, the *ERC* released for comments its proposed Draft Rules on the Mandatory Migration to the Competitive Retail Electricity Market ("*CREM*") ("*Rules on CREM*"). Along with such notice, the *ERC* issued a second set of draft Revised Rules for Contestability and Revised Rules on *RES* Licensing. Both the draft Rules on *CREM* and second draft Revised Rules on *RES* Licensing contain provisions (i) no longer allowing *DUs* to supply electricity to the contestable market, unless such supply is made in its capacity as a *SOLR*, and enjoining *DUs* to wind down their respective supply businesses such that no Local *RES* shall be allowed to act as such by June 26, 2016; and (ii) no longer allowing *DU* affiliates to operate as *RES* by June 26, 2016, in which case, a winding down of its supply business is likewise enjoined. *MERALCO* submitted its comments on the second draft of Revised Rules on *RES* Licensing on December 4, 2015 and its comments on the draft *Rules on CREM* and second draft Revised Rules for Contestability on December 9, 2015. Further action of the *ERC* on this matter is pending.

5. 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 (“*PIPPA*”) in the *RTC* of Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the Secondary Cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment-in-Intervention. The *RTC-Pasig* admitted *MERALCO*’s intervention and comment in its Order dated October 28, 2014. The case had already been submitted for decision. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC* denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration. *MERALCO* filed its Opposition to the motion and is awaiting the decision of the *RTC* on the matter. On September 29, 2015, the *WESM* Tripartite Committee issued a joint resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015.

In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of the review.

6. Philippine Economic Zone Authority (“*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*.

On February 4, 2015, the Court issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing *MERALCO* manifested that it previously filed a Motion to Withdraw as Plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the Court. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the Court. In a Decision dated July 3, 2015, the *RTC* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2015, the *RTC* dismissed the petition upon motion by *PEZA*.

7. 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. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*’s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers the opportunity to claim their refund, and, so as not to disrupt the SC Refund process, *MERALCO* shall continue implementing the refund even after the December deadline, until and unless the *ERC* directs otherwise.

8. *MERALCO*’s *POP* Program

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised *TOU* rates program, also known as the *POP* Program. The *POP* is a rate program being offered by *MERALCO* to customers whose load characteristics can benefit from *TOU* rates as well as to those that can shift their loads from peak to off-peak hours. The proposed revised *POP* Rate aims to provide better savings to 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.

9. Purchase of Sub-transmission Assets (“*STAs*”)

On April 17, 2012, *MERALCO* and National Transmission Corporation (“*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.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Resolution dated September 21, 2015, the *CA* required the parties to submit their respective memoranda. Thereafter, the case is submitted for decision.

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *Transco* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC* -Branch 155 of Pasig, praying for the Court to: accept and approved the consignation of the amount of ₱194 million; declare *MERALCO* to have paid in full the purchase price of the sale of *Transco*'s assets; direct *Transco* to execute the corresponding Deeds of Absolute Sale; and direct *Labrador* and *Transco* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *Transco* filed their respective Motions to dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from Branch 155, *RTC*-Pasig granting the Motions to Dismiss of both *Transco* and *Labrador*. *MERALCO* filed a Motion for Reconsideration which is pending resolution.

On December 12, 2011, *MERALCO* signed various agreements for the acquisition of certain sub-transmission assets of *TransCo* within the *MERALCO* franchise area for its sole account, as well as through a consortium with Batangas II Electric Cooperative, Inc., ("*BATELEC II*") and First Bay Power Corporation ("*FBPC*"). On September 18, 2012, an amended consortium agreement was executed between *MERALCO* and *FBPC*. On October 17, 2012, *MERALCO* signed two separate amended consortium agreements with *BATELEC II*, and with *FBPC* and *BATELEC II*. These amended consortium agreements superseded the agreements signed on December 12, 2011. On December 27 and 28, 2012, the Contract to Sell and Consortium Agreements, respectively, covering these sub-transmission assets were filed with the *ERC* for approval.

The applications for approval of the Consortium Agreement between *MERALCO* and *BATELEC II* and the Contract to Sell among *TRANSCO*, *MERALCO* and *BATELEC II* are submitted for resolution of the *ERC*.

10. Feed-in-Tariff ("*FiT*")

Pursuant to Republic Act No. 9513, ("the Renewable Energy Act of 2008") ("*RE Act*"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is as a renewable energy policy that offers 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 (“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 (“*FiT*-All”) charge will be imposed on all end-users. The *FiT*-All will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT*-All Disbursement and Collection Guidelines 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*-All 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 Temporary Restraining Order (“*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*-All, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. Through a Notice dated March 17, 2015, the *SC* required the adverse parties to submit their comments within ten (10) days from receipt. The *ERC* and *DOE* filed a Consolidated Comment dated July 23, 2015 while the *NREB* filed its Comment dated July 14, 2015.

On April 30, 2014, the *DOE* issued a Certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its Certification, the *DOE* stated that “solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016”. The *ERC* is currently conducting public hearings to determine the applicable *FiT* rate for the additional 450 *MW*.

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FiT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, *ERC* issued a Decision dated March 27, 2015 setting the new Solar *FiT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a Certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FiT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FiT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FiT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FiT*. In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a Motion for Reconsideration of the Decision.

11. Net Metering Program

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

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, 2015, *MERALCO* has already installed 386 meters and energized 295 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

12. Interruptible Load Program (“ILP”)

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*’s request that it be allowed to adopt and implement the “Rules to Govern the Interruptible Load Program of Distribution Utilities” promulgated under Resolution No. 08, Series of 2010, as amended by Resolution No. 08, Series of 2013.

MERALCO is working with the *DOE*, the *ERC* and other stakeholders on the mechanics to implement the expanded *ILP* to cover not only captive customers but also contestable customers with demand of one (1) *MW* or higher who have standby generating units.

As of December 31, 2015, there are 225 companies with a total generating capacity of 826.85 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity supplier as *ILP* participants.

13. Long-term Indebtedness Application

On June 25, 2015, *MERALCO* filed an Application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) Whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. The *ERC* directed *MERALCO* to submit additional documents in support of its Application Which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a motion to withdraw the application without prejudice to its refiling at a later date. *MERALCO* is awaiting the decision of the *ERC* on its motion to withdraw.

14. Prepaid Retail Electricity Service (“PRES”)

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2015, there are 16,851 customer connections for *PRES*.

15. Competitive Selection Process (“CSP”) for PSAs

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* Approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DUs* to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy (“*DASAP*”). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008 “Providing Policies for Further Enhancement of the *WESM* Design and Operations,” prescribing *DUs* to procure all its uncontracted demand through *CSP*, through the participation of a Third Party and which may be done by *DUs* on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines (“*IG*”). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by the *DOE* and the *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On even date, the *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

- a) All *DUs* are required to undergo *CSP*. Pending the *ERC*’s issuance of a prescribed process, *DUs* may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.
- b) A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.
- c) The *CSP* requirement shall apply to *PSAs* that although executed, have not yet been filed for approval before the *ERC*.

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not applicable

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

1. Mediation with *NPC*

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

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year *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 (*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 *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. In a Resolution dated July 8, 2015, the SC resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In a Compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015.

2. Sucat-Araneta-Balintawak Transmission Line

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

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City or plaintiffs, filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the plaintiffs' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same. 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.

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.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, plaintiffs filed a Manifestation stating that they are pursuing the deposition of Dr. Martin Blank, a supposed expert in electromagnetic field, through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of Dr. Blank. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. The next hearing for this case is set on March 24, 2016.

3. Real Property Tax ("RPT") Assessment

Several Local Government Units ("*LGUs*") assessed *MERALCO* for deficiency *RPT* on certain assets of *MERALCO*. The assets include electric transformers, distribution 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. On October 22, 2015, *MERALCO* received a copy of the *SC* Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGU*. *MERALCO* did not appeal said *SC* Decision. The cases of the other *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 *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 Local Government Code ("*LGC*"). The case is set for mediation after the City of Manila filed its comment on *MERALCO*'s petition. *MERALCO* has started presenting its evidence without prejudice to possible out-of-court settlement in light of the *SC* Decision in the case of Lucena City. Subsequently, the court has granted the motion jointly filed by *MERALCO* and the City of Manila for the withdrawal of the case subject to the terms and conditions set forth in the motion.

In the event that the assessment is sustained by the *SC* and payment is warranted or appropriate, *MERALCO* will file for the recovery of any resulting *RPT* payments from customers in the relevant *LGU* through a separate application with the *ERC*.

4. *LFT* 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.

5. SC Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*'s unbundled tariffs that resulted in an 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. In compliance with the *CA* directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* acknowledged receipt of the respective Memoranda from parties and declared the case submitted for decision. As at February 26, 2016, the decision of the *CA* is still pending.

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

2015 Capital Expenditure Requirements (in millions)

Electric capital projects	₱10,667
Non-electric projects and other capitalized items	3,898
Total capital expenditures	₱14,565

As at December 31, 2015, *MERALCO* has met the capital expenditure requirements approved by the *ERC* up to June 30, 2015, based on its *3RP* Final Determination and capital expenditures applied with the *ERC* during the *3RP*.

MERALCO has a management-approved capital expenditure budget of ₱14,565 million for the year ended December 31, 2015, of which about 73% represents planned expenditures for the electric projects of the power distribution business. The capital expenditure budget shall address requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies.

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

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

1. Retail Competition

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

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

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, and the 500 kV 600 Mega Volt-Ampere ("MVA") 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-TOU* rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the Transmission Line Costs billed to *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the start of the *TSC* in November 2006. Thus, *NPC* was directed to refund/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 Successor Generating Companies ("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*, 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 limited to the ₱5.2 billion but should include all 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 all 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 26, 2016, *MERALCO*'s Manifestation and Motion is still pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming *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*. *MERALCO* has filed its Opposition to the Motion for Reconsideration. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s Motion for Reconsideration. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. *MERALCO* is waiting further action of the *SC* on the Petition.

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

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*. Said Petition seeks the following:

- 1) Refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *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 26, 2016, the Joint Motion to Dismiss is pending resolution by the *ERC*.

4. *PSALM* versus *PMC* and *MERALCO*

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised concerns with the *PEMC* to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and Memorandum.

As at February 26, 2016, *PSALM*'s Petition for Review is pending resolution by the *SC*.

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

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2016, the petition is pending resolution by the *ERC*.

6. *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 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 an Order dated October 15, 2014, the *ERC* denied the motions for reconsideration. The generating companies have appealed the Orders with the *CA* where the petitions are pending and have been consolidated. *MERALCO* has filed a Consolidated Motion for leave, to intervene and to admit consolidated comment in intervention. In a Resolution dated October 9, 2015, the *CA* required the generators to file their comments on *MERALCO*'s consolidated motion. *MERALCO* is awaiting the resolution of the Consolidated Motion.

In view of the pendency of the various submissions before the 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.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2016, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

7. *ERC* Investigating Unit (“*IU*”) Complaint

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

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

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to set the case for hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing. As at February 26, 2016, the *ERC* has yet to set another date for the hearing of the case.

8. *SPPC* vs. *PSALM*

SPPC and *PSALM* are parties to an Independent Power Producer Administration (“*IPPA*”) Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint with *RTC-Mandaluyong* to nullify the termination notice for lack of factual and legal basis. On said date, the Executive of Judge of *RTC Mandaluyong* issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC Mandaluyong* Branch 208 extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC* granted the prayer for preliminary injunction. *PSALM* has filed an *MR* to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC Mandaluyong* allowed *MERALCO's* intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed a Motion for Reconsideration dated November 6, 2015 of the Order admitting *MERALCO's* intervention. The preliminary conference of the case is set on April 14, 2016.

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

None

- (vi) **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	2015
First Quarter	8,092
Second Quarter	9,661
Third Quarter	9,743
Fourth Quarter	9,628
Total	37,124

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, 2015.

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

Listed hereunder are *MERALCO*'s five 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, 2015 and 2014.

Financial Highlights and Ratios¹⁶ of Major Subsidiaries
As at and for the Years Ended December 31, 2015 and 2014
(Amounts in million pesos except for financial ratios and % change)

	CEDC			MGen			MIESCOR			e-MVI			CIS		
	2015	2014	% change	2015	2014	% change	2015	2014	% change	2015	2014	% change	2015	2014	% change
Percentage of ownership	65%	65%		100%	100%		99%	99%		100%	100%		100%	100%	
Condensed Statements of Financial Position															
Total assets	1,745	1,631	7	18,627	19,270	(3)	4,770	3,665	30	1,477	1,206	22	1,605	1,642	(2)
Current assets	992	1,046	(5)	6,509	6,007	8	4,078	3,138	30	473	435	9	1,504	1,577	(5)
Cash and cash equivalents	733	724	1	485	461	5	826	608	36	226	178	27	607	573	6
Equity	1,095	886	24	18,541	19,204	(3)	1,114	943	18	1,145	983	16	712	495	44
Total debt ¹⁷	-	-	-	-	-	-	421	380	11	-	-	-	-	-	-
Current liabilities	299	454	(34)	42	42	-	3,411	2,478	38	284	187	52	881	1,134	(22)
Financial Ratios															
Debt-to-equity ratio	-	-	-	-	-	-	0.38	0.40	(6)	-	-	-	-	-	-
Current ratio	3.32	2.30	44	154.98	143.02	8	1.20	1.27	(6)	1.67	2.33	(28)	1.71	1.39	23
Condensed Statements of Income															
Revenues	2,964	2,861	4	-	-	-	5,397	3,323	62	733	597	23	1,208	1,012	19
Costs and expenses	2,689	2,636	2	408	465	(12)	5,192	3,181	63	449	370	21	906	733	24
Net income (loss)	283	222	27	(223)	(329)	(32)	168	74	126	182	164	11	215	202	6
Financial Ratios															
Profit margin	9.5%	7.8%	23	-	-	-	3.1%	2.2%	39	24.8%	27.4%	(9)	17.8%	20.0%	(11)
Return on equity	25.8%	25.1%	3	(1.2%)	(1.7%)	(30)	15.1%	7.9%	91	15.9%	16.6%	(4)	30.2%	40.8%	(26)
Asset turnover	1.70	1.75	(3)	-	-	-	1.13	0.91	25	0.50	0.49	1	0.75	0.62	22

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*.

¹⁷ 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, 2015

(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	₱8,969	₱5,746	₱612	₱205	₱2,406
Commercial	7,574	6,008	275	85	1,206
Industrial	3,044	2,739	18	3	285
Flat Streetlights	311	125	19	9	158
Total billed trade receivables	19,898	14,618	924	302	4,054
B) Unbilled trade receivables	4,116	4,116	–	–	–
Total trade receivables	24,014	18,734	924	302	4,054
Other trade receivables	4,503	1,801	170	88	2,444
Gross trade receivables	28,517	20,535	1,094	390	6,498
Non-trade receivables	1,909	1,265	143	44	457
Total receivables	30,426	21,800	1,237	434	6,955
Allowance for doubtful accounts	(3,665)	–	–	–	(3,665)
Net receivables	₱26,761	₱21,800	₱1,237	₱434	₱3,290

MARKET INFORMATION

The principal market where *MERALCO*'s common equity is traded in the Philippine Stock Exchange. The quarterly high and low sales prices for the fiscal years 2015 and 2014 are as follows:

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FROM	TO	HIGH	LOW
01/01/14	03/31/14	275.17	232.62
04/01/14	06/30/14	277.82	240.86
07/01/14	09/30/14	261.84	240.10
10/01/14	12/31/14	261.84	244.45
01/01/15	03/31/15	278.65	248.75
04/01/15	06/30/15	292.36	258.95
07/01/15	09/30/15	308.27	265.20
10/01/15	12/31/15	343.80	291.40
01/01/16	03/31/16	337.8	301.00

As of March 11, 2016 the price for *MERALCO* Stocks is PhP326.40.

Holders

The total number of stockholders as of March 11, 2016 is 44,710.

Top 20 Stockholders as of March 11, 2016

Rank	Stockholder Name	Number of Shares	Percent
1	BEACON ELECTRIC ASSET HOLDINGS, INC.	394,059,235	34.96%
2	JG SUMMIT HOLDINGS, INC.	305,689,397	27.12%
3	METRO PACIFIC INVESTMENTS CORPORATION	169,064,807	15.00%
4	PCD NOMINEE CORPORATION (FILIPINO)	124,598,650	11.05%
5	FIRST PHILIPPINE HOLDINGS CORPORATION	44,382,436	3.94%
6	PCD NOMINEE CORPORATION (FOREIGN)	44,197,681	3.92%
7	MANUEL M. LOPEZ &/OR MA. TERESA L. LOPEZ	1,449,293	0.13%
8	MANUEL MORENO LOPEZ	995,450	0.09%
9	LUCIO W. YAN	403,208	0.04%
10	CHARLOTTE CUA CHENG	314,534	0.03%
11	AVESCO MARKETING CORPORATION	284,427	0.03%
12	B. P. INSURANCE AGENCY, INC.	281,079	0.02%
13	REGINA CAPITAL DEVELOPMENT CORPORATION 000626	270,000	0.02%
14	MAKATI SUPERMARKET CORPORATION	240,308	0.02%
15	JESUS P. FRANCISCO	180,000	0.02%
16	SIMEON Y. TAN	162,800	0.01%
17	JOSE IGNACIO A. CARLOS	161,687	0.01%
18	ANTONINO T. AQUINO &/OR EVELINA S. AQUINO	133,855	0.01%

Rank	Stockholder Name	Number of Shares	Percent
19	BP INSURANCE AGENCY, INC.	116,730	0.01%
20	RAUL JOSEPH CONCEPCION	112,431	0.01%

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 2015:

YEAR	RATE PER SHARE	RECORD DATE	PAYMENT DATE
2014	₱6.45	04/15/2014	05/08/2014
	₱5.91	08/25/2014	09/18/2014
2015	₱8.49	03/23/2015	04/15/2015
	₱6.76	08/26/2015	09/18/2015

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 for the year, which may be supplemented by a special dividend determined on a "look-back" basis. In 2015, *MERALCO* paid cash dividend of ₱15.25 per share to all its shareholders.

Recent Issuance of Securities Constituting an Exempt Transaction

None.

Compliance with Leading Practices on Corporate Governance

MERALCO, as a Philippine publicly listed company (PLC), is in full compliance with the rules and regulations of the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE), the Philippine Dealing & Exchange Corp. (PDEX) and all other rules and regulations for the development of the Philippine capital market.

In 2015, the Company was recognized for its governance initiatives and practices:

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

- Asia's Best CEO (Philippines) - Oscar S. Reyes
- Best Investor Relations Company in the Philippines
- Best Investor Relations Officer in the Philippines
- Asia's Best CFO (Philippines)
- Best Corporate Social Responsibility

Pursuant to the governance principle of transparency, *MERALCO* fully complied with the SEC and PSE's reportorial requirements on corporate governance, including:

1. The 2015 Certification by the Compliance Officer of *MERALCO*'s full compliance with the Revised Manual of Corporate Governance. No deviations from the Manual transpired.
2. The Consolidated Changes in the Annual Corporate Governance Report (ACGR) for the Year 2015, pursuant to the SEC Memorandum Circular No. 5, Series of 2013 and SEC Memo Circular No. 12, Series of 2014.
3. Certification of Board attendance, reports involving financial statements, disclosure of material information and events, clarifications on specific news articles concerning *MERALCO*, and trainings attended by Board members and key officers on corporate governance.
4. Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code, or SRC, and the reporting of trading transactions of directors and concerned officers of *MERALCO* by the Compliance Officer not later than the following day after the required event or transaction. There has been no case of insider trading involving directors and management of *MERALCO*.

Annual Corporate Governance Performance Assessments

MERALCO Performance in the field of corporate governance was assessed and found to be exemplary in 2015:

- ASEAN CG Scorecard Assessment, which evaluates the level of CG practices of Philippine PLCs vis-à-vis regional and international standards and best practices. This was conducted by the Institute of Corporate Directors (ICD) in cooperation with SEC and PSE.
- PSE's CG Guidelines Disclosure Survey (Guidebook) which helps publicly listed companies in their operations and informs shareholders of the good governance practices of the companies they invested in.

Continuing Education for the Board and Senior Management

Corporate governance education continues with orientations and trainings for the Board and Senior Management. In fulfillment of the requirements of the Company's Manual of Corporate Governance, the Energy Regulatory Commission (ERC) Resolution No. 1, Series of 2004, SEC Memo Circular No. 20, Series of 2013, and SEC Memo Circular No. 2, Series of 2015, the Directors attended a joint Corporate Governance

Enhancement Session for all First Pacific Group of Companies in the Philippines on October 30, 2015, entitled “Data and Information Rules: What the Board Should Know” and they attended the succeeding session with Management on February 18, 2016 entitled “Cyber Security in the 21st Century: The Threat Landscape.”

The Senior Management attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on October 29, 2015, entitled “Data and Information Rules: What Management Should Know” and on November 14, 2015, they attended the ASEAN Corporate Governance Conference and Awards entitled “Governance Transformation in ASEAN: Reforms and Priorities.”

Continuing Policy Formulation

With the creation of a Corporate Governance Office in *MERALCO* in 2010, several corporate policies and programs were implemented such as the Revised Manual of Corporate Governance, Revised Code of Ethics, Policy on Blackout Period/Restriction on Trading of Shares, Policy on Solicitation and Acceptance of Gifts, “Be Right” Open Communication (integrated whistle-blowing) Policy, Conflict of Interest, Related Party Transactions Policy and Suppliers Business Conduct, among others.

In 2015, *MERALCO* released the **Implementing Rules and Regulations of the Related Party Transactions (RPT) Policy**, which requires a committee composed of independent directors to review material/significant RPTs to determine whether they are in the best interest of the Company and its shareholders. All RPTs, including Company transactions with a director, are conducted in fair and at arms’ length terms.

Corporate Governance Advocacies and Outlook

The Company is in the process of embedding CG policies and programs in the Company’s business responsibility unit through its line leadership as a means to make the full transition from compliance to a culture of good governance from Top Management to the ranks in the Company in pursuit of sustainability of relationships with and interests of all stakeholders.

MERALCO joined the Good Governance Advocates and Practitioners of the Philippines (GGAPP) Forum held at the Dusit Thani Hotel on October 19, 2015 with the theme: **“Board Independence: Reality or Myth.”** The annual forum enables regulators, advocates and publicly listed companies to tackle relevant corporate governance issues and strengthen best practices in the country.

In pursuit of further improvements in the discipline of governance, the Company is actively involved with national and international CG advocates and organizations such as the Institute of Corporate Directors (ICD), Good Governance Advocates and Practitioners of the Philippines (GGAPP) and the Ethics & Compliance Initiative (ECI). The Company participates in best practice and knowledge-sharing events organized by ICD, GGAPP and ECI with CG practitioners, Board and Senior Management, as unified by their CG principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.

For a full discussion on the Corporate Governance practices and achievements of Meralco you may go to our Company website: www.meralco.com.ph.

SEC Form 17-A

A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A WILL BE PROVIDED WITHOUT CHARGE TO EACH PERSON UPON WRITTEN REQUEST OF ANY SUCH PERSON ADDRESSED TO:

**THE OFFICE OF THE CORPORATE SECRETARY
LOPEZ BUILDING, ORTIGAS AVENUE,
PASIG CITY**

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on March 28, 2016.

MANILA ELECTRIC COMPANY
March 28, 2016


SIMEON KEN R. FERRER
Corporate Secretary



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

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

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

MANUEL V. PANGILINAN
Chairman of the Board

OSCAR S. REYES
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Financial Officer

MAR 03 2016

SUBSCRIBED AND SWORN to before me this ____ day of March 2016 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. 406;
Page No. 83;
Book No. VII;
Series of 2016.

ATTY. FREEDOM M. NAVIDAD
Notary Public

Pasig, San Juan, Taguig and Pateros
Issued on December 29, 2015 at Pasig City
Appointment No. 77 (2016-2017)
Roll No. 53655/ IBP No. 1020805/ 01-06-16 RSM Chapter
PTR No. 1465697/01-21-16 Pasig City
MCLE V-0002608-06/09/14
8th Floor Lopez Bldg., Ortigas Avenue, Pasig City

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Electric Company

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

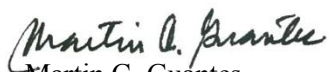
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

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

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5321643, January 4, 2016, Makati City

February 26, 2016



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	<i>Note</i>	2015	2014
<i>(Amounts in millions)</i>			
ASSETS			
Noncurrent Assets			
Utility plant and others	<i>7, 10 and 15</i>	₱124,913	₱120,830
Investments in associates and interests			
in joint ventures	<i>8 and 23</i>	13,603	14,532
Investment properties	<i>9 and 15</i>	1,538	1,526
Deferred tax assets - net	<i>28</i>	11,296	7,089
Other noncurrent assets	<i>2, 7, 10, 12, 27, 29 and 30</i>	35,594	12,464
Total Noncurrent Assets		186,944	156,441
Current Assets			
Cash and cash equivalents	<i>11 and 27</i>	50,840	69,469
Trade and other receivables	<i>10, 12, 18 and 27</i>	26,761	30,629
Inventories	<i>13 and 25</i>	2,273	2,212
Other current assets	<i>14, 23 and 27</i>	15,421	10,302
Total Current Assets		95,295	112,612
Total Assets		₱282,239	₱269,053

EQUITY AND LIABILITIES

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

Common stock	<i>15</i>	₱11,273	₱11,273
Subscriptions receivable		—	(8)
Additional paid-in capital		4,111	4,111
Excess of acquisition cost over carrying value of non-controlling interest acquired		(328)	(328)
Employee stock purchase plan	<i>16</i>	1,049	1,049
Unrealized fair value gains on available-for- sale financial assets	<i>10</i>	102	112
Cumulative translation adjustments of subsidiaries and associates	<i>8</i>	(72)	355
Share in remeasurement adjustments on associates' retirement liabilities	<i>8</i>	(12)	(20)
Remeasurement adjustments on retirement and other post-employment liabilities	<i>26</i>	935	1,302
Treasury shares	<i>15</i>	(11)	(11)
Retained earnings:	<i>15</i>		
Appropriated		11,000	11,000
Unappropriated		52,229	50,319
Equity Attributable to Equity Holders of the Parent		80,276	79,154
Non-controlling Interests		585	320
Total Equity		80,861	79,474

(Forward)



		December 31	
	Note	2015	2014
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	17, 25 and 27	₱27,370	₱27,743
Customers’ deposits - net of current portion	18, 22 and 27	23,584	24,344
Long-term employee benefits	26	3,620	4,887
Provisions	19, 22 and 29	21,014	16,073
Refundable service extension costs - net of current portion	22 and 27	4,234	7,006
Deferred tax liabilities - net	28	17	5
Other noncurrent liabilities	2, 5, 7, 24 and 29	28,324	25,993
Total Noncurrent Liabilities		108,163	106,051
Current Liabilities			
Notes payable	21, 25 and 27	1,043	400
Trade payables and other current liabilities	15, 17, 18, 19, 22, 23, 24, 27and 29	79,557	73,624
Customers’ refund	2, 20 and 27	5,550	5,937
Income tax payable		1,883	1,668
Current portion of long-term employee benefits	26	3,287	—
Current portion of interest-bearing long-term financial liabilities	17, 25 and 27	1,895	1,899
Total Current Liabilities		93,215	83,528
Total Liabilities		201,378	189,579
Total Liabilities and Equity		₱282,239	₱269,053

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

Equity Attributable to Equity Holders of the Parent															
	Common Stock (Note 15)	Subscriptions Receivable	Additional Paid-in Capital	Excess of Acquisition Cost Over Carrying Value of Non- controlling Interest Acquired	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains on AFS Financial Assets (Note 10)	Share in Remeasure- ment Adjustments on Associates’ Retirement Liabilities	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, 2015	₱11,273	(₱8)	₱4,111	(₱328)	₱1,049	₱112	(₱20)	₱355	₱1,302	(₱11)	₱11,000	₱50,319	₱79,154	₱320	₱79,474
Net income	–	–	–	–	–	–	–	–	–	–	–	19,098	19,098	91	19,189
Other comprehensive income (loss)	–	–	–	–	–	(10)	(1)	(427)	(367)	–	–	–	(805)	–	(805)
Total comprehensive income (loss)	–	–	–	–	–	(10)	(1)	(427)	(367)	–	–	19,098	18,293	91	18,384
Effect of partial disposal of a joint venture	–	–	–	–	–	–	9	–	–	–	–	–	9	–	9
Collection of subscriptions receivable	–	8	–	–	–	–	–	–	–	–	–	–	8	–	8
Dividends	–	–	–	–	–	–	–	–	–	–	–	(17,188)	(17,188)	174	(17,014)
	–	8	–	–	–	–	–	–	–	–	–	(17,188)	(17,180)	174	(17,006)
At December 31, 2015	₱11,273	₱–	₱4,111	(₱328)	₱1,049	₱102	(₱12)	(₱72)	₱935	(₱11)	₱11,000	₱52,229	₱80,276	₱585	₱80,861
At January 1, 2014	₱11,273	(₱69)	₱4,111	(₱328)	₱1,049	₱105	₱–	₱389	₱1,446	(₱11)	₱11,000	₱46,197	₱75,162	₱173	₱75,335
Net income	–	–	–	–	–	–	–	–	–	–	–	18,053	18,053	78	18,131
Other comprehensive loss	–	–	–	–	–	7	(20)	(34)	(144)	–	–	–	(191)	–	(191)
Total comprehensive income (loss)	–	–	–	–	–	7	(20)	(34)	(144)	–	–	18,053	17,862	78	17,940
Collection of subscriptions receivable	–	61	–	–	–	–	–	–	–	–	–	–	61	–	61
Dividends	–	–	–	–	–	–	–	–	–	–	–	(13,931)	(13,931)	69	(13,862)
	–	61	–	–	–	–	–	–	–	–	–	(13,931)	(13,870)	69	(13,801)
At December 31, 2014	₱11,273	(₱8)	₱4,111	(₱328)	₱1,049	₱112	(₱20)	₱355	₱1,302	(₱11)	₱11,000	₱50,319	₱79,154	₱320	₱79,474

(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 on AFS Financial Assets (Note 10)	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities	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
<i>(Amounts in millions)</i>															
At January 1, 2013	₱11,273	(₱211)	₱4,111	(₱328)	₱1,049	₱120	₱—	₱3	₱289	(₱11)	₱6,000	₱45,607	₱67,902	₱248	₱68,150
Net income	—	—	—	—	—	—	—	—	—	—	—	17,211	17,211	62	17,273
Other comprehensive income (loss)	—	—	—	—	—	(15)	—	386	1,157	—	—	—	1,528	—	1,528
Total comprehensive income (loss)	—	—	—	—	—	(15)	—	386	1,157	—	—	17,211	18,739	62	18,801
Collection of subscriptions receivable	—	142	—	—	—	—	—	—	—	—	—	—	142	—	142
Dividends	—	—	—	—	—	—	—	—	—	—	—	(11,621)	(11,621)	(137)	(11,758)
Appropriation of unrestricted retained earnings	—	—	—	—	—	—	—	—	—	—	5,000	(5,000)	—	—	—
	—	142	—	—	—	—	—	—	—	—	5,000	(16,621)	(11,479)	(137)	(11,616)
At December 31, 2013	₱11,273	(₱69)	₱4,111	(₱328)	₱1,049	₱105	₱—	₱389	₱1,446	(₱11)	₱11,000	₱46,197	₱75,162	₱173	₱75,335

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Forward)



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

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

The common shares of *MERALCO* are listed on and traded in the Philippine Stock Exchange (“*PSE*”) with ticker symbol, *MER*.

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors (“*BOD*”) on February 26, 2016.



2. Rate Regulations

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

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

Performance-Based Regulations (“PBR”)

MERALCO

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

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

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

Maximum Average Price (“MAP”) for RY 2008 and RY 2009

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

MAP for RY 2012

On June 21, 2011, *MERALCO* filed 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 kilowatt hour (“*kWh*”) and the rate translation per customer class was implemented starting October 2011. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda. As at February 26, 2016, the application is pending final approval by the *ERC*.



MAP for RY 2013

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

MAP for RY 2014

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

MAP for RY 2015

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

4th RP Reset Application

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

Interim Average Rate for RY 2016

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

Capital Expenditures ("CAPEX") for RY 2016

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



CEDC

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

SC Decision on Unbundling Rate Case

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

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

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Order dated March 20, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a Motion for Reconsideration ("*MR*") of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* acknowledged receipt of the respective Memoranda from parties and declared the case submitted for decision. As at February 26, 2016, the decision of the *CA* is still pending.

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

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities." These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components:



generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, *LFT* and business tax. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the *SL* true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *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. On June 1, 2015, the *ERC* approved with modification *MERALCO*'s application for the confirmation of its over- or under-recoveries in its pass-through costs for the period June 2003 to December 2010. The Decision directed *MERALCO* to collect net under-recoveries of ₱909 million, without any carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2015, a total of ₱61 million has been billed to the customers.

On July 6, 2012, *MERALCO* filed 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. On June 1, 2015, the *ERC* approved with modification *MERALCO*'s application for the confirmation of its over- or under-recoveries in its pass-through costs for the period January to December 2011. The Decision directed *MERALCO* to collect net under-recoveries of ₱1,535 million, without any carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2015, a total of ₱437 million has been billed to the customers.

On March 31, 2014, *MERALCO* filed 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 months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. Hearings are ongoing and the next scheduled hearing is on June 14, 2016.



Application for the Recovery of Differential Generation Costs

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

2nd Generation Rate Adjustment Mechanism (“2nd GRAM”)

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

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

Deferred Purchased Price Adjustment (“Deferred PPA”)

On October 12, 2009, the *ERC* released its findings on *MERALCO*’s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company (“*QPPL*”) and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent of ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*’s deferred *PPA* under-recoveries of ₱106 million, which is not transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 26, 2016, the *MR* is still pending resolution by the *ERC*.

Application for Recovery of LFT

On March 25, 2011, *MERALCO* filed with the *ERC* an application for recovery of *LFT* paid but not yet billed to customers for the period beginning the first quarter of 1993 up to the second quarter of 2004 for five (5) provinces, namely: Bulacan, Batangas, Cavite, Laguna and Rizal; and 14 cities, namely: San Jose Del Monte, Batangas, San Pablo, Tagaytay, Lucena, Mandaluyong,



Marikina, Quezon, Caloocan, Pasay, Las Piñas, Manila, Pasig and Calamba. The *LFT* is recognized as a valid and reasonable *DU* pass-through cost in the *ERC*'s unbundling decision.

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

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

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

SC Decision on the ₱0.167 per kWh Refund

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

See Note 20 – Customers' Refund.



3. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of *MERALCO* and its directly and indirectly owned subsidiaries, collectively referred to as the *MERALCO Group*. The following table presents such subsidiaries and the respective percentage of ownership as at December 31, 2015 and 2014.

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

¹ Incorporated February 15, 2011 and has not started commercial operations as at December 31, 2015.

² Incorporated January 11, 2013 and has not started commercial operations as at December 31, 2015.

³ Formerly Miescorrail, Inc.



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

When the *MERALCO Group* has less than majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the *MERALCO Group*'s voting rights and potential voting rights.

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

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

Non-controlling interests represent the portion of profit or loss and net assets in *MIESCOR* and its subsidiaries, *CEDC*, *Comstech* and *Fieldtech* not held by *MERALCO* and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if such results in a deficit.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the *MERALCO Group* loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation adjustments deferred in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies *MERALCO*'s share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

In July 2014, *MERALCO* subscribed to the common shares of *Comstech*, equivalent to 60% equity interest in *Comstech*. *Comstech* is a company based in Clark Freeport Zone, Pampanga with the primary purpose of investing in, development and operation of electricity generation and/or distribution, hydropower plants or related businesses.



4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

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

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

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

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

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

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

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

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

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning



on or after July 1, 2014 and are applied retrospectively. The amendment has no impact on the *MERALCO Group's* consolidated financial statements.

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

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

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

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

PAS 24, Related Party Disclosures - Key Management Personnel

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

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

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

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

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



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

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

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

PFRS 13, Fair Value Measurement - Portfolio Exception

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

PAS 40, Investment Property

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

Future Changes in Accounting Policies and Disclosures

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

Effective 2016

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

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



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

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

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

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

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

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

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective



for annual periods beginning on or after January 1, 2016, with early adoption permitted. The *MERALCO Group* shall consider these amendments in future transactions.

PFRS 14, Regulatory Deferral Accounts

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 (“OCI”). The standard requires disclosures on the nature of, and risks associated with, the entity’s rate-regulation and the effects of that rate-regulation on its financial statements. *PFRS 14* is effective for annual periods beginning on or after January 1, 2016. Since the *MERALCO Group* is an existing *PFRS* preparer, this standard shall not apply.

Annual Improvements to PFRSs (2012-2014 cycle)

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

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

PFRS 5 clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in *PFRS 5*. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment is applied prospectively.

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

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

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

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



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

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

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

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

Effective 2018

PFRS 9, Financial Instruments

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

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

Deferred effectivity

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

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

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five (5)-step model to account for revenue arising from contracts with customers. Under *IFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue



recognition requirements under *IFRS*. Either a full or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16, Leases

IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. *IFRS 16* is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply *IFRS 15* at or before the date of initial application of *IFRS 16*.

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

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

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

Significant Accounting Policies

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

Utility Plant and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation and amortization and accumulated impairment losses, if any. Costs include the cost of replacing part of such utility plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

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

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



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

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

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

Under the terms of certain lease contracts, the *MERALCO Group* is required to dismantle the installations made in leased sites and restore such sites to their original condition at the end of the term of the lease contracts. The *MERALCO Group* recognizes a liability measured at the present value of the estimated costs of these obligations and capitalizes such costs as part of the balance of



the related item of utility plant and others and investment properties. The amount of asset retirement obligations is accreted and such accretion is recognized as interest expense.

Assets Funded by Customers

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

Investments in Associates and Interests in Joint Ventures

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

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

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

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

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

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

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



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

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

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

Business Combinations and Goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability will be recognized in accordance with *PAS 39*, either in profit or loss or *OCI*. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

If the initial accounting for a business combination is incomplete by the end of the reporting date in which the business combination occurs, the provisional amounts of the items for which the accounting is incomplete are reported in the consolidated financial statements. During the



measurement period, which is no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

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

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

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

Investment Properties

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

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

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

The *MERALCO Group*’s investment properties acquired before January 1, 2004 are stated at deemed cost. See *Note 15 – Equity* for the related discussions.

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

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



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

Intangible Assets

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

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 10 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the consolidated statement of income.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

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

Fair Value Measurement

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a



market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

Impairment of Nonfinancial Assets

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

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment



loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

Financial Assets

Initial Recognition

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

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

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

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



Subsequent Measurement

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

Financial Assets at FVPL

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

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains and losses arising from changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and Receivables

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

HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as *HTM* when the *MERALCO Group* has the positive intention and ability to hold these assets to maturity. After initial measurement, *HTM* investments are measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated statement of



income. Assets in this category are included in the current assets except for maturities beyond 12 months from the reporting date, which are classified as noncurrent assets.

AFS Financial Assets

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

Financial Liabilities

Initial Recognition

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

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

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

Subsequent Measurement

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

Financial Liabilities at FVPL

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



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

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

Other Financial Liabilities

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

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

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

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

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

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

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



Offsetting of Financial Instruments

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

Amortized Cost of Financial Instruments

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

'Day 1' Profit or Loss

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

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



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

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

AFS Financial Assets

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

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

Assets Carried at Cost

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



Derecognition of Financial Instruments

Financial Assets

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

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

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

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

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of income.

Redeemable Preferred Stock

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

Inventories

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



VAT

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

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

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

Provisions

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

Retirement Benefits

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

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

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

Defined benefit costs comprise 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 the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.



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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the *MERALCO Group*, nor can they be paid directly to the *MERALCO Group*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

Termination Benefits

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

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

Employee Leave Entitlements

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



Long-term Incentive Plan

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

Equity

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

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

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

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

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

Employee Stock Purchase Plan

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

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

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



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

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

Revenue Recognition

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

Sale of Electricity

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

Sale of Services

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



Contract costs principally include subcontracted costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising after final contract settlements and after gross margins are recognized in the year in which the changes are determined.

Service and consulting fees are recognized when services are rendered.

Interest Income

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

Dividends

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

Lease Income

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

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

Expense Recognition

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

Insurance Claim Cost Recognition

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

Leases

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

Company as Lessee

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



Company as Lessor

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

Foreign Currency-Denominated Transactions and Translations

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

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

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

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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



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

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

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

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

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

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

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

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

Earnings per Share

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

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



Contingencies

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

Events After the Reporting Date

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

5. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

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

Judgments

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

Determination of Functional Currency

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

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

Operating Lease Commitments

As Lessor

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



As Lessee

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

Arrangement that Contains a Lease

MERALCO's Purchased Power Agreements (“*PPAs*”) and Purchase Supply Agreements (“*PSAs*”) with certain power generating companies qualify as leases on the basis that *MERALCO* and these power generating companies have ‘take or pay’ (“*ToP*”) arrangements where payments for purchased power or for contracted capacity are made on the basis of the availability of the power plant and not based solely on actual consumption. In determining the lease classification, it is judged that substantially all the risks and rewards incident to the ownership of the power plants are with these power generating companies. Thus, the *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 ₱45,702 million, ₱44,204 million and ₱46,170 million in 2015, 2014 and 2013, respectively. These are recognized as “Purchased Power” in the consolidated statements of income.

See Note 24 – *Purchased Power*.

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

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

Contingencies

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

See Note 29 – *Contingencies and Legal Proceedings*.

Estimates and Assumptions

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



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

The *MERALCO Group* estimates the useful lives of utility plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱6,475 million, ₱5,778 million and ₱5,941 million for the years ended December 31, 2015, 2014 and 2013, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱124,913 million and ₱120,830 million as at December 31, 2015 and 2014, respectively.

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

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

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

Impairment of Nonfinancial Assets

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

Determining the recoverable amount of utility plant and others, investment properties, investments in associates and interests in joint ventures, goodwill and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude



that utility plant and others, construction in progress, investment properties, investments in associates and interests in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the *MERALCO Group's* consolidated financial position and results of operations.

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

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

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

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

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

Goodwill

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

Realizability of Deferred Tax Assets

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

Assessment on the recognition of deferred tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting date. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to



allow all or part of the recorded or recognized deferred tax assets to be utilized. The amounts of the deferred tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised. Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred tax assets:

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

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

Determination of Fair Values of Financial Assets and Financial Liabilities

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

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

Estimating Allowance for Doubtful Accounts

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

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

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



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

Estimating Net Realizable Value of Inventories

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

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

See *Note 13 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The retirement and other post-employment benefits expense amounted to ₱1,364 million, ₱1,304 million and ₱1,434 million for the years ended December 31, 2015, 2014 and 2013, respectively. The retirement and other post-employment benefit liabilities as at December 31, 2015 and 2014 amounted to ₱3,620 million and ₱2,584 million, respectively.

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

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

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

Insurance Liabilities Arising from Insurance Contracts

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

The primary technique adopted by RSIC's management in estimating the cost of claims incurred but not yet reported is using the past claims settlement trend to predict the future claims settlement trend. At each reporting date, estimates of prior year claims are reassessed for adequacy and any



changes are charged to provisions. Insurance contract liabilities are not discounted for the time value of money.

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

Provision for Asset Retirement Obligations

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

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

Provisions

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

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

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

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

Revenue Recognition

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

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



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

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

6. Segment Information

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

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

- Power

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

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

Power generation – The *MERALCO Group*'s re-entry in the power generation business is through 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* currently operates a total of 709 MegaWatt ("*MW*") gross of coal and diesel-fired power plants, and has a 150 *MW* gross coal-fired power plant under construction in the Visayas.

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

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



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

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

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

▪ Other Services

The other services segment is involved principally in electricity-related services, such as; electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, and energy systems management. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as “*MIESCOR Group*”), *CIS*, *Bayad Center* and *CFSI* (collectively referred to as “*CIS Group*”), *MRail*, *RSIC*, *LOIL*, *Finserve*, *e-MVI*, *Comstech* and *MEI*.

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

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

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

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



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

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

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



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

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

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

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



7. Utility Plant and Others

The movements in utility plant and others are as follows:

December 31, 2015										
		Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
	Note									
(Amounts in millions)										
Cost:										
Balance at beginning of year		₱148,977	₱15,280	₱5,599	₱2,153	₱2,836	₱3,148	₱3,147	₱7,491	₱188,631
Additions		228	—	24	259	202	279	543	9,028	10,563
Disposals/retirements		(1,595)	—	(2)	(6)	(34)	(123)	(9)	—	(1,769)
Transfers from construction in progress		7,980	—	604	70	7	2	48	(8,711)	—
Reclassifications	9 and 10	—	—	(12)	6	46	—	(16)	—	24
Balance at end of year		155,590	15,280	6,213	2,482	3,057	3,306	3,713	7,808	197,449
Less accumulated depreciation and amortization:										
Balance at beginning of year		59,217	—	2,266	917	1,759	1,770	1,872	—	67,801
Depreciation and amortization		5,309	—	163	182	303	311	207	—	6,475
Disposals/retirements		(1,595)	—	(1)	(6)	(31)	(98)	(9)	—	(1,740)
Reclassifications		51	—	—	1	4	—	(56)	—	—
Balance at end of year		62,982	—	2,428	1,094	2,035	1,983	2,014	—	72,536
Net book values		₱92,608	₱15,280	₱3,785	₱1,388	₱1,022	₱1,323	₱1,699	₱7,808	₱124,913
December 31, 2014										
		Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
	Note									
(Amounts in millions)										
Cost:										
Balance at beginning of year		₱138,321	₱15,264	₱5,208	₱6,511	₱3,102	₱2,817	₱3,190	₱3,297	₱177,710
Additions		1,601	11	6	171	309	487	233	9,244	12,062
Disposals/retirements		(1,510)	—	(2)	(465)	(312)	(227)	(82)	—	(2,598)
Transfers from construction in progress		4,583	—	193	258	9	—	7	(5,050)	—
Reclassification and others	10	5,982	5	194	(4,322)	(272)	71	(201)	—	1,457
Balance at end of year		148,977	15,280	5,599	2,153	2,836	3,148	3,147	7,491	188,631
Less accumulated depreciation and amortization:										
Balance at beginning of year		52,596	—	2,176	4,644	2,083	1,828	1,797	—	65,124
Depreciation and amortization		4,779	—	147	140	286	255	171	—	5,778
Disposals/retirements		(1,510)	—	(2)	(465)	(312)	(227)	(82)	—	(2,598)
Reclassification and others	10	3,352	—	(55)	(3,402)	(298)	(86)	(14)	—	(503)
Balance at end of year		59,217	—	2,266	917	1,759	1,770	1,872	—	67,801
Net book values		₱89,760	₱15,280	₱3,333	₱1,236	₱1,077	₱1,378	₱1,275	₱7,491	₱120,830



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

Construction in progress mainly pertains to on-going electric capital projects (“ECPs”) and non-electric capital projects (“NEPs”). 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 ₱180 million, ₱182 million and ₱122 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

8. Investments in Associates and Interests in Joint Ventures

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

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

*Formerly Automated Fare Collection Services, Inc.

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

	2015	2014
	(Amounts in millions)	
Acquisition costs:		
Balance at beginning of year	₱14,883	₱13,461
Additions	334	1,422
Disposal	(3)	—
Balance at end of year	15,214	14,883
Accumulated equity in net losses:		
Balance at beginning of year	(680)	(421)
Equity in net earnings (losses)	(27)	295
Dividends	(605)	(554)
Disposal	(201)	—
Balance at end of year	(1,513)	(680)

(Forward)



	2015	2014
	<i>(Amounts in millions)</i>	
Share in remeasurement adjustments		
on retirement liabilities:		
Balance at beginning of year	(20)	–
Actuarial loss	(1)	(20)
Effect of disposal	9	–
Balance at end of year	(12)	(20)
Share in cumulative translation adjustments:		
Balance at beginning of year	₱349	₱382
Translation adjustments	(435)	(33)
Balance at end of year	(86)	349
	₱13,603	₱14,532

RP Energy

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

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

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

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

FPM Power

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

BPPC

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



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

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

GEPMICI

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

GBPC

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

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

AFPI

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

SBPL

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

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



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

On October 8, 2015, *SBPL* entered into an Omnibus Agreement and related agreements with certain financial institutions providing for a term loan facility in an amount of up to **₱42.15** billion for the financing of the project. *SBPL* made its initial borrowing on December 1, 2015. Also on December 11, 2015, *SBPL* entered into an Operation and Maintenance Agreement with Pearl Energy Philippines Operating, Inc. for the operations and maintenance of the power plant.

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

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("*IS*") and *IT* operations and management consulting.

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

Rockwell Business Center

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

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

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

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



The condensed statements of financial position of material associates follow:

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

2014			
	GBPC	FPM Power	RP Energy
<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)	(52)
Noncurrent liabilities	(35,023)	(27,926)	(2)
Non-controlling interests	(12,911)	661	–
Net assets	₱27,436	₱9,886	₱1,268

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

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

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

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



	December 31, 2014		
	<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

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

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Share in net income	₱1	₱30	₱4
Share in other comprehensive income	1	(1)	1
Share in total comprehensive income	₱2	₱29	₱5
Dividends received	₱11	₱—	₱—

Joint Ventures

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

	2015	2014
	<i>(Amounts in millions)</i>	
Current assets	₱946	₱500
Noncurrent assets	3,364	2,505
Current liabilities	(296)	(264)
Noncurrent liabilities	(10)	(7)
Net assets	₱4,004	₱2,734

Current assets include cash and cash equivalents of ₱781 million and ₱316 million as at December 31, 2015 and 2014, respectively. Noncurrent assets represent substantially the cost of the two (2) *BPO* towers for lease and the construction costs of the third building of Rockwell Business Center. Current liabilities represent trade payables.

The condensed statements of comprehensive income of Rockwell Business Center for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Revenues	₱527	₱335	₱301
Costs and expenses – net of other income	(180)	(182)	(142)
Provision for income tax - net	(60)	(54)	(57)
Net income	287	99	102
Other comprehensive income	—	—	—
Total comprehensive income	₱287	₱99	₱102
Dividends received	₱23	₱43	₱—



The foregoing condensed statements of comprehensive income include the following:

	2015	2014	2013
		<i>(Amounts in millions)</i>	
Depreciation	₱199	₱145	₱136
Interest income	(9)	(4)	(6)
Provision for income tax	60	54	57

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

	2015	2014
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets	₱4,004	₱2,734
Proportionate ownership (%)	30	30
	1,201	820
Effect of difference between <i>MERALCO's</i> percentage share in net income and proportionate ownership	33	52
	₱1,234	₱872

The following is the condensed financial information of joint ventures which are not considered as material:

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Share in net income	₱16	₱73	₱125
Share in other comprehensive loss	(2)	(16)	—
Share in total comprehensive income	₱14	₱57	₱125
Dividends received	₱—	₱13	₱11

9. Investment Properties

The movements in investment properties are as follows:

		2015	
		Buildings and	
	<i>Note</i>	Land	Improvements
		Total	
		<i>(Amounts in millions)</i>	
Cost:			
Balance at beginning of year		₱1,446	₱187
Additions		—	33
Reclassifications	7	—	6
Disposals		(19)	(2)
Balance at end of year		1,427	224
Less accumulated depreciation:			
Balance at beginning of year		—	107
Depreciation		—	7
Disposals		—	(1)
Balance at end of year		—	113
		₱1,427	₱111
			₱1,538



	2014		
	Land	Buildings and Improvements	Total
	<i>(Amounts in millions)</i>		
Cost:			
Balance at beginning of year	₱1,446	₱181	₱1,627
Additions	–	6	6
Balance at end of year	1,446	187	1,633
Less accumulated depreciation:			
Balance at beginning of year	₱–	₱101	₱101
Depreciation	–	6	6
Balance at end of year	–	107	107
	₱1,446	₱80	₱1,526

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

The aggregate fair values of the investment properties as at December 31, 2015 and 2014 are as follows:

	2015	2014
	<i>(Amounts in millions)</i>	
Land	₱1,863	₱1,863
Buildings and improvements	170	137

Land pertains primarily to properties where the *BPO* building and “Strip” mall are located and to other non-regulated asset base properties.

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

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱40 to ₱96,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used any of the following approaches:

a. Market Data or Comparative Approach

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



b. Depreciated Replacement Cost Approach

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

10. Other Noncurrent Assets

This account consists of:

	Note	2015	2014
<i>(Amounts in millions)</i>			
HTM investments	14 and 27	₱17,167	₱121
AFS financial assets	27	10,961	172
Intangible assets	7	2,585	2,336
Deferred input VAT		1,664	1,680
Advance payments to a supplier	27 and 30	1,030	619
Unbilled receivables - net	2 and 12	851	7,047
Receivable from the BIR	29	181	181
Deferred reinsurance premium		119	110
Goodwill		36	36
Others		1,000	162
		₱35,594	₱12,464

HTM Investments

The details of HTM investments are as follows:

	2015			2014		
	Current Portion (Note 14)	Noncurrent Portion	Total	Current Portion	Noncurrent Portion	Total
<i>(Amounts in millions)</i>						
Government securities	₱4,072	₱16,476	₱20,548	₱—	₱—	₱—
Private debt securities	—	691	691	—	121	121
	₱4,072	₱17,167	₱21,239	₱—	₱121	₱121

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

AFS Financial Assets

The details of AFS financial assets are as follows:

	2015	2014
<i>(Amounts in millions)</i>		
Investments in Unit Investment Trust Funds (“UITFs”)	₱9,027	₱—
Investments in government securities	1,792	—
Investments in ordinary shares and club shares of stock:		
Quoted	107	138
Unquoted	35	34
	₱10,961	₱172



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

	2015	2014
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱112	₱105
Gains (losses) on change in fair value	(10)	7
Balance at end of year	₱102	₱112

Intangible Assets

The movements of intangible assets are as follows:

2015					
			Land and Leasehold Rights		
	Note	Software	Franchise		Total
<i>(Amounts in millions)</i>					
Cost:					
Balance at beginning of year		₱3,467	₱49	₱431	₱3,947
Additions		707	—	—	707
Reclassifications	7	(30)	—	—	(30)
Balance at end of year		4,144	49	431	4,624
Less accumulated amortization:					
Balance at beginning of year		1,389	—	222	1,611
Amortization		410	—	18	428
Balance at end of year		1,799	—	240	2,039
		₱2,345	₱49	₱191	₱2,585
2014					
			Land and Leasehold Rights		
	Note	Software	Franchise		Total
<i>(Amounts in millions)</i>					
Cost:					
Balance at beginning of year		₱2,401	₱49	₱—	₱2,450
Additions		514	—	—	514
Reclassification	7	552	—	431	983
Balance at end of year		3,467	49	431	3,947
Less accumulated amortization:					
Balance at beginning of year		722	—	—	722
Amortization		291	—	18	309
Reclassification	7	376	—	204	580
Balance at end of year		1,389	—	222	1,611
		₱2,078	₱49	₱209	₱2,336

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for in RA No. 9337 (“*EVAT Law*”), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due.



Unbilled Receivables

This account represents generation and other pass-through costs incurred by *MERALCO* and *CEDC* as *DUs*, which are still to be billed and which are covered by the approved recovery mechanism of the *ERC*. The balance also includes other unbilled generation and pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*.

In 2015, *MERALCO* recognized provision for impairment loss on unbilled receivables amounting to ₱2,134 million.

11. Cash and Cash Equivalents

This account consists of:

	2015	2014
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱5,098	₱5,921
Cash equivalents	45,742	63,548
	₱50,840	₱69,469

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

12. Trade and Other Receivables

This account consists of:

	Note	2015	2014
		<i>(Amounts in millions)</i>	
Trade:			
Electricity:			
Billed		₱19,898	₱23,095
Unbilled	10	4,116	4,082
Service contracts		3,624	2,662
Cost and estimated earnings in excess of billings on uncompleted contracts		780	718
Insurance receivable		99	102
Nontrade		1,909	3,397
		30,426	34,056
Less allowance for doubtful accounts		3,665	3,427
		₱26,761	₱30,629



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

	2015	2014
	<i>(Amounts in millions)</i>	
Residential	₱8,969	₱10,039
Commercial	7,574	9,144
Industrial	3,044	3,413
Flat streetlights	311	499
	19,898	23,095
Less allowance for doubtful accounts	3,459	3,207
	₱16,439	₱19,888

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

	2015		
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs
	<i>(Amounts in millions)</i>		
Billed trade receivables:			
Residential	₱1,806	₱805	(₱436)
Commercial	963	23	(77)
Industrial	291	(11)	(31)
Flat streetlights	147	(20)	(1)
	3,207	797	(545)
Other trade receivables	218	(15)	—
Nontrade receivables	2	1	—
	₱3,427	₱783	(₱545)

	2015					
	Residential	Commercial	Industrial	Flat Streetlights	Other Trade Receivables	Nontrade Receivables
	<i>(Amounts in millions)</i>					
Individually impaired	₱1,404	₱362	₱114	₱44	₱203	₱3
Collectively impaired	771	547	135	82	—	—
	₱2,175	₱909	₱249	₱126	₱203	₱3

	2014		
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs
	<i>(Amounts in millions)</i>		
Billed trade receivables:			
Residential	₱1,068	₱1,179	(₱441)
Commercial	1,165	(139)	(63)
Industrial	533	(217)	(25)
Flat streetlights	203	(55)	(1)
	2,969	768	(530)
Other trade receivables	181	37	—
Nontrade receivables	2	—	—
	₱3,152	₱805	(₱530)



	2014						
	Residential	Commercial	Industrial	Flat Streetlights	Other Trade Receivables	Nontrade Receivables	Total
	<i>(Amounts in millions)</i>						
Individually impaired	₱1,036	₱344	₱98	₱80	₱218	₱2	₱1,778
Collectively impaired	770	619	193	67	—	—	1,649
	₱1,806	₱963	₱291	₱147	₱218	₱2	₱3,427

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs consist largely of generation, transmission and *SL* charges, which represent 54%, 11% and 4%, respectively, of the total billed amount in 2015 and 57%, 10% and 5%, respectively, of the total billed amount in 2014. Billed receivables are due 10 days after bill date. *MERALCO*'s and *CEDC*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits.

Unbilled receivables represent electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period. This also includes the current portion of pass-through costs under-recoveries, net of over-recoveries, which are billed to the customers over the period approved by the *ERC*.

See *Note 18 – Customers' Deposits* and *Note 27 – Financial Assets and Financial Liabilities*.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by *MIESCOR Group*, *e-MVT* and subsidiary, *CIS*, *Bayad Center*, *MRail*, and *MEI* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development and energy management services to third parties.

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

13. Inventories

	2015	2014
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At net realizable value (" <i>NRV</i> ")	₱160	₱158
At cost	2,113	2,054
	₱2,273	₱2,212

The reversal of write-down of inventory cost to *NRV* amounted ₱2 million, ₱10 million and ₱4 million in 2015, 2014 and 2013, respectively.



14. Other Current Assets

	<i>Note</i>	2015	2014
		<i>(Amounts in millions)</i>	
Advances to an associate	23 and 27	₱5,342	₱4,998
HTM investments	10 and 27	4,072	–
Prepayments and advances to suppliers		2,469	1,520
Pass-through VAT - net		1,550	1,753
Prepaid tax		1,438	1,601
Input VAT		477	340
Others		73	90
		₱15,421	₱10,302

Pass-through VAT pertains to VAT on generation and transmission costs billed to the DU, which are in turn billed to the customers. Remittance of such pass-through VAT to the generation companies is based on collection of billed receivables from the customers.

15. Equity

Common Stock

	2015	2014
	<i>(In millions, except par value)</i>	
Authorized - ₱10 par value a share	₱1,250	₱1,250
Issued and outstanding - number of shares	1,127	1,127

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

The common shares of MERALCO were listed in the PSE on January 8, 1992. There are 44,193 and 46,586 shareholders of MERALCO's common shares as at December 31, 2015 and 2014, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, and the balance of MERALCO's revaluation increment in utility plant and others and investment properties carried at deemed cost and deferred tax assets totaling to ₱40,596 million and ₱36,175 million as at December 31, 2015 and 2014, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting years.



The following are the cash dividends declared on common shares in 2015, 2014 and 2013:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount (In millions)
July 27, 2015	August 26, 2015	September 18, 2015	₱6.76	₱7,619
February 23, 2015	March 23, 2015	April 15, 2015	8.49	9,569
July 28, 2014	August 25, 2014	September 18, 2014	5.91	6,661
March 17, 2014	April 15, 2014	May 8, 2014	6.45	7,270
July 29, 2013	August 27, 2013	September 20, 2013	4.10	4,621
February 25, 2013	March 26, 2013	April 24, 2013	6.10	6,875

MERALCO pays regular cash dividends equivalent to 50% of *CCNI* for the year, which may be supplemented by a special dividend determined on a “look-back” basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Appropriated Retained Earnings

On February 22, 2010, retained earnings of ₱6,000 million were appropriated specifically for the *MERALCO Group*’s business expansion into power generation. The amount appropriated was increased by ₱5,000 million for the development of new projects and investments in power generation. The additional appropriation was approved on March 22, 2013 by the *BOD*. As at February 26, 2016, the development of the first project, a 2 x 300 *MW CFB* coal-fired plant through *RP Energy*, is ongoing. Construction of the first 300 *MW* unit is expected to start in 2016, with commercial operations by second half of 2019. Meanwhile, work on the permanent transmission line interconnection is proceeding in preparation for the development of the second 300 *MW* unit. *MERALCO* signed a Joint Development Agreement and Shareholders Agreement to co-develop a 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon under *SBPL*, which has signed *PSA* and *EPC* contracts, has achieved financial close, and has a target completion by the first half of 2019.

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

Treasury Shares

Treasury shares represent subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased. As at December 31, 2015 and 2014, a total of 172,412 shares were acquired from employees who have opted to cancel their participation in the *ESPP*.

16. Employee Stock Purchase Plan

MERALCO had an *ESPP*, which entitled participants to purchase *MERALCO*’s common shares subject to certain terms and conditions during a nominated offer period.

MERALCO allotted a total of 55 million common shares for *ESPP* awards. As at December 31, 2015, 12 million common shares are available for future offerings. There were no *ESPP* awards since October 2009.

The fair value of the offerings was estimated at the dates of the grant using the Black-Scholes Option Pricing Model.



17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2015	2014
	<i>(Amounts in millions)</i>	
Long-term portion of interest-bearing financial liabilities - Long-term debt	₱27,370	₱27,743
Current portion of interest-bearing financial liabilities:		
Long-term debt	373	350
Redeemable preferred stock	1,522	1,549
	1,895	1,899
	₱29,265	₱29,642

All of the redeemable preferred shares have been called for redemption as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2015 and 2014. Interest is no longer accrued when the preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	2015	2014
	<i>(Amounts in millions)</i>	
<i>Fixed Rate Loans</i>		
₱11.5 Billion 7-year Bonds	₱11,500	₱11,500
₱7.0 Billion 12-year Bonds	7,000	7,000
₱7.2 Billion Note Facility Agreement	6,840	7,200
₱130 Million Term Loan Facility	130	130
<i>Floating Rate Loan</i>		
₱2.5 Billion Term Loan Facility	2,450	2,463
Total long-term debt	27,920	28,293
Less unamortized debt issuance costs	177	200
	27,743	28,093
<i>Redeemable Preferred Stock</i>	1,522	1,549
	29,265	29,642
Less current portion	1,895	1,899
Long-term portion of interest-bearing financial liabilities	₱27,370	₱27,743



All of *MERALCO*'s interest-bearing long-term financial liabilities as at December 31, 2015 and 2014 are denominated in Philippine peso. The scheduled maturities of *MERALCO*'s outstanding long-term debt at nominal values as at December 31, 2015 are as follows:

	Amount (In millions)
Less than one (1) year	₱396
One (1) year up to two (2) years	397
More than two (2) years up to three (3) years	2,809
More than three (3) years up to four (4) years	383
More than four (4) years up to five (5) years	11,883
More than five (5) years	12,052
	<u>₱27,920</u>

₱18.5 Billion Fixed Rate Puttable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, where *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

On December 12, 2013, the ₱11.5 billion fixed rate puttable bonds due in 2020 and ₱7.0 billion fixed rate puttable bonds due in 2025, were listed on the Philippine Dealing and Exchange Corporation.

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

₱7.2 Billion Note Facility Agreement

In February 2014, *MERALCO* entered into a Fixed Rate Note Facility Agreement for its ₱7,200 million, 10-year note due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

₱130 Million Term Loan Facility

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

₱2.5 Billion Term Loan Facility

The ₱2,500 million, 7-year Floating Rate Term Loan Facility, was drawn in January 2011 from a local bank. Interest rate is repriced every six (6) months based on 6-month *PDST-F* plus a spread. The principal is payable in nominal annual amortizations with a balloon payment on final maturity in January 2018.



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

	2015	2014
Fixed Rate Loans	4.38% to 5.50%	4.38% to 5.50%
Floating Rate Loans	2.52% to 2.63%	2.10% to 2.19%

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.2 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2015 and 2014, MERALCO is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs amounted to ₱177 million and ₱200 million as at December 31, 2015 and 2014, respectively.

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

	Note	2015	2014
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱200	₱207
Additions		—	36
Amortization charged to interest and other financial charges	25	(23)	(43)
Balance at end of year		₱177	₱200

Redeemable Preferred Stock

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

	2015	2014
Balance at beginning of year	154,901,389	156,189,168
Redemptions	(2,669,975)	(1,287,779)
Balance at end of year	152,231,414	154,901,389

The original "Terms and Conditions" of MERALCO's Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.



18. Customers' Deposits

This account consists of:

	2015			2014		
	Current Portion (Note 22)	Noncurrent Portion	Total	Current Portion (Note 22)	Noncurrent Portion	Total
(Amounts in millions)						
Bill deposits	₱2,470	₱23,584	₱26,054	₱3,562	₱24,344	₱27,906
Meter deposits	497	—	497	501	—	501
	₱2,967	₱23,584	₱26,551	₱4,063	₱24,344	₱28,407

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer in accordance with existing regulations.

As provided for under the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU* an amount equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be adjusted after one year based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

On February 22, 2010, the amended *DSOAR*, which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR*, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*. Interest rate for bill deposits is 0.250% per annum starting January 1, 2014.

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

The following are the movements of the bill deposits account:

	2015	2014
(Amounts in millions)		
Balance at beginning of year	₱27,906	₱27,730
Additions	4,807	5,209
Refunds	(6,659)	(5,033)
Balance at end of year	26,054	27,906
Less portion maturing within one year	2,470	3,562
Noncurrent portion of bill deposits and related interests	₱23,584	₱24,344



Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective June 17, 2004) and *DSOAR* (effective January 18, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as “Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers” (“*Rules*”) which required the refund of meter deposits from the effectivity of the said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

As at December 31, 2015 and 2014, total meter deposits refunded by *MERALCO* amounted to ₱2,599 million (inclusive of ₱1,349 million interest) and ₱2,595 million (inclusive of ₱1,347 million interest), respectively.

19. Provisions

Provisions consist of amounts recognized for probable costs, losses and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

	<i>Note</i>	2015	2014
<i>(Amounts in millions)</i>			
Balance at beginning of year		₱30,393	₱24,729
Additions for the year		7,026	5,665
Settlements		(17)	(1)
Balance at end of year		37,402	30,393
Less current portion	22	16,388	14,320
Noncurrent portion of provisions		₱21,014	₱16,073

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.



20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which has not yet been claimed by customers.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from various local banks. Annual interest rates range from 2.9% to 4.25% in 2015 and 2014 on peso-denominated loans.

Interest expense on notes payable amounted to ₱26 million, ₱7 million and ₱73 million for the years ended December 31, 2015, 2014 and 2013, respectively.

See Note 25 – *Expenses and Income*.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2015	2014
<i>(Amounts in millions)</i>			
Trade accounts payable	23 and 24	₱29,458	₱32,101
Provisions	19 and 29	16,388	14,320
Output <i>VAT</i> - net		6,437	6,323
Accrued expenses:			
Employee benefits		1,734	2,271
Taxes		1,635	1,983
Interest	17	115	109
Others		2,007	1,990
Current portions of:			
Bill deposits and related interests	18	2,470	3,562
Meter deposits and related interests	18	497	501
Deferred income		1,037	714
Refundable service extension costs		2,502	1,852

(Forward)



	<i>Note</i>	2015	2014
<i>(Amounts in millions)</i>			
Dividends payable on:			
Common stock	<i>15</i>	₱450	₱188
Redeemable preferred stock	<i>17</i>	250	250
Payable to customers		8,009	2,046
Universal charges payable		2,256	1,988
Regulatory fees payable		275	273
Feed-in tariff allowance		217	18
Reinsurance liability		86	74
Other current liabilities		3,734	3,061
		₱79,557	₱73,624

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, *NPC/PSALM*, National Grid Corporation of the Philippines (“*NGCP*”), and Philippine Electricity Market Corporation (“*PEMC*”), for cost of power purchased and for cost of transmission. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which consist of transformers, poles, materials and supplies, and contracted services.

Trade payables are non-interest-bearing and are generally settled within the 15- to 60-day trade term. Other payables are non-interest-bearing and are due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions* and *Note 30 – Significant Contracts and Commitments*.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, “Right to Extension of Lines and Facilities”, requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective on April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset forms part of the rate base only at the time a refund has been paid out. Customer advances are non-interest-bearing.

As at December 31, 2015 and 2014, the noncurrent portion of refundable service extension costs of ₱4,234 million and ₱7,006 million, respectively, is presented as “Refundable service extension costs - net of current portion” account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges payable are charges passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.



23. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant financial years. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with Philippine Long Distance Telephone Company ("PLDT")

MERALCO has a Pole Attachment Contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the Pole Attachment Contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and *SMART Communications, Inc.* and *Digital Mobile Philippines, Inc.*, for its wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power to such affiliates.

Following is the summary of related party transactions for the years ended December 31, 2015, 2014 and 2013 and the outstanding balances as at December 31, 2015 and 2014:

Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2015	2014	2013	2015	2014		
(Amounts in millions)							
Sale of electricity:							
<i>JG Summit Group</i>	₱4,064	₱3,263	₱348	₱242	₱289	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,438	1,941	2,599	64	48	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	157	179	352	6	7	10-day; noninterest-bearing	Unsecured, no impairment
<i>SMC Group</i>	—	—	851	—	—	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	786	829	658	(50)	(1)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - <i>GEPMICI</i>	399	312	251	(19)	(21)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	285	250	212	16	2	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	72	58	50	11	—	30-day; noninterest-bearing	Unsecured
Purchase of power:							
<i>Panay Power Corporation</i> ("PPC")	143	340	—	—	5	30-day; noninterest-bearing	Unsecured
<i>Toledo Power Corporation</i> ("TPC")	100	918	—	—	3	30-day; noninterest-bearing	Unsecured
Sale of shares of stock							
<i>Metro Pacific</i>	327	—	—	—	—	—	—
<i>Indra Sistemas S.A.</i>	3	—	—	—	—	—	—



Advances to FPM Power

On March 22, 2013, *FPM Power* availed of a non-interest-bearing loan from *MPG Asia* amounting to US\$110 million, which is payable on demand. The loan is outstanding as at December 31, 2015 and 2014.

See *Note 14 – Other Current Assets*.

Transaction with MERALCO Retirement Benefits Fund (“Fund”)

The *MERALCO Group’s Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy’s* common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2015 and 2014, the fair value of the total assets being managed by the Fund amounted to ₱36.2 billion and ₱36.4 billion, respectively.

See *Note 26 – Long-Term Employee Benefits*.

Compensation of Key Management Personnel

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

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Short-term employee benefits	₱635	₱538	₱517
Long-term employee incentives and retirement benefits	300	297	283
Total compensation to key management personnel	₱935	₱835	₱800

Each of the directors is entitled to a per diem of ₱120,000 for every *BOD* meeting attended. Each member of the Audit and Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱20,000 for every committee meeting attended.

On March 22, 2013, the *BOD* approved the amendment of *MERALCO’s* By-Laws which entitles all directors to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Consistent with the foregoing, the *BOD* approved the increase in the compensation of all members of the *BOD* up to a maximum of the pre-agreed amount per annum. The increase in compensation shall be through a stock grant based on a pre-approved number of shares for each director. The implementation of such plan was approved by the stockholders in the annual general meeting of stockholders on May 28, 2013.

As at December 31, 2015, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a



contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Purchased Power

The details of purchased power are as follow:

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Generation costs	₱157,904	₱169,033	₱206,507
Transmission costs	34,213	34,209	31,691
	₱192,117	₱203,242	₱238,198

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

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

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees, and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a lease"*. The total amounts billed by the suppliers presented as part of "Purchased power" account in the consolidated statements of income amounted to ₱45,702 million, ₱44,204 million and ₱46,170 million in 2015, 2014 and 2013, respectively. These also include the actual *SL* incurred which is within the *SL* cap of 8.5%. *MERALCO's* actual 12 months moving average *SL* rates are 6.47%, 6.49% and 6.92% in 2015, 2014 and 2013, respectively.

The details of purchased power follow:

	2015	2014	2013
	<i>(Amounts in millions)</i>		
First Gas Power Corporation (" <i>FGPC</i> ") and FGP Corp. (" <i>FGP</i> ")	₱49,111	₱53,772	₱55,360
<i>NGCP</i>	34,005	34,016	31,691
South Premiere Power Corporation (" <i>SPPC</i> ")	29,572	36,344	34,885
<i>QPPL</i>	13,605	14,480	14,251
<i>PEMC/WESM</i>	13,078	5,975	40,600
San Miguel Energy Corporation (" <i>SMEC</i> ")	12,987	12,979	13,648
Masinloc Power Partners Co. Ltd. (" <i>MPPCL</i> ")	11,462	12,515	12,905
Sem-Calaca Power Corporation (" <i>Sem-Calaca</i> ")	10,097	10,486	10,673
Therma Luzon, Inc. (" <i>TLI</i> ")	9,393	9,334	9,538
Therma Mobile, Inc. (" <i>TMO</i> ")	3,231	3,987	495
Trans-Asia Oil and Energy Development Corporation (" <i>Trans-Asia</i> ")	2,152	2,281	2,043
<i>NPC/PSALM</i>	1,636	4,836	11,531
1590 Energy Corporation	1,370	1,359	—
Others	418	878	578
	₱192,117	₱203,242	₱238,198



In March 2014, *MERALCO* received from *PEMC* a billing adjustment amounting to ₱9.3 billion for power purchases from *WESM* in December 2013 based on an order of the *ERC*.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2015 and 2014, the total transmission costs and *SL* charge over-recoveries included in “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to ₱5,829 million and ₱9,046 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	<i>Note</i>	2015	2014	2013
<i>(Amounts in millions)</i>				
Salaries, wages and related employee benefits		₱11,056	₱9,704	₱9,827
Retirement benefits	26	1,237	1,186	1,176
Other long-term post-employment benefits	26	127	118	258
		₱12,420	₱11,008	₱11,261

Other Expenses

	<i>Note</i>	2015	2014	2013
<i>(Amounts in millions)</i>				
Materials used	13	₱2,783	₱820	₱693
Rent and utilities		852	718	753
Transportation and travel		476	396	360
Advertising		306	438	309
Insurance		295	327	246
Communication	23	134	101	82
Others		1,305	965	955
		₱6,151	₱3,765	₱3,398

Interest and Other Financial Charges

	<i>Note</i>	2015	2014	2013
<i>(Amounts in millions)</i>				
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	7 and 17	₱1,050	₱1,210	₱1,038
Interest expense on bill deposits	18	83	84	82
Interest expense on notes payable	21	26	7	73
Amortization of debt issuance costs	17	23	43	61
Others		34	95	225
		₱1,216	₱1,439	₱1,479



Interest and Other Financial Income

	Note	2015	2014	2013
<i>(Amounts in millions)</i>				
Interest income on cash in banks and cash equivalents	11	₱1,012	₱720	₱1,088
Income from <i>HTM</i> investments		275	—	—
Carrying costs on <i>ERC</i> -approved under-recoveries		198	—	—
Others		53	50	84
		₱1,538	₱770	₱1,172

26. Long-term Employee Benefits

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

	2015	2014
<i>(Amounts in millions)</i>		
Long-term incentives	₱3,287	₱2,303
Retirement benefits liability	2,021	685
Other long-term post-employment benefits	1,599	1,899
Total	6,907	4,887
Less current portion	3,287	—
	₱3,620	₱4,887

Defined Benefit Retirement Plans

The features of the *MERALCO Group's* defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in “Salaries, wages and employee benefits” account in the consolidated statements of income)

	2015	2014	2013
<i>(Amounts in millions)</i>			
Current service costs	₱1,216	₱1,101	₱1,041
Net interest costs	14	76	130
Net retirement benefits expense	₱1,230	₱1,177	₱1,171

Retirement Benefits Liability

	2015	2014
<i>(Amounts in millions)</i>		
Defined benefit obligation	₱38,220	₱37,129
Fair value of plan assets	(36,199)	(36,444)
Retirement benefits liability	₱2,021	₱685



Changes in the net retirement benefits liability are as follows:

	2015	2014
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of year	₱685	₱1,186
Net retirement benefits expense	1,230	1,177
Contributions by employer	(775)	(1,831)
Amounts recognized in <i>OCI</i>	881	153
Retirement benefits liability at end of year	₱2,021	₱685

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

	2015	2014
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱37,129	₱35,225
Interest costs	1,620	1,601
Current service costs	1,216	1,101
Benefits paid	(1,720)	(1,840)
Actuarial losses (gains) due to:		
Changes in financial assumptions	(1,550)	506
Experience adjustments	1,525	536
Defined benefit obligation at end of year	₱38,220	₱37,129

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

	2015	2014
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱36,444	₱34,039
Benefits paid	(1,720)	(1,840)
Interest income	1,606	1,525
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	(906)	889
Contributions by employer	775	1,831
Fair value of plan assets at end of year	₱36,199	₱36,444

The Board of Trustees (“*BoT*”) which manages the *Fund*, is chaired by the chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an independent member of the *BOD*; (ii) a member of the *BOD* who represents the largest shareholder group; (iii) an executive member of the *BOD*; and (iv) three (3) senior executives.

The *Fund* follows a generally conservative investment approach where investments are diversified to minimize risks but ensures an increase in value of the *Fund* assets. The assets of the *Fund* are managed by four (4) local trustee banks and one (1) foreign bank whose common objective is to maximize the long-term expected return of plan assets. As approved by the *BoT*, the plan assets are invested in a guided proportion of fixed income instruments, cash investments and equities.



The net carrying amount and fair value of the assets of the *Fund* as at December 31, 2015 and 2014 amounted to ₱36,199 million and ₱36,444 million, respectively. The major categories of plan assets are as follows:

	2015	2014
	(Amount in millions)	
Cash and cash equivalents	₱3,007	₱3,606
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	2,973	2,635
Electricity, energy, power and water	1,576	1,585
Telecommunication	915	908
Property	743	585
Food, beverages and tobacco	722	1,068
Banks	671	743
Transportation services	90	345
Mining	78	138
Construction, infrastructure and allied services	53	135
Retail	14	130
Gaming	—	139
Others	25	461
Quoted debt investments		
“AAA” rated securities	12,670	10,032
Government securities	9,813	11,226
Unquoted investments		
Receivables	1,895	1,754
Property	954	954
Fair value of plan assets	₱36,199	₱36,444

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks. The *Fund* does not have any direct equity interests in *MERALCO*.

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

	2015	2014	2013
	(Amounts in millions)		
Interest costs	₱84	₱79	₱178
Current service costs	39	36	80
Actuarial loss	4	3	—
	₱127	₱118	₱258



Other Long-term Post-employment Benefits Liability

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

	2015	2014
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱1,899	₱1,792
Interest costs	84	79
Current service costs	39	36
Benefits paid	(70)	(73)
Actuarial losses (gains) due to change in assumptions	(353)	65
Balance at end of year	₱1,599	₱1,899

Actuarial Assumptions

The principal assumptions used as at December 31, 2015 and 2014 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2015	2014
Annual discount rate	5.0%	4.5%
Future range of annual salary increases	6.0% - 8.0%	5.0% - 8.0%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	2015	2014
		<i>(Amounts in millions)</i>	
Annual discount rate	+1.0%	(₱4,393)	(₱4,014)
	-1.0%	5,407	4,792
Future range of annual salary increases	+1.0%	1,752	1,139
	-1.0%	(1,588)	(1,047)

Funding

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

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



The following is the maturity profile of the undiscounted benefit obligation as at December 31, 2015:

	(Amounts in millions)
Less than one (1) year	₱1,518
One (1) year up to five (5) years	9,152
More than five (5) years up to 10 years	14,068
More than 10 years up to 15 years	19,670
More than 15 years up to 20 years	19,907
More than 20 years	60,267

Risk

The *Fund* is exposed to the following risks:

Credit Risk

The *Fund's* exposure to credit risk arises from its financial assets which comprise cash and cash equivalents, investments and rental receivable. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Fund*.

Share Price Risk

The *Fund's* exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The price share risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Fund* is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.



Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental Retirement Benefit for employees hired beginning 2004, the participation of which is on a voluntary basis. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱7 million, ₱9 million and ₱5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Expense recognized for defined benefit plans	₱1,230	₱1,177	₱1,171
Expense recognized for defined contribution plan	7	9	5
Retirement benefits expense	₱1,237	₱1,186	₱1,176

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified executives and is based on the *MERALCO Group*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three-year period as well as executives' attainment of a minimum level of performance rating. Executives invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents and trade and nontrade receivables, which are generated directly from operations, and *AFS* investments and *HTM* investments. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.



The following table sets forth the financial assets and financial liabilities as at December 31, 2015 and 2014:

	Loans and Receivables	HTM Investments	Fair Value through Profit or Loss	Held-for- trading	AFS Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>							
Assets as at December 31, 2015							
<i>Noncurrent</i>							
Other noncurrent assets	₱1,030	₱17,167	₱–	₱–	₱10,961	₱–	₱29,158
<i>Current</i>							
Cash and cash equivalents	50,840	–	–	–	–	–	50,840
Trade and other receivables	22,645	–	–	–	–	–	22,645
Advances to an associate	5,342	–	–	–	–	–	5,342
Other current assets	–	4,072	–	–	–	–	4,072
Total assets	₱79,857	₱21,239	₱–	₱–	₱10,961	₱–	₱112,057
Liabilities as at December 31, 2015							
<i>Noncurrent</i>							
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱–	₱–	₱–	₱27,370	₱27,370
Customers' deposits - net of current portion	–	–	–	–	–	23,584	23,584
Refundable service extension costs - net of current portion	–	–	–	–	–	4,234	4,234
<i>Current</i>							
Notes payable	–	–	–	–	–	1,043	1,043
Trade payables and other current liabilities	–	–	–	–	–	46,677	46,677
Customers' refund	–	–	–	–	–	5,550	5,550
Current portion of interest-bearing long-term financial liabilities	–	–	–	–	–	1,895	1,895
Total liabilities	₱–	₱–	₱–	₱–	₱–	₱110,353	₱110,353
<i>(Amounts in millions)</i>							
Assets as at December 31, 2014							
<i>Noncurrent</i>							
Other noncurrent assets	₱619	₱121	₱–	₱–	₱172	₱–	₱912
<i>Current</i>							
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							
<i>Noncurrent</i>							
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
<i>Current</i>							
Notes payable	–	–	–	–	–	400	400
Trade payables and other current liabilities	–	–	–	–	–	43,176	43,176
Customers' refund	–	–	–	–	–	5,937	5,937
Current portion of interest-bearing long-term financial liabilities	–	–	–	–	–	1,899	1,899
Total liabilities	₱–	₱–	₱–	₱–	₱–	₱110,505	₱110,505

Fair Values

The fair values of the financial assets and financial liabilities are prices that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group's* financial instruments as at December 31, 2015 and 2014.



	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Loans and receivables -				
Advance payments to a supplier	₱1,030	₱963	₱619	₱634
AFS financial assets	10,961	10,961	172	172
HTM investments	21,239	21,230	121	125
	₱33,230	33,154	₱912	₱931
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing - long-term financial liabilities	₱29,265	₱30,531	₱29,642	₱30,439

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Trade and Other Receivables, Advances to an Associate, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 3.93% as at December 31, 2015 and 3.68% as at December 31, 2014.

AFS Financial Assets

The fair values were determined by reference to market bid quotes as at reporting date. The unquoted equity securities were carried at cost.

HTM Investments

The fair values were determined by discounting the expected future cash flows using the interest rate as at cut-off date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.



Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.48% to 4.22% as at December 31, 2015 and 0.51% to 4.56% as at December 31, 2014.

Redeemable Preferred Stock

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

Refundable Service Extension Costs

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

Fair Value Hierarchy

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

	December 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(Amounts in millions)</i>								
Financial assets								
Advance payments to a supplier	P-	P-	P963	P963	P-	P-	P634	P634
AFS investments	10,926	-	35	10,961	138	-	34	172
HTM investments	21,110	-	120	21,230	-	-	125	125
	P32,036	P-	P1,118	P33,154	P138	P-	P793	P931
Financial liabilities								
Interest-bearing long-term financial liabilities	P-	P-	P30,531	P30,531	P-	P-	P30,439	P30,439

For the years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate primarily to the long-term interest-bearing financial liabilities.



The *MERALCO Group*'s policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. Approximately 91% of the borrowings bear fixed rate of interest as at December 31, 2015 and 2014, respectively.

The following table sets out the maturity profile of the financial instruments that are exposed to interest rate risk (exclusive of debt issuance costs):

	Within 1 Year	Over 1–2 Years	Over 2–3 Years	Over 3–4 Years	Over 4–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>							
2015	₱13	₱12	₱2,425	₱–	₱–	₱–	₱2,450
2014	13	13	12	2,425	–	–	2,463

Floating interest rate of bank loans is repriced at intervals of less than one year. The other financial liabilities of the *MERALCO Group* that are not included in the foregoing have fixed interest rate and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the years ended December 31, 2015 and 2014 through the impact on floating rate borrowings. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statement of income.

	2015		2014	
	Increase (Decrease) in Basis Points	Effect on Income before Income Tax	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
<i>(Amounts in millions)</i>				
Floating rate loans from various banks	+100 (100)	(₱25) 25	+100 (100)	(₱25) 25

Interest expense of floating rate loans for the year is computed by taking into account actual principal movements, based on management's best estimate of a +/-100 basis points change in interest rates. There has been no change in the methods and assumptions used by management in the above analysis.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial portion of the *MERALCO Group*'s capital expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated



liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2015 and 2014, translated to Philippine peso at ₱47.06 and ₱44.72 to US\$1, respectively.

	2015		2014	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$240	₱11,295	\$119	₱5,331
Trade and other receivables	2	101	4	174
Advances to an associate	110	5,177	110	4,919
Advance payments to a supplier	18	826	14	610
	370	17,399	247	11,034
Financial liabilities -				
Trade payables and other liabilities	(3)	(137)	(10)	(447)
	\$367	₱17,262	\$237	₱10,587

All of the *MERALCO Group's* long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group's* obligations. Further, *PBR* assumes a forecast level of foreign currency movements in its calculation of the regulatory asset base and expenditures. *PBR* also allows for adjustment of the rates the *MERALCO Group* charges should there be significant deviations in the foreign exchange forecast from what is actually realized.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group's* income before income tax for the years ended December 31, 2015 and 2014 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on the *MERALCO Group's* equity other than those already affecting the consolidated statement of income.

	2015		2014	
	Appreciation (Depreciation) of U.S. Dollar <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>
<i>U.S.</i> dollar-denominated financial assets	+5	₱863	+5	₱529
and financial liabilities	-5	(863)	-5	(529)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/-5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the year-end balances of *U.S.* dollar-denominated cash and cash equivalents, receivables and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.



Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in commodity prices. The exposure of *MERALCO* and *CEDC* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *CEDC*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that the *MERALCO Group* is exposed to as a result of its customers, clients or counterparties failing to discharge their contracted obligations. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one month's consumption to secure credit. Also, as a policy, disconnection notices are sent three days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

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

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

Credit risk on other financial assets, which include cash and cash equivalents and trade and other receivables, arises from the potential default of the counterparty.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.



The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position as at December 31, 2015 and 2014. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2015	2014
	<i>(Amounts in millions)</i>	
Cash and cash equivalents:		
Cash in banks	₱4,976	₱5,676
Cash equivalents	45,742	63,548
Trade and other receivables:		
Billed electricity	16,439	19,888
Service contracts	3,427	2,444
Insurance receivable	99	102
Cost and estimated earnings in excess of billings on uncompleted contracts	774	718
Nontrade receivables	1,906	3,395
Other current assets:		
Advances to an associate	5,342	4,998
HTM investments	4,072	
Other noncurrent assets:		
HTM investments	17,167	121
AFS investments	10,961	172
Advance payments to a supplier	1,030	619
	₱111,935	₱101,681

The credit quality of financial assets is managed by *MERALCO* using “High Grade”, “Standard Grade” and “Sub-standard Grade” for accounts, which are neither impaired nor past due as internal credit ratings. The following tables show the credit quality by asset class:

	2015					
	Neither Past Due nor Impaired			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	₱50,718	₱—	₱—	₱—	₱—	₱50,718
Trade and other receivables:						
Billed electricity	3,457	2,054	9,107	1,821	3,459	19,898
Service contracts	867	—	397	2,163	197	3,624
Insurance receivable	17	—	57	25	—	99
Cost and estimated earnings in excess of billings on uncompleted contracts	—	—	463	311	6	780
Nontrade receivables	1,022	11	232	641	3	1,909
Other current assets:						
Advances to an associate	—	5,342	—	—	—	5,342
HTM investments	4,072	—	—	—	—	4,072
Other noncurrent assets	17,167	—	1,030	—	—	18,197
	₱77,320	₱7,407	₱11,286	₱4,961	₱3,665	₱104,639



	2014					
	Neither Past Due nor Impaired			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	₱69,224	₱—	₱—	₱—	₱—	₱69,224
Trade and other receivables:						
Billed electricity	3,954	2,335	9,857	3,742	3,207	23,095
Service contracts	1,787	—	64	593	218	2,662
Insurance receivable	20	—	67	15	—	102
Cost and estimated earnings in excess of billings on uncompleted contracts	718	—	—	—	—	718
Nontrade receivables	2,628	3	483	281	2	3,397
Other current assets -						
Advances to an associate	—	4,998	—	—	—	4,998
Other noncurrent assets	—	—	740	—	—	740
	₱78,331	₱7,336	₱11,211	₱4,631	₱3,427	₱104,936

Credit ratings are determined as follows:

- High Grade

High grade financial assets include cash in banks and cash equivalents to counterparties with good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

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

- Sub-standard Grade

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



The following table shows the aging analysis of financial assets as at December 31, 2015 and 2014:

2015						
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31–60 Days	61–90 Days	Over 90 Days		
(Amounts in millions)						
Cash and cash equivalents:						
Cash equivalents	₱4,976	₱–	₱–	₱–	₱–	₱4,976
Cash in banks	45,742	–	–	–	–	45,742
Trade and other receivables:						
Trade:						
Billed electricity	14,618	924	302	595	3,459	19,898
Service contracts	1,264	121	57	1,985	197	3,624
Insurance receivable	74	1	2	22	–	99
Cost and estimated earnings in excess of billings on uncompleted contracts	463	48	29	234	6	780
Nontrade receivables	1,265	143	44	454	3	1,909
Other current assets:						
Advances to an associate	5,342	–	–	–	–	5,342
HTM investments	4,072	–	–	–	–	4,072
Other noncurrent assets:						
Advance payments to a supplier	1,030	–	–	–	–	1,030
HTM investments	17,167	–	–	–	–	17,167
	₱96,013	₱1,237	₱434	₱3,290	₱3,665	₱104,639
2014						
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31–60 Days	61–90 Days	Over 90 Days		
(Amounts in millions)						
Cash and cash equivalents:						
Cash equivalents	₱5,676	₱–	₱–	₱–	₱–	₱5,676
Cash in banks	63,548	–	–	–	–	63,548
Trade and other receivables:						
Trade:						
Billed electricity	16,146	1,171	453	2,118	3,207	23,095
Service contracts	1,851	24	13	556	218	2,662
Insurance receivable	87	2	2	11	–	102
Cost and estimated earnings in excess of billings on uncompleted contracts	718	–	–	–	–	718
Nontrade receivables	3,114	32	33	216	2	3,397
Other current assets -						
Advances to an associate	4,998	–	–	–	–	4,998
Other noncurrent assets:						
Advance payments to a supplier	619	–	–	–	–	619
HTM investments	121	–	–	–	–	121
	₱96,878	₱1,229	₱501	₱2,901	₱3,427	₱104,936

Liquidity Risk

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

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



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

2015					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱1,043	₱–	₱–	₱–	₱1,043
Trade payables and other current liabilities	41,208	–	–	–	41,208
Customers' refund	5,550	–	–	–	5,550
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	27	39	2,518	–	2,584
Fixed rate borrowings	290	1,216	5,941	25,741	33,188
Redeemable preferred stock	1,522	–	–	–	1,522
Customers' deposits	242	2,725	4,811	18,773	26,551
Refundable service extension costs	44	2,458	1,766	2,468	6,736
Total undiscounted financial liabilities	₱49,926	₱6,438	₱15,036	₱46,982	₱118,382

2014					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<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
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	40	34	2,725	12	2,811
Fixed rate borrowings	629	862	7,332	25,706	34,529
Redeemable preferred stock	1,549	–	–	–	1,549
Customers' deposits	815	3,248	4,880	19,464	28,407
Refundable service extension costs	106	1,746	2,673	4,333	8,858
Total undiscounted financial liabilities	₱46,736	₱5,890	₱17,610	₱49,515	₱119,751

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interest) of ₱2,470 million and ₱3,562 million will be refunded within the year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2015 and 2014, respectively.

Capital Management

The primary objective of the *MERALCO Group's* capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.



The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2015	2014
	<i>(Amounts in millions, except debt to equity ratio)</i>	
Long-term debt	₱27,743	₱28,093
Redeemable preferred stock	1,522	1,549
Notes payable	1,043	400
Debt (a)	30,308	30,042
Equity attributable to the holders of the parent (b)	80,276	79,154
Debt to equity ratio(a)/(b)	0.38	0.38

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2015 and 2014 are as follows:

	Note	2015	2014
		<i>(Amounts in millions)</i>	
Deferred tax assets:			
Provisions for various claims	19	₱17,621	₱14,223
Accrued employee benefits	26	1,466	1,244
Allowance for doubtful accounts	12	1,039	961
Unfunded retirement benefits cost and unamortized past service cost	26	1,008	830
Allowance for excess of cost over net realizable value of inventories	13	57	58
Others		84	117
		21,275	17,433
Deferred tax liabilities:			
Revaluation increment in utility plant and others	15	7,285	7,311
Depreciation method differential		777	929
Capitalized interest		760	753
Capitalized duties and taxes deducted in advance		608	634
Actuarial gains		426	578
Net book value of capitalized/realized foreign exchange losses		3	12
Others		137	132
		9,996	10,349
		₱11,279	₱7,084



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

	2015	2014
	<i>(Amounts in millions)</i>	
Deferred tax assets - net	₱11,296	₱7,089
Deferred tax liabilities - net	(17)	(5)
	₱11,279	₱7,084

Provision for (benefit from) income tax consists of:

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Current	₱9,732	₱9,961	₱9,889
Deferred	(4,045)	(1,624)	(2,835)
	₱5,687	₱8,337	₱7,054

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2015, 2014 and 2013, and provision for income tax as shown in the consolidated statements of income is as follows:

	2015	2014	2013
	<i>(Amounts in millions)</i>		
Income tax computed at statutory tax rate	₱7,463	₱7,941	₱7,298
Income tax effects of:			
Nondeductible expenses	—	454	—
Interest income subjected to lower final tax rate	(387)	(206)	(314)
Nondeductible interest expense	160	85	130
Nontaxable income	(88)	(55)	(113)
Equity in net losses (earnings) of associates and joint ventures	8	(84)	78
Others	(1,469)	202	(25)
	₱5,687	₱8,337	₱7,054

On December 18, 2009, the *BIR* issued Revenue Regulations (“*RR*”) No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions (“*OSD*”). Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2015 and 2014, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter income tax return.

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover (“*NOLCO*”) amounting ₱1,240 million and ₱1,105 million as at December 31, 2015 and 2014, respectively.



NOLCO totaling to ₱1,240 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount (In millions)
December 31, 2013	December 31, 2016	₱402
December 31, 2014	December 31, 2017	500
December 31, 2015	December 31, 2018	338
		₱1,240

NOLCO amounting to ₱193 million and ₱106 million expired in 2015 and 2014, respectively.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The *IRR* issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

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

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCCs*"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *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, 2015 and 2014, the amount of unissued *TCCs* amounting to ₱181 million, is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.



See Note 10 – Other Noncurrent Assets.

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

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

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

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

On July 12, 2013, the *BIR* appealed the *CTA* En Banc’s Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 26, 2016, the case is pending resolution by the *SC*.

Overpayment of Income Tax Related to Change in Tax Basis

On February 4, 2008, the *SC* denied with finality an *MR* filed by the Commissioner of Internal Revenue (“*CIR*”) against *MERALCO*, with respect to the issue on excess income tax paid by the latter. The *SC* affirmed a *CA* decision and ordered the *CIR* to refund or issue a *TCC* in favor of *MERALCO* for ₱107 million representing overpaid income taxes for taxable years 1987 and 1988. The overpayment is in accordance with the effectivity of Executive Order No. 72, which subjected *MERALCO* to regular corporate income tax instead of 2% franchise tax based on gross receipts it was previously liable for. On February 5, 2013, *MERALCO* filed a Motion for Issuance of a Writ of Execution with the *CTA* to enforce the judgment of the *SC*. On February 14, 2013, the *CTA* promulgated a Resolution ordering the *CIR* and the Office of the Solicitor General (“*OSG*”) to comment on the Motion filed by *MERALCO*. On March 14, 2013, the *CTA* promulgated a Resolution granting the Motion of *MERALCO* and directed the issuance of corresponding Writ of Execution. In March 2014, *MERALCO* received the ₱107 million *TCC* from the *BIR*. In 2014, the same amount was applied against income tax due for the year.

LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code (“*LGC*”), only cities and provincial governments may impose taxes on



establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

Real Property Tax ("RPT") Assessments

Several Local Government Units ("*LGUs*") assessed *MERALCO* for deficiency *RPTs* on certain assets of *MERALCO*. The assets include electric transformers, distribution 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. On October 22, 2015, *MERALCO* received a copy of the *SC* Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGU*. *MERALCO* did not appeal said *SC* Decision. The cases of the other *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 ("*RTC-Pasig*") to enjoin the collection of *RPT* on *MERALCO*'s *TWIP* and nullify *RPT* assessments made thereon based on the argument that these are not within the ambit of the definition of real property under the *LGC*. The case was set for mediation after the City of Manila files its comments on *MERALCO*'s petition. *MERALCO* has started presenting its evidence without prejudice to possible out-of-court settlement in light of the *SC* Decision in the case of Lucena City. Subsequently, the court has granted the motion jointly filed by *MERALCO* and the City of Manila for the withdrawal of the case subject to the terms and conditions set forth in the motion.

In the event that the assessment is sustained by the *SC* and payment is warranted or appropriate, *MERALCO* will file for the recovery of any resulting *RPT* payments from customers in the relevant *LGUs* through a separate application with the *ERC*.

Mediation with NPC

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

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

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

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



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

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *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 ("*TRO*") from the *CA*.

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

Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the *OSG* with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015.

Sucat-Araneta-Balintawak Transmission Line

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



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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, plaintiffs filed a Manifestation stating that they are pursuing the deposition of Dr. Martin Blank, a supposed expert in electromagnetic field, through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of Dr. Blank. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. The next hearing for this case is set on March 24, 2016.

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

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

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



losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

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

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

Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("SGCs") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following SGCs: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the 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 26, 2016, *MERALCO*'s Manifestation and Motion is pending resolution by the *ERC*.



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

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

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*. Said Petition seeks the following: 1) Refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *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 26, 2016, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised concerns with the *PEMC* to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*,



which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum.

As at February 26, 2016, *PSALM*'s Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2016, the petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

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

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

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



On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another 60 days or until April 22, 2014, the TRO that it originally issued against *MERALCO* and *ERC* last December 23, 2013. The TRO was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month. In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *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.* ("*PanAsia*"), and *SMEC*, have filed motions for reconsideration questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the *ERC* denied the motions for reconsideration. The generating companies have appealed the Orders with the *CA* where the petitions are pending and have been consolidated. *MERALCO* has filed a Consolidated Motion for Leave to Intervene and to Admit Consolidated Comment in Intervention. In a Resolution dated October 9, 2015, the *CA* required the generators to file their comments on *MERALCO*'s Consolidated Motion. *MERALCO* is awaiting the resolution of the Consolidated Motion.

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

On April 22, 2014, the SC extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2016, the SC has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

ERC Investigation Unit ("IU") Complaint

On December 26, 2013, the *ERC* constituted the *IU* under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired



in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

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

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing. As at February 26, 2016, the *ERC* has yet to set a date for the hearing of the case.

SPPC vs. PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration (“*IPPA*”) Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint at *RTC* Mandaluyong to nullify the termination notice for lack of factual and legal basis. On said date, the Executive Judge of *RTC* Mandaluyong issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC* Mandaluyong Branch 208 extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC* granted the prayer for preliminary injunction. *PSALM* has filed motions for reconsideration to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC* Mandaluyong allowed *MERALCO*’s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed an *MR* dated November 6, 2015 of the Order admitting *MERALCO*’s intervention. The preliminary conference of the case is set on April 14, 2016.

Others

Liabilities for certain local taxes amounting to ₱6,103 million and ₱6,407 million as at December 31, 2015 and 2014, respectively, are included in the “Other noncurrent liabilities” account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect the *MERALCO Group*’s financial position and results of operations.



30. Significant Contracts and Commitments

Contracts for the CSE and PSAs with Privatized Plants and IPPAs

MERALCO entered into separate PSAs with SPPC, Sem-Calaca and MPPCL on December 12, 20 and 21, 2011, respectively. Also, separate PSAs with TLI and SMEC were executed on February 29 and June 26, 2012, respectively. These PSAs are for a period of seven (7) years, extendable for three (3) 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.

MRs 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 MRs. 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 millions)
2016	3,080	₱40,017
2017	3,080	39,760
2018	2,880	39,481
2019	2,460	34,268
2020	455	8,159
2021	455	8,203
2022-2039	455	157,150

FGPC and FGP

In compliance with the DOE's program to create a market for Camago-Malampaya gas field and enable its development, MERALCO was committed to contract 1,500 MW of the 2,700 MW output of the Malampaya gas field.

Accordingly, MERALCO entered into separate 25-year 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 (“*TLA*”) and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US\$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by *ERC*.

See Note 10 – Other Noncurrent Assets.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“*MEQ*”) provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the U.S. and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2016	14,758	₱20,286
2017	14,758	20,416
2018	14,758	20,560
2019	14,758	20,681
2020	14,758	20,804
2021 to 2027	81,631	115,510

Philippine Power and Development Company (“PPDC”)

On May 15, 2014, *MERALCO* and *PPDC* executed a *PSA*. *PPDC* operates three (3) run-of-river hydro power plants, namely: (1) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (2) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay



Sto. Angel, San Pablo City, Laguna; and (3) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *PPDC*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *PPDC* as measured by the latter's billing meter. Hearings on this case have been completed. As at February 26, 2016, the case is submitted for decision by the *ERC*.

Bacavalley Energy Inc. ("BEI")

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

The terms of the *CSE* with *BEI* are similar to that signed with Montalban Methane Power Corp. ("*MMPC*"). Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 16, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with motion to the *ERC* for approval of the extended term. As at February 26, 2016, the case is pending approval by the *ERC*.

Pangea Green Energy Philippines, Inc. ("PGEP")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP*, a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas Landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* has a term of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with motion to the *ERC* for approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. On October 29, 2015, the termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a *Manifestation with Motion* with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. As at February 26, 2016, the case is pending decision by the *ERC*.



TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park - Malabon 115 *kV* line. *TMO* is thus an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for Provisional Authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. On April 6, 2015, the *ERC* approved the Amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*. As at February 26, 2016, the said Omnibus Motion is pending resolution by the *ERC*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electrical output with *SBPL*. *SBPL* will be constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. Following a number of hearings, on May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Bacman Geothermal, Inc. ("BGI")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. Hearings have been completed and as at February 26, 2016, the case is submitted for decision.



Interim Power Supply Agreements (“IPSAs”)

On April 1, 2014, *MERALCO* signed two separate *IPSAs* with the wholly-owned subsidiaries of *GBPC*, namely: (1) *PPC* for a 27 *MW* firm output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City; and (2) *TPC* for a 28 *MW* firm and 9 *MW* non-firm output from its 40-*MW* diesel-fired power plant in Carmen, Toledo City. Both *IPSAs*, had an initial terms of up to June 30, 2014, and were subsequently extended to October 31, 2014, and further up to July 25, 2015. In its various Decisions dated June 2, 2014, July 10, 2014 and March 15, 2015, the *ERC* approved the applications and extensions with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *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 nine (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. On March 16, 2015, the *ERC* approved the *IPSA* with *PPC* and *TPC*. On April 3, 2014, *MERALCO* signed an *IPSA* with 1590 Energy Corporation for the 140 *MW* output from the Bauang power plant – a 225-*MW* diesel-fired power plant in Bauang, La Union for a term of up to June 30, 2014. This *IPSA* became effective upon the final approval of the *ERC* in its Decision dated May 12, 2014.

On June 30, 2014, the *ERC* approved the extension of the *IPSA* with 1590 Energy Corporation until October 31, 2014. A Memorandum of Agreement (“*MOA*”) dated October 30, 2014 was executed with 1590 Energy Corporation extending the *IPSA* until July 25, 2015. Said *MOA* was filed with the *ERC* for approval on October 30, 2014. The *ERC* issued an Order dated December 15, 2014 approving the extension of the *IPSA* under the same terms as approved by the *ERC* in its Decision dated May 12, 2014.

On January 19, 2016, after the conduct of a price challenge in compliance *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 *MW* (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 225-*MW* diesel-fired power plant in Bauang, La Union. The *IPSA*, with a term until February 25, 2017, was filed for approval of the *ERC* on February 10, 2016. The *IPSA* shall become effective upon the approval of the *ERC*.

On January 21, 2016, after the conduct of a price challenge in compliance *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two separate *IPSAs* with *TPC* for the 28 *MW* (firm) output from its 40-*MW* diesel-fired power plant in Carmen, Toledo City; and (2) *PPC* for the 45 *MW* (firm) output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City. Both *IPSAs*, with a term until February 25, 2017, were filed for approval of the *ERC* on February 10, 2016. The *IPSAs* shall become effective upon the approval of the *ERC*.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation (“Alternergy”)

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for their 90 *MW* Wind Farm Renewable Energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*’s Malaya-Teresa 115 *kV* line. *Alternergy* is an embedded generator. *Alternergy* shall



construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO*'s Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2016. In the Letter Agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalized their agreement as regards the extended use of said line.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for their 20*MW* (with maximum capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*'s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115*kV* line connecting its generating facility to *MERALCO*'s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*'s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter's 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*'s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*'s system.

Technical Services Agreement ("TSA") with Integrated Energy Distribution and Marketing ("IEDM"), Ibadan Electric Distribution Company ("IBEDC") and Yola Electric Distribution Company ("YEDC")

MERALCO provides technical and management services for the operations of *IBEDC* and *YEDC* in Nigeria. In consideration, *MERALCO* receives fixed monthly fees, subject to adjustment annually in accordance with the provisions of the Technical Services Agreement.

In 2015, the *TSA* was amended to limit the scope to the provision of technical services only for *IBEDC* and revised the fixed monthly fees accordingly.

Investment and Management Agreement with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of twenty (20) years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* will render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a Performance-Based Remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.



Agreement and Registration with PEZA

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement with a term of 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Trans-Asia* for the sale of power to *CEZ* and its locators beginning January 26, 2013.

On November 7, 2014, *MERALCO* filed an application to *PEZA* as an Economic Zone Utilities Enterprise, pursuant to the Concession Agreement between *MERALCO* and *PEZA* dated May 26, 2014, whereby *MERALCO* has been contracted to manage and operate the *PEZA* electrical distribution system in *CEZ*.

On November 12, 2014, the *PEZA* Board approved *MERALCO*'s application, subject to *MERALCO*'s signing of a Supplemental Agreement with *PEZA* under standard registration terms and conditions, through Resolution No. 14-620.

On December 19, 2014, upon compliance with the pre-registration condition under said Board Resolution, as well as the payment of application and registration fees, *MERALCO* has submitted its duly signed and notarized Supplemental Agreement with *PEZA*.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the Cavite Economic Zone.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2015	2014	2013
	<i>(In millions, except per share data)</i>		
Net income attributable to equity holders of the Parent (a)	₱19,098	₱18,053	₱17,211
Weighted average common shares outstanding (b)	1,127	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	₱16.94	₱16.02	₱15.27

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2015, 2014 and 2013.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.



32. Other Matters

Revised SL Caps

On December 8, 2008, the *ERC* promulgated resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting their January 2010 billing. Said cap is one percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme ("*PIS*") under the *PBR*.

On December 8, 2009, *MERALCO* filed a Petition to amend said Resolution with an urgent prayer for the immediate suspension of the implementation of the new *SL* cap of 8.5% starting January 2010. The proposed amendment is aimed at making the Resolution consistent with the provisions of *RA* No. 9136 and *RA* No. 7832, by increasing the *SL* cap to not less than 9%. The hearings on this case have been completed. As at February 26, 2016, this Petition is pending decision by the *ERC*.

Benefit-Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with Private Electric Power Operators Association, Inc. ("*PEPOA*") and Philippine Rural Electric Cooperative Association ("*PHILRECA*"), filed a joint petition to the *ERC* to initiate rule-making to adopt the *Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users*. This was aimed to encourage the *DUs* to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower system loss charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the *Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities*. As at February 26, 2016, the Joint Petition is pending further action or decision by the *ERC*.

RCOA

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

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements. The resolution mandates all *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*.

On July 1, 2015, the *DOE* published Department Circular No. DC2015-06-0010, "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry". The salient points of the circular are as follows:

- a. All contestable customers with average demand of 1 *MW* and above are mandated to secure their respective Retail Supply Contracts ("*RSC*") no later than June 25, 2016.
- b. All contestable customers with an average demand ranging from 750 *kW* to 999 *kW* for the proceeding 12-month period are mandated to secure their *RSCs* no later than June 25, 2016.
- c. Aggregators with aggregated demand not lower by 750 *kW* shall be allowed to compete with *RES*, generation companies and prospective generation companies effective June 26, 2016.
- d. Any electric end user with an average demand ranging from 501 *kW* to below 750 *kW* for the preceding 12 months may be allowed to choose their respective *RES* effective June 26, 2018 subject to the determination of the *ERC* on the basis of its evaluation on the performance of the retail market.
- e. Any *DU* which may incur displaced contract capacity/energy ("*DCC/E*") shall inform the *ERC* of its impending *DCC/E*.

Subsequently, the *ERC* released for comments its proposed Draft Revised Rules for Contestability and "Draft Rules Governing the Issuances of Licenses or Authorization to Retail Electricity Suppliers Prescribing the Requirements and Conditions Therefor" (*Revised RES Licensing Rules*). The draft Revised Rules for Contestability proposed the following guidelines:

- a. Contestable Customers shall be given up to June 25, 2016 to contract for their capacity requirements. Mandatory contestability for 1 *MW* customers shall be implemented on June 26, 2016, together with the lowering of contestability to 750 *kW*. All Contestable Customers with an average peak demand of 750 *kW* to 999 *kW* for the preceding 12-month period are also mandated to enter an *RSC*. Contestable Customer with no appointed *RES* by June 26, 2016 will either; (a) be served by the Supplier of Last Resort ("*SOLR*") or (b) remain captive (special circumstances, but with *ERC* approval).
- b. Any Contestable Customer shall be allowed to enter into an *RSC* with any legitimate prospective Generation Companies, and shall be deemed compliant with the mandatory requirement despite the commercial operation of such plant at a subsequent period of time.
- c. The *DU* shall continue to serve the electricity requirements of the Contestable Customer during the period when the power plant of the Generation Company is still under construction. Such Contestable Customer shall be included in the alternative pricing scheme of the *DU*, i.e. Peak/Off-Peak ("*POP*") rates program or *TOU* rate or preferential rate.
- d. The aforesaid Generation Companies shall secure the corresponding *RES* license 60 days prior to commercial operation. Any Generation company that failed to put up the power plant as per its *RSC* with the Contestable Customer shall be subject to strict monitoring.



To supply the affected Contestable customer, a temporary supplier shall be appointed by the *ERC* and shall be given six (6) months period to secure a *RES* license.

- e. Contestable Customers within a contiguous area with an aggregate demand of at least 750kW shall be allowed on June 26, 2019. Nevertheless, rules for retail aggregation shall be issued separately by the *ERC* prior to its implementation.

The Draft Revised *RES* Licensing Rules proposed new classification of *RES* licenses and new requirements to be complied by *RES*s. The draft also proposed new limitations and restrictions on *RES* operations.

The comments on this first set of draft Rules were submitted on July 30, 2015 and the public consultation was conducted on August 14, 2015.

Subsequently, in a notice dated November 13, 2015, the *ERC* released for comments its proposed Draft Rules on the Mandatory Migration to the Competitive Retail Electricity Market (“*CREM*”) (“*Rules on CREM*”). Along with such notice, the *ERC* issued a second set of draft Revised Rules for Contestability and Revised Rules on *RES* Licensing. Both the draft Rules on *CREM* and second draft Revised Rules on *RES* Licensing contain provisions (i) no longer allowing *DUs* to supply electricity to the contestable market, unless such supply is made in its capacity as a *SOLR*, and enjoining *DUs* to wind down their respective supply businesses such that no Local *RES* shall be allowed to act as such by June 26, 2016; and (ii) no longer allowing *DU* affiliates to operate as *RES* by June 26, 2016, in which case, a winding down of its supply business is likewise enjoined. *MERALCO* submitted its comments on the second draft of Revised Rules on *RES* Licensing on December 4, 2015 and its comments on the draft *Rules on CREM* and second draft Revised Rules for Contestability on December 9, 2015. Further action of the *ERC* on this matter is pending.

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average Generated Weighted Average Price (“*GWAP*”) of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or Secondary Cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (1) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (2) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such Resolution; and (3) extend the effectivity of the Secondary Cap mechanism for a period of 120 days from August 10, 2014 or until the establishment by the *ERC* of a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given an additional period until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize



with the finalization of the permanent pre-emptive mitigating measure to apply in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a Cumulative Price Threshold (“*CPT*”) amounting to an average spot price of ₱9,000 per *MWh* over a rolling day 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association (“*PIPPA*”) in the *RTC* of Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the Secondary Cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment-in-Intervention. The *RTC-Pasig* admitted *MERALCO*’s intervention and comment in its Order dated October 28, 2014. The case had already been submitted for decision. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC* denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration. *MERALCO* filed its Opposition to the motion and is awaiting the decision of the *RTC* on the matter. On September 29, 2015, the *WESM* Tripartite Committee issued a joint resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of the 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued “Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones” and “Guidelines for the Supply of Electric Power in Ecozones”. Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *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*.

On February 4, 2015, the Court issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as Plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the Court. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the Court. In a Decision dated July 3, 2015, the *RTC* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC* dismissed the petition upon motion by *PEZA*.



Purchase of Subtransmission Assets (“STAs”)

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*’s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *Transco* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*’s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and an *MR* of the May 5, 2014, *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*’s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

During the hearing, *NGCP* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*’s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Resolution dated September 21, 2015, the *CA* required the parties to submit their respective memoranda. Thereafter, the case is submitted for decision.

On March 20, 2015, *MERALCO* filed a case for “Interpleader with Consignation and Specific Performance” against *Transco* and the Municipality of Labrador, Pangasinan (“*Labrador*”) with the *RTC* -Branch 155 of Pasig, praying for the Court to: accept and approved the consignation of the amount of ₱194 million; declare *MERALCO* to have paid in full the purchase price of the sale of *Transco*’s assets; direct *Transco* to execute the corresponding Deeds of Absolute Sale; and direct *Labrador* and *Transco* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *Transco* filed their respective Motions to dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from Branch 155, *RTC*-Pasig granting the Motions to Dismiss of both *Transco* and *Labrador*. *MERALCO* filed a Motion for Reconsideration which is pending resolution.

On December 12, 2011, *MERALCO* signed various agreements for the acquisition of certain sub-transmission assets of *TransCo* within the *MERALCO* franchise area for its sole account, as well as through a consortium with Batangas II Electric Cooperative, Inc., (“*BATELEC II*”) and First Bay Power Corporation (“*FBPC*”). On September 18, 2012, an amended consortium agreement was executed between *MERALCO* and *FBPC*. On October 17, 2012, *MERALCO* signed two separate amended consortium agreements with *BATELEC II*, and with *FBPC* and *BATELEC II*. These amended consortium agreements superseded the agreements signed on December 12, 2011. On December 27 and 28, 2012, the Contract to Sell and Consortium Agreements, respectively, covering these sub-transmission assets were filed with the *ERC* for approval.

The applications for approval of the Consortium Agreement between *MERALCO* and *BATELEC II* and the Contract to Sell among *TransCo*, *MERALCO* and *BATELEC II* are submitted for resolution of the *ERC*.



MERALCO's POP Program

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised *TOU* rates program, also known as the *POP* Program. The *POP* is a rate program being offered by *MERALCO* to customers whose load characteristics can benefit from *TOU* rates as well as to those that can shift their loads from peak to off-peak hours. The proposed revised *POP* Rate aims to provide better savings to 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.

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 (“*RE Act*”), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board (“*NREB*”) filed its Petition to Initiate Rule Making for the Adoption of *FiT*. The Petition proposed a specific *FiT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FiT* Rates lower than the rates applied by the *NREB*.

To fund the *FiT* payments to eligible *RE* developers, a *FiT*-Allowance charge will be imposed on all end-users. The *FiT*-All will be established by the *ERC* upon petition by the *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT*-Allowance Disbursement and Collection Guidelines to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT*-All will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT*-All from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT*-All fund and the payment to eligible *RE* developers.

On July 30, 2014, *TransCo* filed its Application for Approval of the *FiT*-All for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FiT*-Allowance of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or Writ of Preliminary Injunction, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT*-Allowance, the *FiT* Rules and *FIT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. Through a Notice dated March 17, 2015, the *SC* required the adverse parties to submit their comments within ten (10) days from receipt. The *ERC* and *DOE* filed a Consolidated Comment dated July 23, 2015 while the *NREB* filed its Comment dated July 14, 2015.



On April 30, 2014, the *DOE* issued a Certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its Certification, the *DOE* stated that “solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016”. The *ERC* is currently conducting public hearings to determine the applicable *FiT* rate for the additional 450 *MW*.

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FiT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, the *ERC* issued a Decision dated March 27, 2015 setting the new solar *FiT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a Certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FiT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FiT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FiT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FiT*. In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a motion for reconsideration of the Decision.

Net Metering Program

The *RE Act* mandates the *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, 2015, *MERALCO* has already installed 386 and energized 295 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

Interruptible Load Program (“ILP”)

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*’s request that it be allowed to adopt and implement the “Rules to Govern the Interruptible Load Program of Distribution Utilities” promulgated under Resolution No. 08, Series of 2010, as amended by Resolution No. 08, Series of 2013.



MERALCO is working with the *DOE*, the *ERC* and other stakeholders on the mechanics to implement the expanded *ILP* to cover not only captive customers but also contestable customers with demand of one (1) *MW* or higher who have standby generating units.

As at December 31, 2015, there are 225 companies with a total generating capacity of 826.85 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity supplier as *ILP* participants.

Long Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an Application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its Application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a motion to withdraw the application without prejudice to its refiling at a later date. *MERALCO* is awaiting the decision of the *ERC* on its motion to withdraw

Prepaid Retail Electricity Service ("PRES")

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2015, there are 16,851 customers availing of *PRES*.

Competitive Selection Process ("CSP") for Power Supply Agreements

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* Approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DUs* to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy ("*DASAP*"). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, "Providing Policies for Further Enhancement of the *WESM* Design and Operations", prescribing *DUs* to procure all its uncontracted demand through *CSP*, through the participation of a Third Party and which may be done by *DUs* on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines ("*IG*"). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On even date, *ERC* promulgated Resolution No. 13, Series of 2015.



ERC Resolution No. 13, Series of 2015 included the following provisions:

All *DUs* are required to undergo *CSP*. Pending the *ERC*'s issuance of a prescribed process, *DUs* may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.

A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.

The *CSP* requirement shall apply to *PSAs* that although executed, have not yet been filed for approval before the *ERC*.

33. Subsequent Event

On February 26, 2016, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱9.92 a share to all shareholders of record as at March 25, 2016, payable on April 15, 2016.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and Subsidiaries as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, included in this Form 17-A, and have issued our report thereon dated February 26, 2016. 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
Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5321643, January 4, 2016, Makati City

February 26, 2016



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- Statement of Management's Responsibility for Consolidated Financial Statements
- Report of Independent Auditors
- Consolidated Statement of Financial Position as at December 31, 2015 (With Comparative Figures as at December 31, 2014)
- Consolidated Statement of Income for the Year Ended December 31, 2015 (With Comparative Figures for the Years Ended December 31, 2014 and 2013)
- Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2015 (With Comparative Figures for the Years Ended December 31, 2014 and 2013)
- Consolidated Statement of Changes in Equity for the Year Ended December 31, 2015 (With Comparative Figures for the Years Ended December 31, 2014 and 2013)
- Consolidated Statement of Cash Flows for the Year Ended December 31, 2015 (With Comparative Figures for the Years Ended December 31, 2014 and 2013)
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 - Report of Independent Auditors on Supplementary Schedules
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 - Schedule C. Amounts Receivable From Related Parties which are Eliminated during the Consolidation of Financial Statements
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 - Schedule E. Long-term Debt Interest Bearing Long-term Financial Liabilities
 - Schedule F. Indebtedness to Related Parties*
 - Schedule G. Guarantees of Securities of Other Issuers*
 - Schedule H. Capital Stock
 - Schedule I. List of Effective Standards and Interpretations
 - Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
 - 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.*

MANILA ELECTRIC COMPANY
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2015
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2015	Additions	Collections	Amount written off	Current	Noncurrent	December 31, 2015
Miescor Builders, Inc.	26	4	(6)	-	24	-	24
Miescor Logistics, Inc.	8	8	(4)	-	12	-	12
Meralco Industrial Engineering Services Corporation	3	4	-	-	7	-	7
Meralco Energy Inc.	-	11	(6)	-	5	-	5
Corporate Information Solutions, Inc.	1	11	(11)	-	1	-	1
eMERALCO Ventures, Inc.	2	2	(4)	-	-	-	-
MRAIL, Inc.	-	2	(1)	-	1	-	1
	40	42	(32)	-	50	-	50

MANILA ELECTRIC COMPANY

Schedule D: The Movement of Intangible Assets (Included under Other Noncurrent Assets)

As at December 31, 2015

(Amounts In Millions Pesos)

Description	January 1, 2015	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	December 31, 2015
Software	2,078	707	410	-	(30)	2,345
Franchise	49	-	-	-	-	49
Land and leasehold rights	209	-	18	-	-	191
TOTAL	2,336	707	428	-	(30)	2,585

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule E: Interest Bearing Long-term Financial Liabilities

As at December 31, 2015

(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
Fixed Rate Loans:			
<i>P11,500 Million, 7-Year Bonds</i>	11,500	-	11,500
<i>P7,000 Million , 12-Year Bonds</i>	7,000	-	7,000
<i>P7,200 Million, 10-Year Note Facility</i>	7,200	360	6,480
<i>P130 Million, 7-Year Term Loan Facility</i>	130	24	106
Floating Rate Loans:			
<i>P2,500 Million, 7-Year Term Loan Facility</i>	2,500	12	2,438
Redeemable Preferred Stock		1,522	-
Total		1,918	27,524
Less Unamortized Debt Issue Cost		23	154
Balance at the end of the year		1,895	27,370

Manila Electric Company
Schedule H. Capital Stock
As at December 31, 2015
(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, 2015

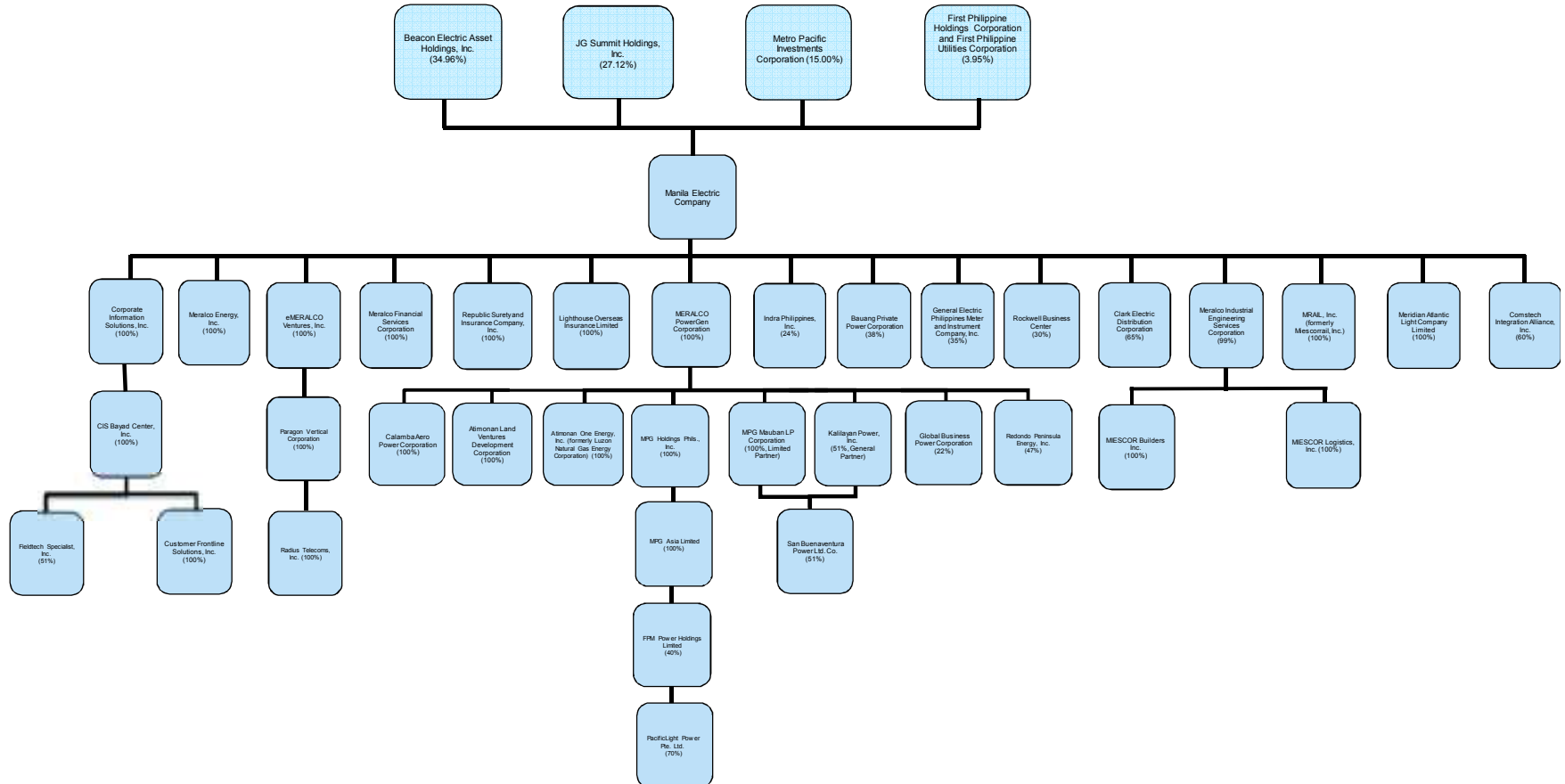
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (issued as of December 31, 2015)		ADOPTED	NOT ADOPTED	NOT APPLICABLE
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	X		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled 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			X
	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	X		
PFRS 3 (Revised)	Business Combinations	X		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	X		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements	X		
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	X		
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	X		
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		
PAS 16	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	X		
	Property, Plant and Equipment	X		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	X		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization		Not Early Adopted	
	Amendments to PAS 16: Bearer Plants		Not Early Adopted	
PAS 17	Leases	X		
PAS 18	Revenue	X		
PAS 19 (Amended)	Employee Benefits			
		X		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	X		
PAS 20	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate		Not Early Adopted	
	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, 2015)		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	X		
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 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	X		
	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	X		
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-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, 2015
(Amounts in millions)

Unappropriated retained earnings as at December 31, 2014	P 48,561
Adjustments in previous years' reconciliation:	
Deferred tax assets	(17,356)
Revaluation increment on utility plant and others	<u>(17,059)</u>
Retained earnings available for dividends declaration as at December 31, 2014	<u>14,146</u>
Net income based on the face of annual parent company financial statements	18,422
Reconciling items:	
Dividends declared during the year	(17,188)
Movement of deferred tax assets	(3,830)
Depreciation of revaluation increment on utility plant and others - net of tax	<u>61</u>
	<u>(2,535)</u>
Retained earnings available for dividend declaration as at December 31, 2015	P <u>11,611</u>

MANILA ELECTRIC COMPANY
Schedule K: Map Showing the Relationships among the Companies within the Group
As at December 31, 2015



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Financial Soundness Indicators

December 31, 2015 and 2014

	2015	2014
Current Ratio ⁽¹⁾	1.02 : 1.00	1.35 : 1.00
Debt to Equity Ratio ⁽²⁾	0.38 : 1.00	0.38 : 1.00
Asset to Equity Ratio ⁽³⁾	3.52x	3.40x
Interest Coverage Ratio ⁽⁴⁾	20.19x	18.86x
Profit Margin Ratio ⁽⁵⁾	0.07x	0.07x
Return on Assets ⁽⁶⁾	0.07x	0.07x
EBITDA Margin ⁽⁷⁾	12.04%	12.36%

⁽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

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ARTEMIO V. PANGANIBAN**, Filipino, of legal age and a resident of 1203 Acacia Street, Dasmariñas Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

- 1. I am an independent director of **MANILA ELECTRIC COMPANY**.
- 2. I am affiliated with the following listed companies or organizations:

Company/Organization	Position/ Relationship	Period of Service
GMA Network, Inc.	Independent Director	2007 - Present
First Philippine Holdings Corporation	Independent Director	2007 - Present
Metro Pacific Investments Corporation	Independent Director	2007 - Present
Robinsons Land Corporation	Independent Director	2008 - Present
GMA Holdings, Inc.	Independent Director	2009 - Present
Petron Corporation	Independent Director	2010 - Present
Bank of the Philippine Islands	Independent Director	2010 - Present
Asian Terminals, Inc.	Independent Director	2010 - Present
Philippine Long Distance Telephone Co.	Independent Director	2013 - Present
Jollibee Foods Corporation	Non-Executive Director	2012 – Present
Metropolitan Bank and Trust Co.	Senior Adviser	2007 - Present
Double Dragon Properties Corporation	Adviser	2014 - Present

(For my full bio-data, log to my personal website: cjpanganiban.com)

- 3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **MANILA ELECTRIC COMPANY**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
- 4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
- 5. I shall inform the corporate secretary of **MANILA ELECTRIC COMPANY** of any changes in the abovementioned information within five (5) days from its occurrence.

Done, this _____ day of MAY 26 2015, at PASIG CITY.


ARTEMIO V. PANGANIBAN
Affiant

SUBSCRIBED AND SWORN to before me this _____ day of MAY 26 2015 at PASIG CITY, affiant personally appeared before me and exhibited to me his Tax Identification Number (TIN) 106-197-693.

Doc. No. 423 ;
Page No. 47 ;
Book No. 11 ;
Series of 2015.


ATTY. MARIAN VENUS S. SANTIAGO-DELA FUENTE
Notary Public
Pasig, San Juan, Taguig and Pateros
Issued on April 25, 2014 at Pasig City
Appointment No. 218 (2014-2015)
Roll No. 54224/IBP No. 0980970/01-07-15 RSM Chapter
PTR No. 0489188/02-05-15 Pasig City
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **PEDRO E. ROXAS**, Filipino, of legal age and a resident of 6 Ipil Road, South Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **MANILA ELECTRIC COMPANY**.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/ Relationship	Period of Service
Roxas Holdings, Inc.	Chairman	20 years
Roxas & Company, Inc.	Chairman/President/CEO	12 years
Club Punta Fuego	Chairman	18 years
Brightnote Assets Corporation	Director	16 years
Fundacion Santiago	Director/President	22 years
Philippine Long Distance Tel. Co.	Independent Director	14 years
BDO Private Bank	Independent Director	14 years
Phil. Business for Social Progress	Trustee	14 years

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **MANILA ELECTRIC COMPANY**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of **MANILA ELECTRIC COMPANY** of any changes in the abovementioned information within five (5) days from its occurrence.

Done, this _____ day of MAY 26 2015, at PASIG CITY.


PEDRO E. ROXAS
Affiant

SUBSCRIBED AND SWORN to before me this _____ day of MAY 26 2015 at PASIG CITY, affiant personally appeared before me and exhibited to me his Tax Identification Number (TIN) 104-738-165.

Doc. No. 140 ;
Page No. 29 ;
Book No. VI ;
Series of 2015.


ATTY. FREEDOM IANFE 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/IBP No. 0980969/01-07-15 RSM Chapter
PTR No. 0489189/02-05-15 Pasig City
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

COVER SHEET

P W - 1 0 2

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

(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 Telephone Number

1 2 - 3 1

Month Day

Fiscal Year

ADVISEMENT

L E T T E R

FORM TYPE

0 5

Month

2 8

Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



MERALCO

ORTIGAS AVENUE, PASIG CITY
0300 PHILIPPINES



April 23, 2014

MR. VICENTE GRACIANO P. FELIZMENIO, JR.

Director, Markets and Securities Regulation Department
Securities and Exchange Commission
6th Floor, SEC Building, EDSA Greenhills
Mandaluyong City

Dear Director Felizmenio:

We submit herewith the letter of Department of Foreign Affairs Secretary Albert F. Del Rosario, allowing our Director, **Ambassador Manuel M. Lopez** to continue with his directorships and/or corporate positions in Philippine companies.

Thank you.

Very truly yours,

WILLIAM S. PAMINTUAN

First Vice President
Assistant Corporate Secretary &
Information Disclosure Officer



April 11, 2014

Ambassador Manuel M. Lopez
1-1-1 Fujimi, Chiyoda-ku,
Tokyo, 102-0071
Japan

Dear Amb. Lopez,

This is to formally re-confirm that the undersigned has no objection and hereby reiterates his permission allowing you to continue with your directorship(s) with and/or corporate positions in Philippine companies for as long as this does not impede the effective discharge of your duties as Ambassador.

Very truly yours,

A handwritten signature in black ink, appearing to read "Albert F. Del Rosario".

ALBERT F. DEL ROSARIO
Secretary of Foreign Affairs