Distributing Progress

MERALCO 2008 Annual Report

OUR COVER

Meralco has always been a partner for growth whose history has mirrored our nation's. Through our business, we have distributed progress to millions of customers for more than 100 years.

We celebrated the dawning of change in our industry as we re-tooled our business for Performance-Based Regulation. Through PBR, we continue to build a stronger, more service-oriented and excellence-focused Meralco.

Sunrise has always been a symbol of hope and renewal, hence our anticipation of a better future for your company. Change will ultimately bring challenge, but Meralco is moving forward confidently, a transformed industry leader committed to enhancing our core value not just to our partners and shareholders, but to our various stakeholders and customers whom we proudly serve every day.

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YOUR COMPANY

Meralco, your company, celebrated its 105th year of service in 2008.

It sold 26,799 gWh of electricity to a franchise covering 9,337 square kilometers, where around 23 million people or about a quarter of the total Philippine population reside. It served almost 4.6 million customers in 29 cities and 82 municipalities.

Business establishments in the franchise produced almost 50 percent of the country's gross domestic product (GDP), with around 32 percent produced in Metro Manila alone.

The company has 30 business centers and 10 sector offices in the central, north and south areas of the franchise to attend to the needs of its customers.

Financial Highlights

MERALCO (Consolidated)
Computations for MD&A - Annual Report
For the Years Ended December 31, 2008 and 2007

	2008	2007	Inc (Dec)	% Change
Net Income	3,133	4,036	(903)	(22.4)
Distribution Margin	16.1%	11.9%	4.2%	35.3
Distribution Income	30,127	23,334	6,793	29.1
Return on Equity	5.6%	7.6%	-2.0%	(26.3)
Return on Assets	1.8%	2.3%	-0.5%	(21.7)
EBIT Margin	3.8%	4.2%	-0.4%	(9.5)
EBIT	7,226	8,427	(1,201)	(14.3)
Total Expenses	186,575	194,600	(8,025)	(4.1)

To our dear Stockholders,

"Now, Meralco can perhaps be perceived to be less of a monopoly of a single family or conglomerate but a truly investor—owned company with business interests at par with our dedication to customer service."

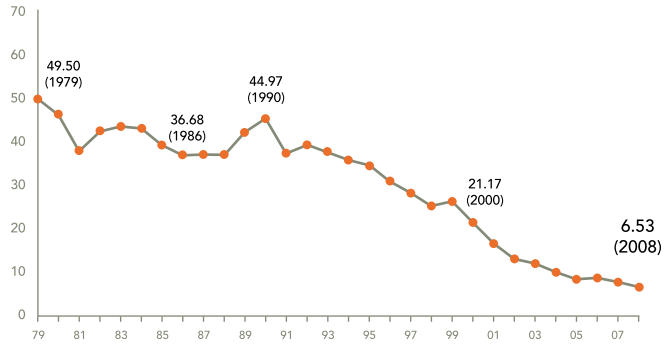
Every year, Meralco faces very surprising and unexpected events. 2008 was no different. We ended the year with a consolidated net income of P3.133 billion despite the delay in the implementation of the approved maximum annual price (MAP) of distribution services that Meralco can charge our customers. With Performance-Based Regulation (PBR), this price adjustment should have been automatically implemented as the committed and approved performance levels were attained during the period under consideration. And your Company even performed much better with the achievement of most of the stretch goals for 2008.

During these extraordinary times, we in Meralco remain optimistic of our future. The global recession as a result of the financial crisis, although of contained impact to the local economy, influenced business activities, thereby contributing to our depressed electricity sales. In this new era of PBR, where our regulatory environment is supposed to create a more rationale, fair and responsive electricity industry, regulatory lags and reversals generate totally new and unexpected problems and add more work to the whole organization. Besides fueling instability and generating an entirely new dimension to our planning and decision-making, our financial results do not serve as the conclusive representation of the Company's overall performance and worth. We are however encouraged that there are some sectors of society who understand the true situation of Meralco and dare put their belief in us. These are our new partners and investors like San Miguel Corporation and the PLDT groups who together with our current 58,098 stockholders continue to remain confident of their Company. We thank you for this and will strive to maintain and even enhance your belief in us.

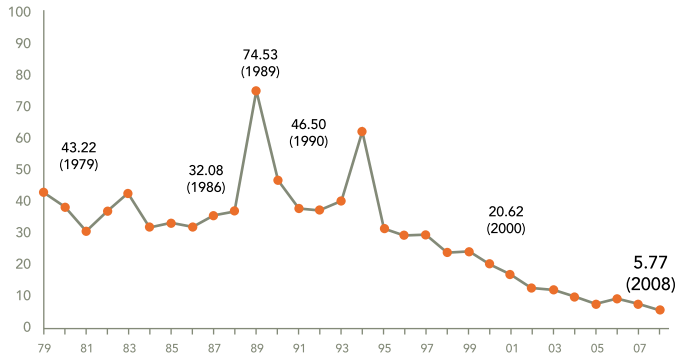
We see that with the presence of such major partners, individually with successful business records, will not only unlock values for the Company and add more stimulus for better and more creative business strategies, but more so, render the Company less politicized. Now Meralco can perhaps be perceived to be less of a monopoly of a single family or conglomerate but a truly investor – owned company with business interests at par with our dedication to customer service.

Meralco is a 106 year old company. If we go back through our history, this Company has gone through sixteen (16) economic recessions induced by wars, oil price shocks and political turmoil; twenty-four (24) upheavals including world wars, local rebellions, changes in ownership, martial law, take-over attempts, generation inadequacy and even regulatory impositions such as the P30 billion refund; and, ten (10) major disasters such as earthquakes and typhoons. We went through and survived all these events, scarred but always coming out of all of it victorious. In spite of all challenges we faced, we managed to attain and even surpass our committed goals.

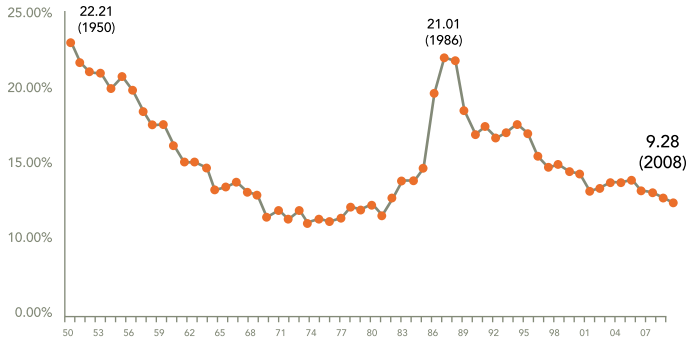
As we prepare for the future, we look back at the performance of the Company for the lessons, strength and foundation it provides today, for us to move ahead with more assured footing towards the future. The report of our immediate past President and COO, Mr. Jesus P. Francisco, also contained in this report, discusses our 2008 performance, so I will not echo the specifics of said period here. Rather I will take a longer horizon view on our performance record, focusing on those areas most critical to our customers such as the price of electricity; the number, frequency and duration of no lights (Interruption Frequency Rate or IFR and Cumulative Interruption Time or CIT); system loss; customer satisfaction index and our productivity indicators.



INTERRUPTION FREQUENCY RATE
(1979-2008) WITHOUT EFFECTS OF TYPHOON



CUMULATIVE INTERRUPTION TIME
(1979-2008) WITHOUT EFFECTS OF TYPHOON



SYSTEM LOSS

We experienced a very significant improvement in our Interruption Frequency Rate, or the average number of times a customer is without power in a year, which also takes into account both forced and pre-arranged interruptions by Meralco, since the 1980s. In 2008, we achieved an IFR of only 6.53 times, the lowest level we have attained in the history of Meralco.

The reduction in IFR, in turn, resulted in the significant improvement in our CIT or the Cumulative Interruption Time. This is the average number of hours or the length of time our customers experience no power. This is also the lowest level we have attained since the 1970s.

Our current system loss level of 9.28% is one of our best operating results in 2008 and the lowest we have attained thus far in this performance area since 1981. In 1986, after the triumphant EDSA 1 revolution and Meralco was returned to the Lopez family, system loss was at a very high level of 21.01%. System loss has been our priority since that time, due to its financial impact to the customers and the Company. It was in 2008 when we were able to achieve for the first time a level below the 9.5% cap which was set in 1999 under the Republic Act 7832.

Despite the different challenges affecting our corporate image, we were able to achieve a steadily satisfactory rating in the level of satisfaction of our customers, as reflected in our Customer Satisfaction Index which we started taking in 1998. We were able to achieve this level of performance despite all the negative publicity and issues thrown at the Company through the years. On a rating scale of one to ten, ten being the highest score, our 2008 performance of 7.31 is an improvement over our 10-year average performance of 7.15 for all customer classes.

We continuously improve our labor productivity as measured by our Customer Per Employee Ratio which has steadily increased from the 200-level in the early 80s to the current level of 755. Presently, with judicious use of resources and the increasing competency of our people, an employee serves 755 customers on the average. This is a very commendable level compared to most utilities in the Philippines and even among

comparable utilities in the region.

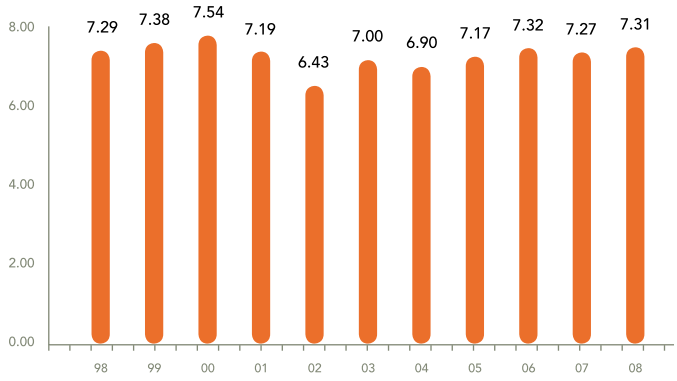
While prices of most basic commodities and services have substantially increased through the years, Meralco's distribution charges decreased from 2003.

What can account for all these? We believe our employees' endurance, persistence and hard work made possible the Company's excellence in execution, the implementation of major changes, and the openness to innovation. I firmly believe that these three strategies will carry us through successfully in the future, no matter what that future will bring.

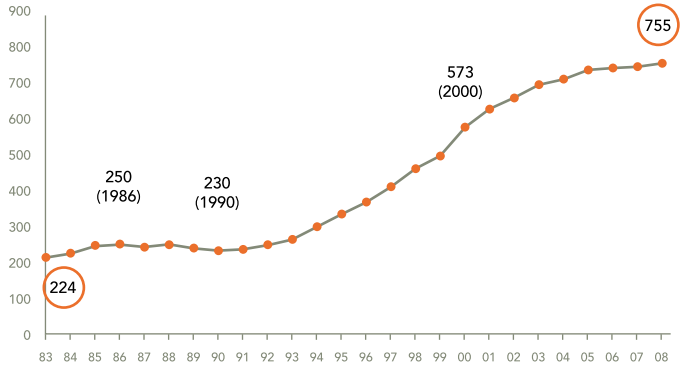
Our main secret in our continuing success as a company is knowing when and being ready to implement fundamental changes. This transformation involves not only changes in the customer value proposition, the design of our management and operating systems and processes, and the use and combination of our resources, fundamentally of our most critical assets, our people. We have proven time and again that it is not the individual assets that make or break a company, but rather the way they are integrated and relate to each other. The 8-year Meralco Transformation Project produced the present Meralco, with a new business model—an organization able to operate normally even during the most difficult of times and inducing even higher performance levels even in the midst of extraordinary challenges.

2008 was a challenging year and we expect 2009 to be about the same. We have strengthened and made the whole organization ready to perform and deliver even with the uncertainty of a volatile future. What is certain are the challenges of a more informed, globally aware and therefore more demanding customers. Customers will be a major driver of any utility business worldwide, coupled with the increasing awareness and focus on environmental issues.

In our case, our first and major determinant of success remains to be regulation. We are aware that our Company, will be increasingly compared with the more common parameters of any private industry or business, such as organic revenue growth, margins, return on capital and productivity. We compete just like any other business for the same scarce financial



CUSTOMER SATISFACTION INDEX (Full)
(1998 - 2008)



CUSTOMER PER EMPLOYEE RATIO
(1983 - 2008)

RICE FUEL	57%
DIESEL	120%
PUBLIC UTILITY BUS FARES	125%
GENERATION & TRANSMISSION	29%
MERALCO DISTRIBUTION CHARGES	-18%

SINCE JUNE 2003, WHILE OVERALL POWER PRICES WENT UP, DISTRIBUTION CHARGES WENT DOWN

"Just remember this – whatever happens to a utility, economic, political and natural upheavals, even change of ownership, a fundamental critical element is to continue our good service."

resources. We are confident that we will have a winning edge even in this new era of PBR.

The main differentiator for an organization, we firmly believe, is the kind of leadership at every level of the organization. As people are critical, their leaders are as critical especially during these restless times when everyone seems to be waiting and watching. An uncertain future requires a leadership that overcomes the paralysis that usually accompanies stressful and uncertain periods. An organization characterized by awareness, flexibility and resiliency, which only a strong leadership through the years was able to create and nurture, is the only one which can weather any storm and emerge successfully. We believe that Meralco is such an organization.

We had an outstanding year in 2008 in our operating results and we plan and are prepared to stay the course for the years to come. This most difficult time calls for even a clearer vision of the future and a strong conviction to make that future happen. This time also calls for courage to do what is right with enough grace and dignity, coupled with love and care for people. We hope to succeed in this future by remaining positive and focused on the basics no matter what. This means staying closest to the customers.

One of our strategies that is proving to be most effective in supporting the Company's priorities in system loss, regulatory management and corporate image/customer service is our corporate social responsibility (CSR) projects. Founded on the strength of employee volunteerism and centered on education, electrification and the environment, these outreach and capacity building programs touched the lives of 13,821 individual beneficiaries in 2008. Our 2009 activities continue these CSR priorities for the Company.

Just remember this – whatever happens to a utility, economic, political and natural upheavals, even change of ownership, a fundamental critical element is to continue our good service. And this we continuously commit to you. Great companies are best at the toughest times. Meralco proved this and will prove it once more and even several times over in the future. I can declare this to all of you with confidence, as I am positive and certain of the integrity, Malasakit (uncommon concern), and loyalty of all our employees to this Company.

I wish to thank all our employees for the fortitude and hard work. The future will challenge us even more but with such a strong and loyal employee force, even that daunting future is conquerable.

I also wish to acknowledge the sacrifices and contribution of the members of our Board of Directors who served the Company at different points in time in 2008 as we also welcome our new 2009 Directors.

My appreciation and gratitude to all of you our stockholders for continuing to keep the faith in us.

I am most proud to be counted as a Meralco employee and humbled by the continuing trust of our stockholders.

MANUEL M. LOPEZ
Chairman and Chief Executive Officer (CEO)

Report of the Immediate Past President and COO

2008 was a record-breaking year for Meralco.

Notwithstanding economic downturns and the unsettling events midway during the period, I am very happy to report that your company achieved breakthrough performances in system efficiency and quality of service.

Our system loss level, which reached a high 21% in 1986, was reduced to only 9.28% last year, the first time it fell below the 9.5% cap imposed since 1999. This allowed your company to avoid unrecoverable purchased power cost, which in 2007 was P 260 million. This reduction also meant we were able to lower system loss charges.

We credit our System Loss Management Program for this remarkable achievement. Iron-clad metering and billing processes and facilities were put in place. Elevation of meters and installation of overload protection devices were employed extensively in identified high-loss areas.

Meralco also engaged local government units to promote safety awareness and campaign against electricity pilferage. We signed a Memorandum of Agreement (MOA) with the City of Mandaluyong while similar MOAs were renewed with the City of Antipolo and the Municipality of Pateros.

Moving forward, we continue to prepare to meet the new cap of 8.5% set by the Energy Regulatory Commission (ERC) starting January 2010.

The quality of our electric service also rode the crest of this breakthrough performance.

Our Interruption Frequency Rate or IFR, which measures the average number of times a customer experiences an interruption, fell to an all-time low of 6.53 times in 2008 from 7.77 times in the previous year. Correspondingly, our Cumulative Interruption Time or CIT, which measures the average length of time a customer experiences an interruption, was cut to 5.77 hours last year from 7.44 hours in 2007.

Once again, accomplishments in this area were the result of effective maintenance programs - rigorous line inspections, line clearing operations, tree trimming and vegetation management. We upgraded numerous facilities and commissioned seven new distribution circuits that effectively reduced exposures of several circuits from Laguna International Industrial Park, San Pedro and Taguig substations.

Your company's sterling performance was also made possible by the various computer and information systems integrated with an outage management process and other systems that play important functions in the speedy restoration of power and the determination of line troubles, real-time data access and efficient management of customer queries and complaints. Your company's investments in remote-controlled switches also helped minimize the duration of power interruptions by isolating the faulted portion of distribution lines without requiring our crews to be present on-site.

FINANCIALS

Your company ended 2008 with a consolidated net income of about P 3.13 billion. This was 22.37% lower than P 4.04 billion in 2007, mainly due to the provision for probable losses of P 6.62 billion. Of this amount, P 2.52 billion was for the disallowed recovery of generation costs while P 4.10 billion was for transmission charges refundable to customers.

Without the provisions for disallowed recovery of generation costs, net income would have been P 5.65 billion, an increase of 39% over 2007.

Total revenues decreased by 4.44% from P 200.69 billion in 2007 to P 191.78 billion in 2008. Revenues from the sale of electricity declined by 4.67% from P 196.17 billion in 2007 to P 187.00 billion in 2008, as a result of lower power prices.

Total expenses decreased by 4.12% from P 194.60 billion in 2007 to P 186.58 billion in 2008, mainly due to lower purchased power costs (consisting of generation and transmission costs) which declined by 9.24% from P 172.84 billion in 2007 to P 156.87 billion in 2008.

The overall average generation cost went down mainly due to lower NPC Transition Supply Contract (TSC) rates and WESM prices. Average NPC generation cost was lower by 24.41% from P 5.08 per kWh in 2007 to P 3.84 per kWh in 2008 as a result of higher off-peak TSC purchases and the application of the negative NPC GRAM and ICERA charges since the February 2009 supply month. In the same manner, average WESM price went down by 34.68% to P 4.69 per kWh in 2008 from P 7.18 per kWh in 2007 as off-peak WESM purchase was increased.

Transmission cost also decreased from the preceding year's average due to the new Ancillary Service rate and billing methodology of National Transmission Corporation or TransCo (whose operations were assumed by the National Grid Corporation of the Philippines or NGCP) in April 2008.

Operations and maintenance (O&M) expenses slightly increased by 3.39%.

In the latter part of 2008, the debt markets tightened because of the global credit crisis. Despite this challenging environment made worse by the delayed PBR increase, your company in December 2008 successfully refinanced its maturing short-term debt of which P 2.715 billion was made payable in five years and P 2.285 billion in 2010.

Despite the provision for probable losses, earnings before interest, tax, depreciation and amortization (EBITDA) only slightly declined by 9.81%. This was mainly due to your company's avoidance of unrecoverable purchase power costs.

ENERGY SALES

Another factor contributing to our net income was the 2.21% increase in energy sales in 2008 despite spiraling fuel and commodities prices, along with the early effects of a global economic slowdown.

Commercial sales continued to be the growth driver, expanding 4.59% from 10,021 gWh in 2007 to 10,481 gWh in 2008. The sub-sectors of real estate, retail trade, and transport, storage and communication led the growth of commercial sales.

Industrial sales also registered a modest growth of 2.13% from 7,405 gWh in 2007 to 7,563 gWh in 2008 despite the global economic crisis, high fuel prices and a decline in the number of industrial customers from 10,200 in 2007 to 10,004 in 2008. The manufacturing sector, specifically the electrical machinery and non-metallic products sub-sectors, accounted for the overall growth in industrial sales.

Finally, our residential energy sales declined by 0.45% in 2008, from 8,655 gWh in 2007 to 8,616 gWh in 2008. Sales, though, jumped by 5.4% in the last quarter of 2008 versus the same period in 2007. Sales in this category went down despite the 2.4% increase in the number of residential customers, which went up from 4.05 million in 2007 to 4.14 million in 2008.

We are also pleased to report that in 2008, 17 self-generating customers joined us once again, which enabled us to recover 127 gWh. This is important as it helps improve distribution revenues and lower overall system loss, which, if it goes below the cap, can result in a reduction of system loss charges. Among the biggest self-generating customers recovered were Solid Cement, Robitex and Mariwasa.

On April 11, 2009, we became the electric distribution service provider of the Carmelray Industrial Park (CIP2) in Calamba, Laguna. This started with the desire of three of the Ecozone's locators to be immediately connected (actually done on December 31, 2008) to the Meralco network and qualify for the Meralco-NPC Ecozone Rate Program. CIP2 sales in 2008 was 88.4 gWh, greater than twice the annual consumption of Pateros (the smallest and only municipality among 16 cities in Metro Manila). This acquisition gives us, more than anything else, the confidence and pride in our excellent brand of service.

This 2009, we remain cautiously optimistic in view of the global economic downturn. We are confident that our operating efficiencies and an improving regulatory environment will carry us through these challenging times.

RETAIL RATES

Overall rates were P 7.73 per kWh in 2008, 4% lower than the P 8.05 per kWh rate in 2007. This was mainly

due to lower generation costs from NPC and WESM.

Meanwhile, rates to lifeline customers consuming 20 kWh or less a month were further lowered beginning February 2009 because of the ERC's decision on the petition of the Bureau of Trade Regulation and Consumer Protection of the Department of Trade and Industry (BTRCP-DTI). From a 50% discount, they now enjoy a 100% discount with the exception of a P 5 per month metering charge.

You may recall that on May 19, 2008, the BTRCP-DTI filed a petition with the ERC asking your company to:

- Expand the coverage or increase the discounts under the lifeline rate within the Meralco area only. Further, the BTRCP-DTI said that your company should absorb the lifeline discounts;
- Buy more from WESM during off-peak hours;
- Extend preferential treatment to poor households and power-intensive industries in the allocation of transmission charges;
- Stop billing system losses to customers and customers are entitled to a refund; and,
- Charge distribution rates equal to or lower than those of Visayan Electric Company, Cagayan Electric Power and Light Company or CEPALCO, or Davao Light and Power Company.

The ERC denied all of the courses of action proposed by the BTRCP-DTI, except for that on lifeline discounts. The modification in the lifeline subsidy system is revenue neutral to your company.

CUSTOMER REFUNDS

Despite a tight cash flow, your company remained committed to completing customer refunds.

First is the Meter Deposit Refund, averaging P 810 per customer or a total of P 2.8 billion. We started making the refunds in November 2008, two months ahead of the deadline for commencement mandated by the ERC. We also committed to complete the refund in four years, inclusive of a one-year grace period. Under the Magna Carta for residential electricity consumers and the Distribution Services and Open Access Rules (DSOAR), all new customers are exempt from paying a meter deposit.

We also started in March 2009 the refund of the Currency Exchange Rate Adjustment (CERA) amounting to P 3.9 billion, inclusive of carrying charges. The CERA is a mechanism which adjusts rates to reflect gains or losses in foreign-currency denominated debt service (excluding interest payments) and O&M expenses. We stopped collecting CERA with the refinancing of our loans into local currency in 2007. Subsequently, the ERC, which was promptly advised of the suspension of the CERA collection, completed a review of your company's collections and foreign currency payments and directed your company to refund the CERA over-recoveries.

We are close to completing the P 30 billion Supreme Court mandated refund by 2010. As of December 2008, your company had already refunded a total of P 18.67 billion to its customers.

UNDER-RECOVERIES

We are pleased to report that the ERC allowed your company to recover a total of about P 10 billion of generation under-recoveries incurred during the period August 2006 to May 2007. P 8.8 billion of this will be recovered in three years starting February 2008. In September 2008, the ERC further allowed the recovery of P 1.9 billion of generation under-recoveries, inclusive of carrying charges. This leaves a balance of P 2.7 billion, which represents the disallowed generation costs corresponding to a portion of your company's WESM purchases, for the period December 2006 to May 2007. This amount is now the subject of a pending motion for reconsideration with the ERC.

We have also filed three other petitions with the ERC to allow us to recover other under-recoveries resulting from the implementation of the lifeline subsidy (P 864 million), interclass cross subsidy (P 1.054 billion) and transmission charges (P 5.55 billion). We are now awaiting the ERC's decision on these petitions as hearings at the Commission have been completed.

OPEN ACCESS

We continuously search for ways to lower rates. Your company joined other petitioners in a case filed with the ERC to allow the implementation of Interim Open Access, which was later approved but renamed Power Supply Option Program (PSOP). One of the conditions for the implementation of the PSOP is the transfer of the operations and management of the 600 MW Calaca plant to its new owners. Unfortunately, the privatization of Calaca did not push through as anticipated in late 2008.

RENEWABLE ENERGY

Your company fully supports the Renewable Energy Act of 2008, which was signed into law on December 16, 2008. For our part, we signed in April 2009 a Contract for the Supply of Electricity with Montalban Methane Power Corporation (MMPC), which would enable us to source renewable energy from MMPC. MMPC has a 8.19MW renewable power plant in Rodriguez, Rizal. As of end 2008, 17.8% of our energy supply mix came from renewable energy sources such as hydro, geothermal, and wind.

PERFORMANCE BASED REGULATION

In April 2009, we were pleased to receive the ERC's Order on the translation of our Performance Based Regulation (PBR) rate cases, which resolved the Motions for Reconsideration filed by various consumer groups. With this, the ERC lifted its previous order deferring the implementation of our PBR rates which it had approved in October 2008.

To recall, your company filed its PBR Application for the approval of its Annual Revenue Requirements on September 1, 2006 and was among the first distribution utility entrants, together with Dagupan Electric Corporation (DECORP) and Cagayan Electric Power & Light Company (CEPALCO). On August 31, 2007, the ERC issued its Final Determination approving, with modifications, our PBR Application.

On January 11 and April 1, 2008, your company filed separate applications for the approval of its proposed translation of the PBR rates, or the so-called Maximum Average Price (MAP), for regulatory years 2008 and 2009 into different rate schedules for the various customer segments.

On October 17, 2008 the ERC released its Decision approving, with modifications, your company's rate translation applications. Shortly after, the regulatory body deferred the implementation, pending the resolution of a motion for reconsideration of the consumer group, National Association of Electricity Consumers for Reforms (NASECORE). The deferment came despite the fact that DECORP and CEPALCO had been allowed by the ERC to implement PBR

rates effective October 2008. Earlier, the transmission company NGCP, was allowed to implement its PBR rates in 2006.

Based on the ERC's latest Order, your company can start implementing PBR rates, which averages P 1.2280 per kWh, starting May 2009. The PBR adjustment is pivotal in improving our financial capability and in helping us address the demands of a growing customer base and meet standards of electric service. Our last rate adjustment was in June 2003.

Unlike the Return on Rate Base Methodology of setting tariffs, PBR sets rates based on the utility's requirements to meet customer load growth and performance targets. PBR also sets a penalty and reward scheme according to network and service performance.

LOOKING BACK

2008 was a most difficult and highly stressful year for Meralco. Your company had a tumultuous start in January with the P 8.9 billion acquisition by the Government Service Insurance Systems (GSIS) of an additional 20% stock in Meralco. The 2008 Energy Summit in February had no less than the President of the Republic citing Meralco-specific initiatives to bring down electricity rates.

The entire year saw us attending various public meetings and hearings at the Department of Energy, the Joint Congressional Power Committee, the House of Representatives, the Joint Foreign Chambers of Commerce, the Cabinet Meeting in Panglao, the NEDA Economic Cluster, the Philippine Chamber of Commerce, the Philippine Stock Exchange and the University of the Philippines on its Study on Reducing Power Rates.

In the midst of all this was our Stockholders' Meeting on May 27, 2008 unforgettable in its contentiousness and 11-hour duration. This was where a Cease and Desist Order was served by the Securities & Exchange Commission based on a complaint filed by the GSIS on May 26, 2008. The Court of Appeals (CA) later dismissed the complaint.

More distressing events unfolded with the GSIS appealing its complaint against Meralco to the Supreme Court, but the same was dismissed for lack of merit. We also faced charges of Syndicated Estafa, filed by the Department of Justice (DOJ), no less. The Regional Trial Court of Pasig also dismissed the complaint. However, the Order of dismissal was appealed by the DOJ with the CA where the case is now pending.

In October 2008, the 27% stake of GSIS in Meralco was bought by San Miguel Corporation and the Meralco shares held by the SSS and Landbank changed hands with the Global 5000 group.

In spite of the extremely challenging, even hostile regulatory and political environment in 2008, your company, Meralco, managed to end the year with significant gains.

CLOSING

It is with a mixture of pride and sadness that I deliver my final report to all of you, fellow stockholders, as Management has allowed me to retire by the end of January 2009. Pride, because of the many benchmarks Meralco reached and challenges hurdled this past year. And sadness, because this marks the end of my 38-year journey with the company, including the last seven as your President and Chief Operating Officer (COO).

I am very grateful to all of you, our 4.6 million customers, and our 6,000 co-workers whose invaluable support and loyalty during the most trying times of the company's history made it possible for Meralco not only survive but also, become stronger. I would like to thank our Chairman and Chief Executive Officer Mr. Manuel M. Lopez for giving me the opportunity to serve the company most especially in my capacity as President and COO.

Despite its many accomplishments, Meralco, I believe, is yet to arrive at its full potential. With your continued faith in your company, I believe it will be soon.

Thank you for the opportunity to serve.

JESUS P. FRANCISCO
President and Chief Operating Officer

Q & A with Jose P. de Jesus, President & COO

Mr. Jose P. De Jesus, former President and CEO of the Manila North Tollways Corporation, was elected by the company's Board of Directors as Meralco President & Chief Operating Officer on January 26, 2009. He assumed the post on February 1, 2009. Mr. de Jesus replaced former President & Chief Operating Officer Jesus P. Francisco who has retired.

Q: How do you envision the growth of the company under your watch? How hopeful, optimistic, or expectant are you vis-à-vis the economic slowdown?

Let me start from the premise that the fortune of the company is closely linked to the state of the economy. Obviously, with the economy slowing down, the company expects the growth of its kWh sales volume to also slow down.

However, the company is optimistic that with inflation in retreat [February CPI inflation in Metro-Manila is at 4.7% compared to the annualized 2008 CPI inflation rate of 6.9% in Metro-Manila], the slowdown in our kWh sales growth will not be as drastic compared to a situation of low economic growth coupled with high inflation rates.

Since the focus of current fiscal and monetary policies is to stimulate domestic demand, in terms of both consumption and production, the company stands to benefit because 55% of gross domestic production (GDP) is in our franchise area and 25% of the Filipinos also reside within our franchise area.

Granted that the current domestic economic slowdown is linked to the global economic crisis, we can expect the economy to achieve higher growth rates only when the global economy recovers, specifically that of the United States. The company is nonetheless optimistic of the market prospects for next year due to the upcoming national and local elections. Consumer consumption is expected to improve because of the income redistribution effects of election spending while commercial activities and industrial production is also expected to improve for industries engaged in retail trade, food & beverage, advertising, printing & publishing, transport & communication, and construction related industries such as cement, steel, metal fabrication to name a few.

Hopefully, by 2011 the global economy would have fully recovered and merchandise export industries can again contribute significantly to the growth of our economy. Mind you, the previous statement in no way underestimate the important contribution of our labor export whose remittances have shored up the economy in the past and will continue to do so in the years to come. OFW remittances have been a major factor supporting the kWh consumption of both our residential and commercial customers, specifically those engaged in retail trade and communication.

Q: What are your expectations as to the growth of the company and employees?

In the next few years, the company expects the economy to grow at a slower pace and as a consequence the company's kWh sales is expected to grow at a similar pace. But in every business cycle, a downturn is always followed by recovery and expansion. As such, the company and our employees are preparing to take advantage of the opportunities that will present themselves when the recovery does come. The company has to also leverage existing assets to create more values within the regulatory framework.

To take advantage of unfolding business opportunities, the company has accepted the realities and challenges posed by competition, which will come in a year or two hopefully during the recovery period of the economy. This gives the company additional lead-time and elbowroom for its preparations for regulatory initiatives; such as, the power supply option program.

It is a generally held misconception that should the company decide not to engage in the retail supply portion of the distribution business and strictly focus its attention on the wire portion, that it can shield itself from competition. True, the wire business will remain a monopoly, but competition in the retail supply business will exert significant pressure for the company to improve the efficiency of its distribution system and the effectiveness of its services. The pressures will not only come from industry players but also from the regulator. The anticipation of these developments is the focus of the company's preparations.

Q: What, among your company's strengths, do you think will be of utmost value to the business? Why?

Below are Meralco's key strengths given today's and future opportunities and challenges.

The possession of a 25-year mega-franchise on the wires portion of Meralco's current business is a definite strength. It provides us a guaranteed and protected source of revenue. Having a predictable source of revenue is an advantage over competitors whose sources of revenues are uncertain. However, the profitability of our wires business is another matter that is dependent on many factors.

Being an incumbent distribution utility in the richest and biggest market for electricity in the country is a strength. The challenge to us is simple… how to retain our existing customers who will eventually have access to other energy providers. On the other hand, the challenge to entrant players is more difficult in the sense that they have to lure customers away from us and at the same time compete with other players who are trying do the same thing.

Having the mass or size to take advantage of economies of scale, as a buyer of electricity for the regulated portion of our market or as a service and energy broker/aggregator/provider in the competitive portion of the market not only in our franchise area but also outside, is a strength. This strength

can be exercised in many mundane activities other than those mentioned above such as in the purchase vehicles, equipment and supplies, etc.

The possession of a wealth of valuable market and customer information in our databases and the IT infrastructure, processes and expertise to tap into these databases is a strength. This strength can be used not only in our wires, retail supply and related businesses but also in a myriad of other consumer related businesses; such, as market mapping, profiling, billing and collection, etc. Possession is the strength while its use is the advantage. I admit that there are questions on the integrity, accuracy and reliability of the data and information but these questions can be resolved. It is far better to have the information than starting from scratch.

The possession of the infrastructure and expertise to provide technical products and services; such as, the sale, leasing, remote meter reading, calibration, and repair of meters not only for electricity but also in the future for water, telephone, cable and even sewerage, is a strength. This strength when complimented by our strength in scale will give us an advantage should we decide to compete in DU activities that will eventually be opened up to competition and to some extent in Meralco's related businesses.

The possession of the engineering and organizational expertise, to harness for instance the distributed generation capacity within our franchise for use in both the regulated and competitive retail supply businesses, is a strength. I would like to believe that we have the engineering capability to take part in large-scale projects such as mentioned above, and in other areas such as electric system design, planning, and construction.

The possession of a huge asset base currently not in use for distribution and the financial clout to either use these assets for our other businesses or use these assets as leverage to engage in other businesses. It is always a strength or an advantage to possess or have access to resources, both real and financial.

Q: What are Meralco's plans with PLDT having 20% stake in the company? What benefits will consumers get under this new partnership?

Of course there will be synergies in the use of electric posts and power lines both for power distribution and telecommunication and in the exploration and use of new technologies such as broadband internet thru power lines. Operationally, there will also be logistical synergies in material and supply procurement.

However, there are larger synergies that can be achieved by a combined power distribution/telecommunication company and local governments in support of local and national development plans. For instance, with power and telecommunication lines and facilities bundled up, undergrounding of these lines and facilities will become cost-effective. This supports the government's tourism initiatives and the company's initiatives to lower its technical system loss. It improves public work investments, since we do not have to dig up our roads before their useful economic life is used up. Also, the investments of a combined power distribution/telecommunication company can be better focused to support local government's land use initiatives and the national government's priority industrial investment plans. Perhaps, the combined efforts of a power distribution company and a telecommunications company can help us realize previously unimagined benefits.

Q: On corporate social responsibility: Meralco recently joined the Earth Hour 2009. What active role does the company take in order to combat global warming?

At first glance, it does not seem sensible to support or encourage initiatives aimed at reducing the consumption of the commodity that the company is selling. However, the company's participation in Earth Hour 2009 was not just symbolic nor pakitang-tao, as others might have thought. It is out of the belief that it actually makes good business sense to support initiatives to combat global warming.

Let me explain. The first glance impression, which was mentioned above, is a myopic view of the general scheme of things. If the company can encourage and induce its consumers, both households and industries, to conserve electricity thru its efficient use, their consumption might go down in the short-term. However, their energy consumption will definitely go up in the medium and long term. Industries that are efficient in their use of energy and hopefully in their use of other factor inputs will be more productive, cost-effective, competitive and capable of sustaining high production growth rates. Chances are these efficient industries will expand and therefore increase their work force. Households, who provide both the work force and market for these industries, if encouraged and induced to be likewise efficient in their energy usage, will have more disposable income to purchase other goods and services. If they were gainfully employed, they would enjoy higher standards of living, which could push up their per capita consumption of electricity. Coupled with a relative high population growth rate, the growth of the company's kWh sales is bound to go up at higher sustainable rates in the medium and long term.

More directly, if the initiatives to combat global warming are successful, it will create a huge market for the company in the sense that transport vehicles will no longer be burning and filling up with fossil fuel. It is possible that they will be charging up their vehicles with electricity. New businesses related to charging these vehicles, in parking areas, in homes, and other public places will be using electricity distributed by the company. Mass transport systems, whether buses or trains, all running on electricity will also be a huge market for the company.

However, the company must be vigilant in its sourcing of electricity so as not to merely transfer the production of green house gasses from tailpipes to smoke stacks of fossil fuel-burning generating plants.

Q: What, besides being the provider of a basic need, does Meralco have that is making it stronger through the years?

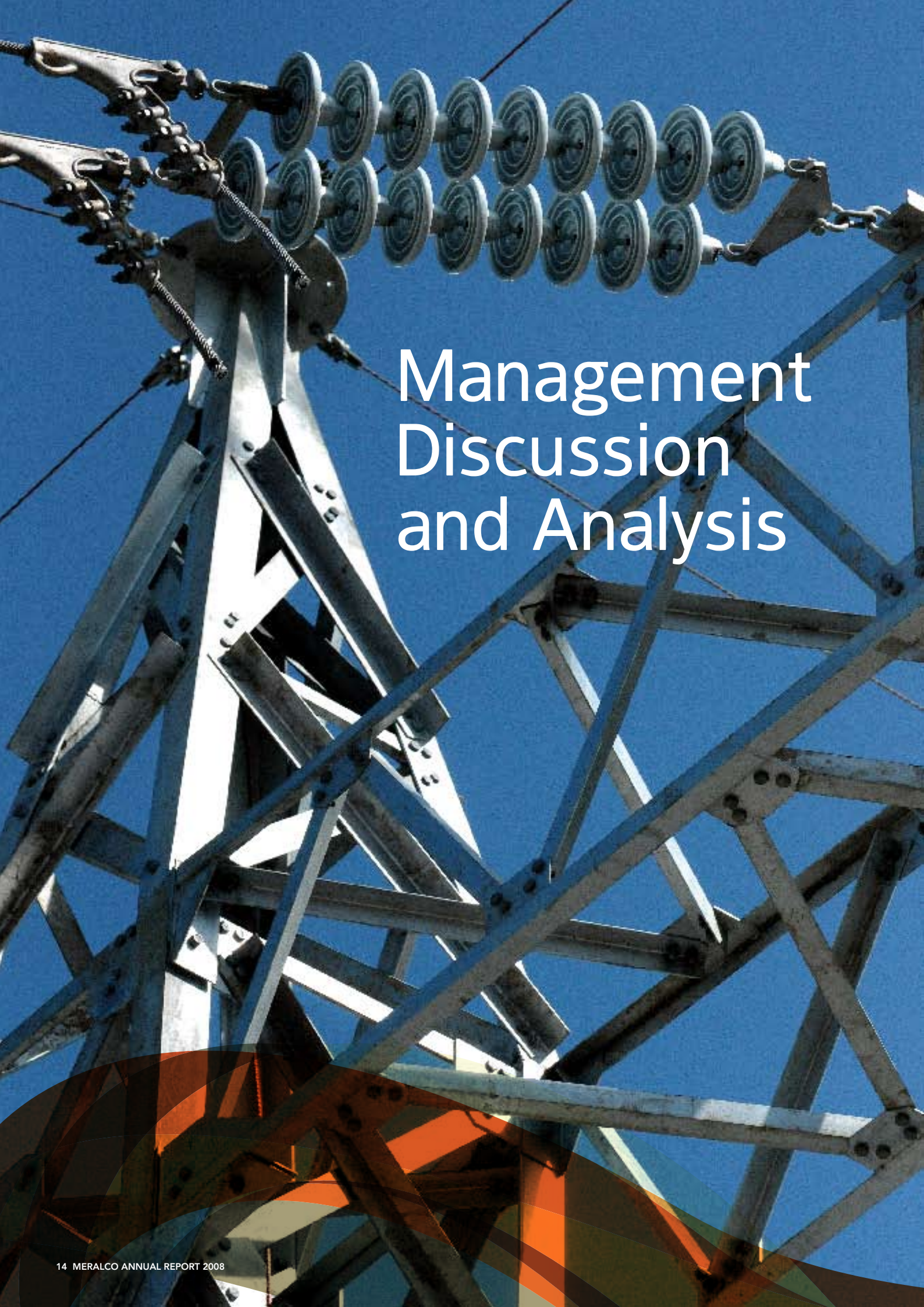
Its commitment to work for the Filipino people wholeheartedly by consistently aiming to improve its services will continue to make Meralco one of the companies to be emulated by its peers for years to come.

Q: What do you envision for the company in five years? Please talk about long-term plans for the company.

The company will have its Shareholders' Meeting on May 26, 2009 where a new set of Board Members will be elected. I would rather keep that question remain unanswered until we have a clear picture of the directions, priorities and business policies that the new Board will set.

Q: What's the next big thing for Meralco? Big changes?

The next big things for Meralco are the election of a new Board of Directors, the entry of Meralco into a Performance-Based Rating regime, and the possible enactment of two Senate Bills filed by Senate President Juan Ponce Enrile, SBN No. 3147 and 3148, both of which will have the overall impact of lowering power costs. An environment of lower energy costs will certainly stimulate more business and industrial activities, resulting in more jobs and higher purchasing power among our people. Meralco stands to benefit from higher commercial and industrial activity since a great part of the economic activity is located in its franchise area.



Management Discussion and Analysis

OUR FINANCIALS

Your company's consolidated net income for 2008 was P 3.13 billion, a decline of approximately 22.4% from the previous year. This decline was attributable to the provision for probable losses for disallowed generation underrecoveries and possible refund for transmission cost over-recoveries.

Distribution income was at P 30.13 billion, an increase of 29.1% from 2007. Distribution margin came out at 16.1%, compared to 11.9% in 2007. However, adjusting for the provision for probable refund, distribution income is P 26.03 billion, an increase of 11.5% from 2007. Return on equity (ROE) for 2008 was at 5.6%, compared to 7.6% the previous year. Return on assets was at 1.8% in 2008, compared to 2.3% the year before.

Earnings before interest and taxes (EBIT) for the year registered at P 7.23 billion, which represented a 14.25% decrease from 2007, as well as a lower EBIT margin of 3.8%, 0.4 percentage points lower than the 4.2% registered in 2007.

Total expenses amounted to P 186.58 billion, a decrease of 4.1% over 2007's P 194.60 billion.

OUR ENERGY SALES AND NUMBER OF CUSTOMERS

Your company's total energy sales in 2008 grew by a respectable 2.2%, from 26,219 in 2007 to 26,799 gWh in 2008. While this can be considered a slowdown from its 4.6% growth in 2007, it is nonetheless a very decent increase considering that the domestic economy was pummeled by high inflation rates due to increases in the prices of rice and fuel in the first half of 2008 and a slowdown of the global economy in the second half of the year.

Sales By Customer Class

Least affected by these developments was energy sales to commercial customers which continued to be the strongest performing customer class, growing by a robust 4.6% from 10,021 in 2007 to 10,481 gWh in 2008. This growth was spurred by the strong sales performances in the real estate, retail trade, and transport, storage and communication sub-sectors. The 2.6% increase in the number of commercial customers, from 402,796 in 2007 to 413,265 in 2008, also contributed to the growth of commercial energy sales.

Energy sales to our industrial customers, meanwhile, still grew by 2.1% from 7,405 in 2007 to 7,563 gWh in 2008, as the full impact of the global financial crisis is not expected to be felt until the middle of 2009. Despite the marked slowdown in the last quarter, energy sales to the manufacturing sector, especially to the electrical machinery and non-metallic products sub-sectors, was the main growth driver of industrial energy sales. The increase in energy sales more than made up for the slight decline in the number of industrial customers, or from 10,210 in 2007 to 10,004 in 2008.

Residential energy sales posted a decline of 0.4% in 2008, from 8,655 gWh in 2007 to 8,616 gWh in 2008. For the first three quarters of the year, inflation rates rode high, easing only by the month of September. This lower sales defied the 2.4% increase in the number fo residential customers, from 4,046,522 in 2007 to 4,143,271 in 2008.

At year-end 2008, the total number of customers was 4,570,646 which was an increase of 2.4% from the 4,463,607 total customer count recorded in 2007.

OUR ENERGY SUPPLY MIX

Long before the Philippines jumped on the "clean energy" bandwagon and the enactment of the Renewable Energy Act last December 2008, Meralco had been sourcing its energy requirements from "clean energy" and "renewable energy" resources. Its independent power producers (IPPs) First Gas 1000 MW Sta. Rita and 500 MW San Lorenzo power plants use indigenous natural gas from the large Malampaya natural gas reservoir in the seas off Palawan to produce electricity. Both power plants supplied 38.3% of Meralco's energy requirement in 2008, a slight increase of 1.4% from the 2007 share in the energy mix of 36.9%.

The National Power Corporation (NPC) also provided a big chunk of the energy requirement of Meralco in 2008 with a total share of 43.7%, a large increase from its share in 2007 of 36.9%. Of the 43.7% energy share, energy generated by the 1,200 MW Ilijan power plant, which is also fueled by the same Malampaya natural gas, accounted for 12.8% of Meralco's total energy mix. On the other hand, "renewable energy" resources such hydro and geothermal power accounted for 13.5% of the energy mix delivered by NPC to Meralco. The Philippines is the second-largest producer of geothermal energy, second only to the United States.

The Wholesale Electricity Spot Market (WESM) supplied the remaining 8.7% of Meralco's energy requirement in 2008, down from 15.3% in 2007. This decrease is in line with your company's strategy to reduce its risk exposure from the spot market and shield its customers from extreme price volatility. Of the 8.8% energy share, 4.3% was generated from renewable energy resources such as hydro, geothermal and wind power. It is estimated that the potential for wind power in the Philippines is large.

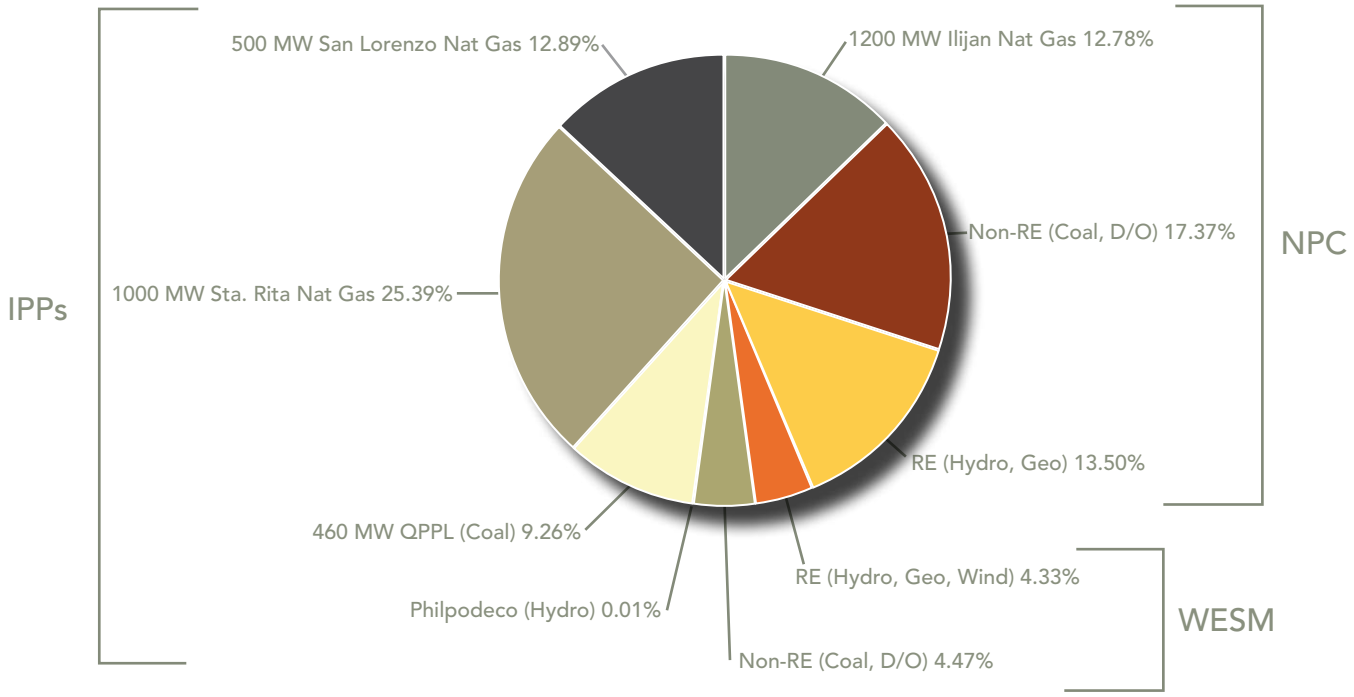
To summarize, in 2008, the share of generation from natural gas to the total Meralco energy requirement was 51.1%, while generation coming from "renewable energy" is 17.8%. Overall, the share of "clean energy" in Meralco's energy mix was an impressive 68.9%.

SYSTEM RELIABILITY AND EFFICIENCY

Technical performance marked a banner year in 2008 as system reliability and efficiency reached their best ever levels since the time the company began monitoring these performance indicators.

The average number of interruptions experienced by a customer, measured in terms of Interruption Frequency Rate (IFR), was at an all-time low of 6.53, down from 7.77 in 2007. This 16% drop in interruption frequency translated to freed-up manpower and other operating resources, which in turn resulted in the speedy power restoration. Thus, the average duration of interruptions a customer experienced, measured in Cumulative Interruption Time (CIT), also dropped significantly. For planned interruptions, the CIT was contained to only 1.62 hours or a 39% improvement from the 2007 CIT of 2.65 hours. For unplanned interruptions, the CIT was reduced to 4.15 hours, for a 13% improvement from 4.79 hours registered in 2007.

These achievements were attributed to effective maintenance programs such as rigorous line inspections, line clearing operations, tree trimming and vegetation management. They were also the result of the upgrading of numerous facilities and the commissioning of seven new distribution circuits that effectively reduced exposures of several circuits from Laguna International Industrial Park (LIIP), San Pedro and Taguig substations.



This sterling technical performance was also made possible by the various computer and information systems integrated with the outage management process, such as the Supervisory Control and Data Acquisition-Distribution Automation System (SCADA-DAS), Operating Trouble Management System (OTMS), Geographical Information Systems (GIS) and other systems that play important functions in the speedy restoration of power and the determination of line trouble locations, real-time data access and efficient management of customer queries and complaints. Your company's investments in remote-controlled line switches also helped minimize the duration of power interruptions by isolating the faulted portion of distribution lines without requiring crews to be present on-site.

To further ensure continuity of service, the connectivity to SCADA's Disaster Recovery (DR) facility allows a switchover from the System Control Center in the event that it becomes inaccessible in times of disasters, calamities, political/civic instabilities and other instances that might affect operations. The seamless transfer of SCADA links to the DR site would facilitate the continuity of operations with minimal disruption, the simulations of which became a success.

The quality of power in your company's franchise also improved significantly. The probability of voltage violations dropped to only 0.88% as against the 1.62% recorded in 2007. This means that for 2008, 99.12% of services checked by the Energy Regulatory Commission (ERC) were found within the set voltage standard. These were taken as the positive results of the decongestion of lines and equipment brought about by the lower level of pilferage. During the same period, distribution transformer failure incidents also decreased by 19%.

On system efficiency, system loss in 2008 at 9.28% was at its lowest in 28 years. This marked the first time system loss fell below the 9.5% cap that has been in place since 1999. More importantly, this was also the first time that Meralco will be avoiding penalties in the form of unrecoverable purchase power cost and, in fact, will be charging lower system loss rates to its customers.

This remarkable achievement was made possible through the institutionalization of initiatives implemented under the System Loss Management Program launched in 2005. This program includes an intensive review of the entire supply value chain, from the bulk delivery points down to the customer metering points, to identify and plug revenue leaks and process gaps.

Improvements in pilferage management were introduced, placing more emphasis on the prevention of electricity pilferage through iron-clad metering and billing processes and facilities. Effective pilferage-deterrence measures, such as the elevation of meters and the installation of overload protection devices were employed extensively in identified high-loss areas. As part of the clean-up process, idle distribution facilities which are prone to illegal tapping were also removed.

New indicators were also developed to improve detection and correction of electric service irregularities.

All these efforts resulted in the detection and correction of around 60,000 pilferage incidents and in the confiscation of approximately 390 tons of assorted wires used in illegal service connections in 2008. In the course of these operations, your company's inspections crews, in coordination with the local police, apprehended 350 persons involved in this illegal activity.

Your company also took advantage of the averaging-down effect on system loss of customers taking power at higher voltages by opening up its 115 kV and 69 kV sub-transmission systems for new customer connections. Customer benefits, which include lower grid rates and more reliable power source, enticed self-generating customers to source their electricity requirement from Meralco.

Your company also continued to widen the scope of its partnerships with local government units (LGUs) with the signing of a Memorandum of Agreement (MOA) with the city of Mandaluyong to promote safety awareness and campaign against electricity pilferage. Similar MOAs with the city of Antipolo and the municipality of Pateros were also renewed last year.

Meralco has always embraced challenges, and the coming years will not be any different. One of the toughest challenges that the company faces is the lowering of the caps on recoverable system losses from 9.5% to 8.5% effective January 2010.

The effect of the global financial crisis started to manifest itself with the decline in primary-metered sales first seen in the fourth quarter of 2008. The projected lower sales growth from these low-loss industrial and commercial customer segments this year could be a potential problem as far as system loss reduction is concerned.

The clamor for lower electricity cost is a continuing challenge and your company continues to search for ways of sourcing its power requirement in the most efficient manner.

OUR CUSTOMER SERVICE

The commitment to serve is always top priority for your company, even in 2008 when various challenges and crises hit. Unhampered by all these, our frontliners remained inspired to deliver excellent customer service guided by the belief that excellent service delivery will always speak for itself and weather any crisis.

True enough, as the crisis subsided, customer survey results conducted by an independent research agency indicated an improvement in customer satisfaction, especially among the larger customer segments. Meralco achieved significant gains through improved service delivery, sustained product offerings and customer options, effective information campaign and partnerships with the communities under our franchise. All regulatory customer service performance standards were also satisfied.

Improved Service Delivery

The start of the year saw our Branches re-named Business Centers and the organization streamlined to establish clearer responsibility and accountability.

Meralco continued to enhance and institutionalize the Customer Welfare Desk Officer (CWDO) training program to ensure that customer assistance standards, guidelines and procedures as mandated by the ERC, are being practiced at all times.

Your company exceeded or met the performance standards of actual service delivery set by the ERC under its Performance Incentive Scheme (PIS). Call Center performance showed that only 10.08% of all calls were answered beyond 30 seconds in 2008, improving from a level of 12.15% in 2007. Time to

Process Application and Time to Connect Premises, on the other hand, registered 15.8 days and 2.9 days respectively, both well within the respective performance bandwidths set by the regulators.

To further ensure that key operating areas are on track, your company continued to enhance its management system support and implement stricter operating audits for more accurate and timely feedback to line organizations.

The past year saw the company's business offices adopt new technology such as the acquisition of broadband wireless and the z10 mainframe machines and realize major improvements in business processes.

The broadband wireless is a technology that provides wireless high-speed data connection which replaces the low bandwidth and low performance third party-provided links with a more reliable and higher speed wireless data system. This allowed our business offices to access system applications faster and easier, thus, improving the quality of business transactions by providing readily available information. These radio links also serve as primary links to auxiliary business centers/extension offices that rely solely on carrier-provided links to achieve redundancy. Also, a z10-enterprise and a z10-business class mainframe machines for the Data Center and DR site, respectively, were acquired to prepare for greater computing power that would be required with the expected increase in the number of customers and transactions.

To sustain its culture of excellence and standardize customer service delivery, Meralco continued its annual Service Excellence Congress of Meralco Business Centers with this year's theme: "Meralco, Liwanag ng Komunidad." The Congress gathered insights from the points of view of local government units and the academe. It zeroed in on the community and grassroots needs and how Meralco can effectively respond to these needs. The Bright Ideas Project, which serves as a venue for generating new ideas for customer service improvements, was rationalized and prioritized for replication in other Business Centers with the hope of achieving more efficient customer service delivery.

To reinforce good performance and to encourage accuracy and efficiency, your company implemented incentive programs specifically for meter readers.

To reinforce positive customer experiences at the Business Centers, your company embarked on facilities improvement activities designed to improve the ambience, provide more convenience and comfort to our customers, and at the same time comply with regulatory requirements like the Customer Welfare Desk and Customer Bulletin Board.

Customer Options

Through the Customer Choice Program (CCP) Meralco continued to provide customers with more rate options apart from the blended generation rate. This program provides five rate options to large corporate customers, allowing them to choose the option that best suits their consumption characteristics and risk preference. These pricing options, such as the Time-of-Use Rates (TOU), give qualified customers the opportunity to reduce their electric bills, specifically on the generation charge component, by using more electricity during off-peak hours when the rates are low. Generally, qualified customers under the CCP are commercial and industrial customers with at least 750 kW demand.

To benefit a wider base of customers, your company launched the "Bright and Right" program that expanded the offering of TOU rates to include high-consuming residential customers

Total CCP availees in 2008 increased 275% from only 470 customers in 2007 to 1,763 customers by the end of 2008. The spikes in fuel prices in 2008 made the CCP a more attractive option for self-generating customers. As a result, we recovered to the grid self-generating customers such as Indophil and Samsung.

Your company also connected 115 kV customers such as Wyeth and CAPASCO Taguig.

Information Campaigns

The year 2008 was a challenging year for your company as far as public information was concerned. As issues were leveled against Meralco through the media and other channels, your company sought to

clarify its position and correct misinformation that were circulated to the public. Meralco's positions on the issues were presented through press releases and media guestings, including the release of flyers, comics and media ads, specifically to correct public impressions on system loss, rates, company use and mismanagement. Your company also conducted media briefings to give the press a more accurate explanation of the situation.

Even with hands full responding to the various issues in 2008, your company continued its public service and customer information campaigns for residential customers through programs such as the following:

- "Electricitips", Meralco's energy efficiency advocacy;
- service reliability campaigns through television ads that emphasized the value of service provided;
- the rates information service that proactively informed customers on rate movements;
- the Meralco Typhoon Watch that taught typhoon preparedness and safety;
- the Meralco Appliance Calculator (MAC) designed to help customers estimate appliance usage in conjunction with a new feature that helps estimate TOU savings;
- and Consumer Education Initiatives such as the showing of a meter reading accuracy video in the Knowledge Channel.

Your company also continued its information campaign to corporate customers on the various rate options and launched an information drive on the Interim Option Access/Power Supply Option Program. This dissemination program called "The Power of Choice" won honorable mention in the Philippine Quill Awards as selected by the International Association of Business Communicators (IABC).

With Meralco's decision to fast track and advance the refund of the meter deposit to eligible customers, your company embarked on a communication plan to disseminate relevant customer information on the requirements and schedule through flyers, bill ads, banners and web information. These facilitated the smooth implementation of the meter deposit refund initiative implemented in November. It also ensured the readiness of the frontliners to carry out the refund.

Partnership with LGUs, Communities and Various Interest Groups

Your company continued to enhance its relationship with various institutions and interest groups. We sustained customer programs such as the Meralco Liwanag Card, a program for loyal customers; Mother's Day/Ilaw ng Tahanan events to honor outstanding mothers; and Maliwanag ang Pasko campaign aimed at spreading goodwill and uplifting the spirit of sharing and hope during the Christmas season. For the latter, we staged a symbolic lighting event led by several Metro Manila mayors and church administrators at the Manila Cathedral to kick off the campaign. We held similar lighting events in 15 other city halls and provincial capitols all over the franchise area to symbolize Meralco's partnership with the local government and church officials.

Your company supported the government's effort to uplift the living conditions of the underprivileged sector of our society through the North Rail and South Rail projects in coordination with the National Housing Authority (NHA). These projects aimed to relocate poor families living near the railways to a more decent environment with adequate, safe and reliable amenities including electric power. We also entered into a MOA with city and municipality governments of Antipolo, Pateros, Mandaluyong and Muntinlupa to address mutual concerns such as the reduction of pilferage in their respective area of jurisdiction.

In addition, your company actively participated in various local government activities such as town fiestas, foundation anniversaries and other significant occasions celebrated by the local communities within our franchise.

Results of Customer Service Initiatives

Despite the negative publicity generated by the issues leveled against Meralco in 2008, your company's customer delivery improvement efforts, continuing customer choice program, effective information campaigns and close partnership with institutions and interest groups resulted in gains best exemplified by the improvement in our Customer Satisfaction Index (CSI) from 7.27 in 2007 to 7.31 in 2008.

There were marked improvements in broad attributes such as Power Quality and Service Application.

Effective issues management, brand building TV ads that focused on service reliability, strict monitoring and operational audit of service application milestones helped in improving customer satisfaction in these attributes.

Customer satisfaction of the residential segment sustained prior year's improvement as its CSI improved again this year from 7.12 to 7.16, the highest satisfaction level since 2003.

Improvements in all customer touch points were achieved in 2008 as the Mystery Client Survey (MCS) results posted their highest levels in four years as Business Centers, Sectors, Power Accounts and Call Center operations posted scores of 86.5, 90.6, 96.3 and 95.5 percent compliance respectively.

As the year ended, your company emerged successful in weathering the adversities and challenges that came its way. The experience strengthened our long-standing belief that excellent customer service delivery would always overcome any crisis in the end.

OUR PEOPLE

It was the second year of implementation of the Performance-Based Regulation (PBR) for Meralco, and your company's Human Resources department continued to focus its efforts to meet standards of performance, productivity, and cost efficiency in accordance with the PBR.

We carried on with our Competency-Based HR Systems (CBHRS), allowing for 97% of organizations implementing it, and another four beginning theirs in 2008. As a result, we saw that the CBHRS, being the platform used across all HR components, was bringing about continued transformation and development of a competitive workforce.

As we promote operational and cost efficiencies to support corporate thrusts and business strategies, we enhanced asset management, investment management, risk management and continued re-engineering our business processes. All these we achieved by implementing organization changes in Network Asset Management, Energy Sourcing,

As the year ended, your company emerged successful in weathering the adversities and challenges that came its way. The experience strengthened our long-standing belief that excellent customer service delivery would always overcome any crisis in the end.

Logistics, Branches, Customer Process, Investment Planning and Strategic Management, Human Resource Development, Legal, Stocks & Dividends Administration, Finance and the Corporate Information Office.

We reinforced our Performance Management System as implemented, which had continually raised our performance standards and consistently promoted employee development. As a result, this strengthening accorded employees true recognition and reward as they made their contributions in attaining team, organization, and corporate goals.

We sustained our Performance-Based Compensation Plan, through the Meralco Incentive Plan, which effectively links compensation with attaining company goals and performance targets. The plan had remained a key driver in creating and continually developing a team of competent employees.

We intensified the implementation of the training and certification programs on regulatory awareness campaign and orientation given to the general employees and to middle management. Moreover, we stepped up the Individual Career Management to continue supporting our people's competency development.

As a way to recognize and retain talents, we implemented the Value Matrix (VM) System for selected Professional positions and the company's Recognition for Talents-2 (CRT-2).

We saw the successful signing of the Collective Bargaining Agreement (CBA) with the Meralco Management and Rank-and-File Union and Meralco Employees and Workers Association (MEWA) for the remaining two years of the 2005-2010 CBA after an eight-day negotiation. The quick negotiation was a testament to the transparency of the Management Panel and the open-mindedness of the new set of MEWA officers, underscoring the harmonious management-labor relations, which is a result of continued efforts to promote positive management and partnership with the two union groups. The parties arrived at a respectable set of CBA items including General Increase amounts set within the level of inflation, the inclusion of the New Compensation Scheme for new employees specifically providing for a Retirement Benefit in a one-time lump sum amount, and introduction of a contributory Provident Plan.

We intensified the implementation of the training and certification programs on regulatory awareness campaign and orientation given to the general employees and to middle management. Moreover, we stepped up the Individual Career Management to continue supporting our people's competency development. We redesigned training programs to cater to the needs of Meralco's younger recruits, which was at 34% of the total workforce, hired between 2003 and 2008. We trained 19,985 employees this year, each receiving 2.89 training man-days on the average.

We forged formal agreements with local and city government units, the Department of Interior and Local Government, the Philippine National Police, and the Bureau of Fire Protection, with the end-in-view of elimination third-party accidents and electricity pilferage. This was also part of our continued effort to install safety and environment protection programs aimed at protecting employees, contractors, and the public against unsafe conditions, as well as ensuring their safety and health while on the job.

We fully outsourced the Business Center Tellering and Distribution Warehousing functions, as we continued to execute the company's Outsourcing Plan, which had remained a manning approach to manage labor cost effectively and complement programs aimed at increasing labor productivity and efficiencies. Outsourcing initiatives had been reviewed consistently in order to provide focus on the core and critical functions, which should result in keeping labor-related expenditures as closest as possible to the RDWR figure.

We accomplished employee productivity and overall human resource performance this year through the following two measures:

We maintained a minimal growth rate of 0.3% for the years 2003-2008, ending the year with 6,050 regular employees. This is the tail-end effect of the continued rationalization of regular employee count for the period 1993-2002, which brought down the count of 8,765 in 1993 by 32% to 5,969 by the end of 2002. To maintain the projected labor-related expenditure in the DWRG, Meralco's manpower strategies had been governed by the principles of replacement planning for headship/leadship positions, no one-to-one replacement (i.e., limited hiring and replacement for any resignation, retirement, or any for of attrition), for a position, and prioritization of core and frontline positions. Moreover, outsourcing was made a manning option to fill manpower deficiency and used as temporary fillers to do seasonal/peak and project-based workloads.

This year's Employee Satisfaction Index (ESI) was at 8.55, the highest level ever been attained since its measurement and reporting was started in 1999. This year's ESI was 0.59% more than the 8.50 target, and 1.91% higher than last year's 8.39. The ESI is of strategic importance based on the basic belief that employee satisfaction is a key driver of customer satisfaction, profitability and revenue growth. In addition, pride and commitment had remained consistently high—a positive indicator of the employees' loyalty and dedication to the company.

Regulatory and Industry Highlights

TRANSITION TO PERFORMANCE-BASED REGULATION

The Rules for Setting Distribution Wheeling Rates (RDWR), formerly known as the Distribution Wheeling Rate Guidelines (DWRG), embodies a new rate-setting methodology known as Performance-Based Regulation, or PBR. Under the previous Return on Rate Base (RORB) methodology, utility tariffs were based on historical costs plus a reasonable rate of return. On the other hand, the PBR scheme sets tariffs according to forecasts of capital and operating expenditures to meet a predetermined level of operational performance. The RDWR also penalizes or rewards a utility, depending on its technical and customer service performance. Your company, along with the Dagupan Electric Corporation (DECORP) and Cagayan Electric Power and Light Company (CEPALCO), is a pioneer of PBR in the Philippines.

On August 31, 2007, the ERC issued its Final Determination on Meralco's PBR application, paving the way for the implementation of the performance incentive scheme and price control arrangements for the Second Regulatory Period (from July 1, 2008 to June 30, 2011). The approved Maximum Average Prices (MAP) were P1.167 per kWh, P1.260 per kWh, P1.361 per kWh, and P1.471 per kWh for the regulatory years 2008, 2009, 2010 and 2011, respectively.

Last year, your company subsequently filed separate applications for its proposed translation of the MAP for Regulatory Years 2008 and 2009, respectively, into different rate schedules for various customer segments. In October 2008, the ERC approved a MAP for the Regulatory Year 2009 of only P1.2280 per kWh to avoid price shocks and mitigate the rate impact on end-users. The ERC also directed the company to implement its approved Distribution, Supply and Metering Charges.

The ERC, acting on a motion filed by a group of electricity consumers, deferred the implementation of the Decision until such time that the ERC resolves a Motion for Reconsideration (MR) to be filed by the group. Your company eventually received a copy of the consumer group's MR, to which we filed an Opposition on November 19, 2008.

On April 23, 2009, the ERC released an Order resolving the Motions for Reconsideration (MRs) filed by NASECORE and other groups. The Order amended the ERC's earlier approved MAP for the Regulatory Year 2009 to P1.227 per kWh, which reflects a zero Corporate Income Tax (CIT) component. Further, the ERC also revised downward the previously approved rates for residential end-users, to mitigate the impact of the rate adjustment, and aligned the tariff design closer to 'cost-to-serve.

With this ERC Order, Meralco will be the latest electric utility to implement PBR-based rates. In October last year, DECORP and CEPALCO began implementing their PBR rates. The National Transmission Corporation, whose operations were recently assumed by the National Grid Corporation of the Philippines (NGCP), first implemented PBR rates three years ago. For Meralco, implementation began in May 2009.

Meanwhile, on December 24, 2008 the ERC released Resolution No. 20, series of 2008, modifying certain provisions of the RDWR. Among the highlights of the modification are:

- On the building blocks, the CIT component was set to zero for the Second Regulatory Period;
- On the WACC, the Debt-Equity ratio was changed from 45:55 to 40:60, while from zero escalation, the Asset Beta will now be escalated by 1.25. Furthermore, the WACC to be selected by the ERC will come from be 75th percentile of a range of values, instead of the average, as was done previously; and,
- O&M expenses will now include company use and the S-factor will now be excluded from Side Constraint computations.

In a letter to your company dated February 16, 2009 the ERC stated that, since the RDWR modifications will have substantial impact on the price resets for Regulatory Years 2010 and 2011, the Commission has approved the "Guidelines for the RY 2010 Rate Reset" to guide first entrant distribution utilities (DUs) to PBR in their next rate application, which was due on March 20, 2009.

On March 19, 2009 Meralco wrote the ERC to ask for additional time within which to submit its RY 2010 verification and reset filing. The request cited your company's need to more extensively assess the impact of the economic slowdown on its customers.

UNDER-RECOVERIES IN PASS-THROUGH COSTS

Generation Cost Under-recoveries. During the suspension by the ERC of the Automatic Generation Rate Adjustment (AGRA), Meralco filed 10 separate applications for the full recovery of generation costs, including value-added tax (VAT), incurred for the supply months of August 2006 to May 2007, which resulted in under-recoveries of P12.68 billion for generation charges and P1.295 billion for system loss charges.

On January 18, 2008 the ERC allowed your company to collect P8.83 billion for generation charges through a P0.1662 per kWh charge to customers. The charge was implemented beginning February 2008 and will continue until the P8.83 billion is fully collected.

On September 3, 2008, an ERC Decision on the remaining P3.85 billion of generation charge under-recoveries directed your company to recover P1.149 billion, plus P813 million carrying charges. However, a portion of your company's purchases from the Wholesale Electricity Spot Market (WESM) for the period December 2006 to May 2007, amounting P2.701 billion of the total amount applied for, was disallowed. Further, your company was ordered to file a separate application for recovery of P1.295 billion of system loss adjustments after the ERC confirms the average transmission rate to be used in the calculation of the system loss rate.

Fifteen days later, your company filed a Motion for Partial Reconsideration questioning the disallowance of P2.701 billion because we believed that our purchases from the WESM were prudent and mandated by law. As such, these costs were just and reasonable pass-through costs recoverable from its consumers. A hearing on the Motion was held on November 3, 2008. The ERC has yet to resolve the company's motion.

Recovery of Transmission Cost Under-recoveries. In September 2007, Meralco filed an application to recover P5.554 billion in transmission charge under-recoveries accumulated between June 2003 to July 2007, along with a corresponding carrying cost. The application was brought about by the implementation of the "Guidelines for the Adjustment of Transmission Rates by Distribution Utilities," which did not address the current and accumulated over-or under-recoveries in the collection of the transmission charge. Hearings on the petition were completed on May 5, 2008 and the case is currently awaiting resolution by the ERC.

Recovery of Under-recoveries in the Implementation of the Inter-Class Subsidy Removal. Your company filed a petition for authority on November 14, 2007 to recover P1.054 billion of under-recoveries and a corresponding carrying charge, incurred in implementing the Inter-Class Cross Subsidy system. The ERC concluded hearings on the petition on April 1, 2008. Meralco filed its Formal Offer of Evidence on April 10, 2008 and the case is deemed submitted for the Commission's decision.

Recovery of Under-recoveries in the Implementation of the Lifeline Rates. Finally, on February 19, 2008 your company filed an application with the ERC for the collection of the under-recoveries incurred in the implementation of the lifeline subsidy rate amounting to P864 million, with a corresponding carrying cost. Hearings on the petition were completed on May 8, 2008. Meralco filed its Formal Offer of Evidence on May 19, 2008 and the case is now awaiting decision by the Commission.

REFUND OF CERA OVER-RECOVERIES

The Currency Exchange Rate Adjustment (CERA) is a mechanism that allows for adjustment in electric tariffs to reflect losses or gains in a utility's foreign currency-denominated debt service, excluding interest payments, and O&M expenses. Prior to January 2007, Meralco incorporated in its electric bills a CERA equivalent to 11.87% of distribution-related charges.

In December 2006, Meralco entered into a "Note Facility Agreement" with a number of banks. The proceeds of the facility were in Philippine pesos, which the company used to retire almost all of its foreign currency obligations at the time. Subsequently, Meralco informed the ERC of the suspension of CERA collection from customers starting January 2007.

On October 22, 2008 after a review of Meralco's CERA collections and foreign currency payments, the ERC released an order that directed the company to implement a refund of over-recoveries in the CERA mechanism incurred from June 2003 to December 2006. According to the Order, collections under CERA during the said period totaled P7.104 billion, whereas the company's actual foreign exchange-related losses during the same period was P4.012 billion, resulting in over-recoveries of P3.092 billion.

The ERC directed the company to refund the CERA over-recoveries, along with carrying charges estimated at P833 million, over a period of 12 months, equivalent to P0.1461 per kWh. On December 4, 2008 Meralco filed a Motion asking the ERC to defer the CERA refund and implement it no earlier than the February 2008 billing cycle. In asking for a deferment, Meralco cited financial constraints due to, among others, the accumulation of substantial generation cost under-recoveries and the servicing of the ERC-mandated meter deposit refund.

Two months later, the ERC granted (with modification) Meralco's motion and authorized the company to implement the CERA refund "equivalent to PhP0.0400/kWh starting the March 2009 billing cycle until such time that the full amount shall have been refunded."

On April 25, 2009, the ERC released an Order reinstating its 26 September 2008 directive for Meralco to refund the CERA over-recovery at a rate of P 0.1461 per kWh. The acceleration of the CERA refund would cushion the impact on the consumers of the implementation of Meralco's approved MAP for Regulatory Year 2009, both of which we implemented beginning May 2009.

BTRCP-DTI PETITION

On May 19, 2008, the Bureau Trade Regulation and Consumer Protection of the Department of Trade and Industry (BTRCP-DTI) filed a petition asking ERC to:

- Expand the coverage or increase the discounts under the lifeline rate within the Meralco area only. Further, the BTRCP-DTI said that the company should absorb the lifeline discounts;
- Direct the company to buy more from WESM during off-peak hours;
- Direct the company to extend preferential treatment to poor households and power-intensive industries in the allocation of transmission charges;
- Direct the company to stop billing system losses to customers and customers are entitled to a refund; and,
- Direct the company to charge distribution rates equal to or lower than those of Visayan Electric Company, CEPALCO, or Davao Light and Power Company.

On December 10, the ERC denied all of the courses of action proposed by the BTRCP-DTI, except for an increase, from 50% to 100%, in lifeline discounts to be given to those using 20kWh or less each month "subject only to the payment of a P5 per month metering charge." The modification in the lifeline subsidy system, which is revenue neutral to the company, began in February 2009.

REVISION OF SYSTEM LOSS CAPS

On December 8, 2008 the ERC promulgated Resolution No. 17, Series of 2008, entitled "A Resolution Adopting a New System Loss Cap for Distribution Utilities," where it resolved to lower the maximum rate of system loss (technical and non-technical) that a utility can pass on to its customers. In the Resolution, the new system loss cap for private utilities shall be the actual system loss but not to exceed eight and a half percent (8.5%), starting January 2010. This is one percentage point lower than the current system loss cap of 9.5%.

The Resolution further stated that company use of electricity shall be treated as part of operation and maintenance expenses in the next reset for utilities under PBR and that the manner by which the utility will be rewarded for its efforts in system loss reduction shall be addressed in the Performance Incentive Scheme (PIS) under PBR.

POWER SUPPLY OPTION PROGRAM

On May 23, 2008 Meralco, together with other industry players, filed a Petition with the ERC for the implementation of Interim Open Access (IOA) in the Luzon and Visayas grids, in accordance with a proposed "Terms of Reference of the Interim Implementation of Open Access." The Terms of Reference had been adopted by various energy industry players and stakeholders during the 2008 Energy Summit. The Petition sought to allow the eligible customers with an average peak demand of 1 MW and up to contract and purchase their electricity requirements from Eligible Generating Companies through Retail Electric Suppliers. Eligible Generation Companies are generation companies which meet the mandated generation market share caps of EPIRA. In a Decision dated November 10, 2008 the ERC renamed IOA as the Power Supply Option Program (PSOP) and approved the Petition subject to the following conditions:

- DUs shall act as the default supplier and be accountable for the accounting and settlement of imbalances.
- The PSOP shall initially be implemented within the Luzon Grid.
- The implementation of the PSOP shall commence from the transfer of the operation of the Calaca privatized NPC generation assets.
- The PSOP shall cease to be operational upon commencement of actual Open Access and Retail Competition. All contracts and related transactions shall automatically terminate once actual Open Access and Retail Commission is declared by the ERC.
- The PSOP shall be strictly implemented in accordance with program rules to be promulgated by the ERC.

In December 2008, the ERC released the draft "Rules for the Power Supply Option Program," which are intended to provide the regulatory framework for the implementation of the PSOP. Industry players, including Meralco, submitted its comments on draft rules on January 6, 2009. The said draft rules have not yet been finalized and promulgated by the ERC.

Meanwhile, on January 23, 2009, Suez Energy, the winning bidder of the 600-megawatt Calaca coal-fired power plant, backed out from the deal to purchase the asset. With this development, the ERC

on March 12, 2009 directed the PSOP proponents to submit comments on whether the precondition of privatizing Calaca will be maintained. The proponents, including your company, indicated that they are inclined to maintain the said precondition. Subsequently, Masinloc Power Partners Co., Ltd (MPPCL) proposed the substitution of the privatization of the Calaca Generation Assets with the privatization of the Tiwi-MakBan geothermal facilities, as a precondition for the PSOP implementation. The ERC has yet to resolve the issue.

PEZA-ERC JURISDICTION

Meralco and the Private Electric Power Operators Association (PEPOA) had been holding compromise talks with the Philippine Economic Zone Authority (PEZA) to resolve the injunction case filed by the distribution utilities at the Pasig Regional Trial Court (RTC) against PEZA's registration and open access guidelines, namely, the "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and the "Guidelines for the Supply of Electric Power in Ecozones."

These Guidelines effectively give PEZA franchising and regulatory powers in Ecozones. PEZA can potentially carve out ecozones from a DUs' service coverage and allow entities other than the franchise DU to provide distribution service within ecozones. PEZA may also set the tariffs and operating parameters of such electric distribution service providers. The situation may be aggravated by PEZA declaring additional ecozones in a DUs' franchise area.

After a series of negotiations between PEPOA, your company, and PEZA, the parties agreed to settle their differences. Through a letter dated June 6, 2008 from PEZA Director General Lilia B. De Lima, PEZA proposed the following to address the concerns of the PEPOA and your company:

1. In the case of power utilities or entities currently operating a power distribution system inside the ecozone, the PEZA Board shall approve the registration of such entities upon compliance of all registration requirements.
2. The franchised distribution utility operating immediately outside a newly proclaimed ecozone shall have the right of first refusal to operate a power distribution system subject to compliance with all registration requirements.
3. Until such time that PEZA has fixed the appropriate Electric Power Distribution Charge, the current distribution and other distribution related charges shall prevail."

These proposals were accepted by Meralco through a letter dated June 30, 2008, with clarification on item no. 3, which your company proposed to be rephrased as follows:

"Until such time that PEZA and ERC have agreed on principles of asset recognition and boundaries for rate-setting and PEZA has fixed the appropriate distribution charge, the prevailing distribution and other distribution-related charges, as may be adjusted in accordance with ERC's guideline, shall apply."

In a response letter dated July 3, 2008, PEZA Director General Lilia De Lima accepted this counter-proposal. Subsequently, your company and PEPOA filed their motions to withdraw as plaintiffs in the case. Pending resolution of both motions, the Philippine Independent Power Producers Association (PIPPA) filed a Motion for Intervention, which was granted by the Court on September 2, 2008. Currently, both motions to withdraw by your company and PEPOA are awaiting decision by the Court.

Meantime, in support of the government's objective of providing lower cost power to Ecozone locators, the company entered into a Memorandum of Agreement with the NPC on September 17, 2007 for the provision of special ecozone rates to high load factor PEZA-accredited industries. The ERC allowed the immediate implementation the program.

SHUTDOWN OF TRANSCO'S SUCAT-ARANETA TRANSMISSION LINE

The Sucat-Araneta-Balintawak 230kV Transmission Line Project was conceptualized in the early 1990s to improve the overall electric system reliability and efficiency in Metro Manila. The construction of the said transmission line started in 1994 and was finished and energized in July 2000. This line completes the 230kV line loop within Metro Manila and addresses the congesting electricity traffic in the metropolis due to an ever growing demand for electricity. The project has two main parts: (1) the Araneta to Balintawak leg; and (2) the Sucat to Araneta leg. Prior to 2001, the authority and responsibility to operate and develop the nationwide grid belonged to NPC. Upon the effectivity of EPIRA in June 2001, this authority and responsibility were transferred to TransCo.

The distribution lines of your company are "physically connected" to the transmission grid of TransCo. More importantly, your company's distribution facilities are configured to operate in synchronicity with the lines of TransCo. The subject Sucat-Araneta-Balintawak 230kV Transmission Line is one of the important lines of TransCo and is located in the heart of your company's franchise area. Thus, the unrestrained operation of the said line is very vital to your company's ability to deliver continuous electricity to every household and business establishment within its franchise area.

On March 10, 2000 the residents of Tamarind Road, Dasmariñas Village, Makati (plaintiffs) filed a case with the RTC-Makati against NPC to enjoin the latter from further preparing and installing high voltage cables to the steel pylons erected near the plaintiffs' homes, and from energizing and transmitting high voltage electric current through said cables, citing alleged health risks and danger posed by the same. On

March 13, 2009 the trial court initially issued an order directing the parties to maintain the status quo, and three weeks later granted the preliminary injunction prayed for by the plaintiffs. However, the Court of Appeals subsequently reversed the trial court's orders. On appeal, the Supreme Court, in its Order issued on March 23, 2006 reinstated the orders of the trial court restraining the NPC.

When the aforesaid Order of the Supreme Court became final, the plaintiffs then moved for the execution of the orders rendered by the trial court. Subsequently, the trial court issued a writ of execution on October 13, 2008. Your company, although initially not a party to the case, was constrained to file an Omnibus Motion (1) for Leave to Intervene and to admit Answer in Intervention, (2) to lift orders, and (3) to maintain status quo due to the significant impact of the de-energization of the Sucat-Araneta line to the public and the economy. In the said Omnibus Motion, your company argued that the shutdown of the 230 kV line would result in widespread and rotating brownouts across its franchise area, including the major financial districts in Metro Manila. Likewise, as much as 505 MW capacity from power plants from the south would be prevented from running their full capacities, resulting in a much higher additional purchased power cost for your company which, in turn, would translate to significant increase in the price of electricity charge to its consumers.

On November 28, 2008 the trial court issued an Order accepting your company's Omnibus Motion and holding in abeyance the writ of execution until after the trial court finally rules on your company's Omnibus Motion for intervention and other incidents

Subsidiaries and Foundations

SUBSIDIARIES

CIS BAYAD CENTER, INC. (CBCI)

CBCI, awarded the prestigious "Investor in People" (IiP) certification by the People Management Association of the Philippines and the UK-based IiP Quality Centre, is the trailblazer and leader in the over-the-counter (OTC) bills payment collection industry in the country.

Developed in 1997 and incorporated in 2006, Bayad Center continues to define and set the standards in the industry with its increasing number of biller-partners, fast-growing network of payment collection centers and introduction of innovative service lines.

Today, with over 150 brands carried through its network of 900 branches all over the Philippines, it continues to strengthen its vision of becoming a global organization that is the undisputed leader in transaction-based services.

Bayad Center has also ventured into new businesses, among them a service called Bayad Direct. Unique in itself, Bayad Direct offers a wide variety of services such as: SMS—and internet—based card-to-card international and local fund transfers, air-time loading, bills payment, ATM functionality and payroll solutions. With Bilis Padala, Bayad Center also has the added feature of an efficient international express document delivery service. Bayad Center branches offer money payout services for partner banks' international transfers.

Among its newest initiatives is the Outsourced Teleserve Corporation, a wholly-owned subsidiary, which currently provides strategic tellering services to Bayad Center's key corporate partners and targets to offer the same top-flight service to prospective organizations with mass-based customers.

CLARK ELECTRIC DISTRIBUTION CORPORATION (CEDC)

Organized on February 19, 1997 as a joint venture of Clark Development Corporation (CDC) and Meralco Industrial Engineering Services Corporation (MIESCOR), CEDC was created to serve the requirements of the Clark Economic Zone.

From 1997 to 2004, CEDC had modest sales of 3,884MWH per month. In June 2003, however, with the signing of a memorandum of agreement between the CEDC, CDC and MIESCOR—with the eventual replacement of CDC by the Angeles Electric Corporation (AEC)—CEDC took over and started the integration, distribution and supply of electricity within the Clark Economic Zone.

The entry of AEC into CEDC resulted in higher average monthly sales of 16,370MWH from August 2004 to December 2008. This also paved the way for the construction of two major substations within the economic zone. CEDC's peak output is now at 45.5MW, with an improved system load factor of around 67% and a system loss of 4.75%.

Today, with Meralco recently acquiring the shares of MIESCOR in the company, CEDC is more committed to serve valued clients such as Yokohama Tire Philippines, Inc., the Diosdado Macapagal International Airport, the soon-to-open Singapore Airlines-Cebu Pacific Air maintenance hub and other major players in the zone. With the National Power Corporation as the sole power supplier of CEDC via two 69kV transmission lines from the National Grid Corporation of the Philippines (NGCP), CEDC enjoys approved ERC-reduced TransCo charges, making its electricity supply rates the lowest in Luzon.

e-MERALCO VENTURES INCORPORATED (e-MVI)

e-MVI, the information and communications technology medium of Meralco, is considered to be the country's first and only true carrier's carrier. Started in 2000 as a company specializing in data transport and infrastructure business through state-of-the-art fiber optic resources, e-MVI plays a critical role in providing various networking options and innovative communication solutions to its customers and business partners.

A company that offers, among others, leased line connections, Metro Ethernet connections, and disaster recovery transport services, e-MVI

transports communications and business applications from geographically dispersed sites via a highly reliable, robust, secure, scalable and cost-effective communications super-highway.

In January 2008, e-MVI—which is also a 100% Meralco-owned subsidiary—was given the recognition of being an "Investor in People" (IiP) for achieving financial and operational success through people management. It was the 14th company in the entire country to gain IiP recognition.

MERALCO ENERGY, INC. (MEI)

Formed in June 2000, MEI started its operations providing electric facilities services and loadside energy management to Meralco customers. Today, MEI's services include electrical testing, emergency troubleshooting and supply and installation of major electrical equipment.

In 2006, these services were transferred to another Meralco subsidiary, MIESCOR, allowing MEI to focus on becoming a retail electricity supplier (RES) that would sell electricity to the contestable market when retail competition in the industry starts. As an energy service provider, MEI hopes to develop complementary services related to energy efficiency and distributed generation including renewable resources.

MEI has also started to assess the viability of electric-powered vehicles. Last year, MEI has built a prototype electric tricycle for evaluation.

MEI is currently evaluating the use of Thermal Energy Storage (TES) with the objective of influencing customers to modify their energy consumption, maximizing the use of electricity on off-peak periods.

MERALCO FINANCIAL SERVICES CORPORATION (FINSERVE)

In its continued effort to provide a seamless array of services to its clients and customers, the Meralco Finserve was formed in March 2002.

Finserve offers diverse business integration needs tailored for both corporate and retail clients of Meralco. In the case of its corporate accounts, Finserve has a service called Integrated Direct Marketing (iDM), which includes direct mail campaigns, targeted advertising, and a publication, *Current* magazine. iDM services are frequently availed of by insurance companies, banks, consumer goods companies and educational institutions wanting to reach out to their specific markets.

As an added benefit for its corporate clients, Finserve provides a Loyalty/Rewards Program management scheme to help companies in their marketing and consumer retention programs with Meralco's very own *Liwanag Card* program.

Catering to millions of Meralco's retail clients, Finserve, in partnership with Banco de Oro, offers the *HOME MasterCard* — the first home and family oriented credit card that enables Meralco customers to pay their electricity and other utility bills under affordable charging schemes, including auto charge and payment-on-demand. As an added bonus, the *HOME MasterCard* is the only credit card facility offering a 1% rebate on Meralco bills enrolled under the auto charge facility.

Finserve ensures that all consumers have a direct access to their wide range of products, providing support and at the same time, connecting partner companies such as insurance providers, banks and consumer goods companies with its very own outbound and inbound 24-hour Call Center.

A recent addition to its business portfolio is "The Strip," a commercial complex located along Ortigas Avenue. Fully operational in January 2008, and houses prominent restaurant, retail and banking establishments, it is Finserve's way of exploring ever-changing market opportunities, to provide convenience and innovation for Meralco's customers.

MERALCO INDUSTRIAL ENGINEERING SERVICES CORPORATION (MIESCOR)

Incorporated on December 5, 1973 MIESCOR is engaged in engineering and construction activities related to power generation, transmission, distribution, industrial plants, water resources and telecommunications. MIESCOR has since then handled several major infrastructure projects for the government and private sectors.

Today, MIESCOR—classified as a triple A company, the highest category given by the Philippine Contractors Accreditation Board—provides operation and maintenance works for the Sta. Rita and San Lorenzo plants in Batangas of Siemens Power Operations, as well as transmission line maintenance for Quezon Power and First Gas Power. MIESCOR also provides technical support for communication projects such as fiber optic installation and maintenance for Innove Communications, Meralco and e-MVI, among others.

Among the company's finished projects in 2008 were the CEDC's 33MVA/69kV Kalaw Substation (Meralco has since acquired MIESCOR's 65% ownership of CEDC); the First Philippine Industrial Corporation's rehabilitation of 18" diameter Black Oil Pipe Line (BOPL) Phase 5 and reconstruction of valve box at Biñan; waterworks projects such as Manila Water Company, Inc.'s (MWCI) pipe-laying works along Evangelista Street in Pasig, E. Rodriguez Jr. in C-5; and Maynilad Water Services Inc.'s (MWSI) rehabilitation of pumping station at Caloocan City.

MIESCOR operations are backed by its subsidiaries: MIESCOR Builders, Inc., an operation and maintenance company for electric transmission and distribution; and Landbees Corporation, a general services firm specializing in repair and maintenance of facilities, tools and equipment. MIESCOR continues to provide support to its parent company, Meralco, in the areas of line design, revenue protection and various services.

REPUBLIC SURETY AND INSURANCE COMPANY, INC. (RSIC)

RSIC is a professional non-life insurance company purchased by Meralco in March 2007 as a medium to underwrite Meralco's risk exposures and insurance needs.

RSIC aims to be the most dynamic, pro-active risk management and underwriting company—not just for its parent company, Meralco, but the industry as a whole, promising to commit itself to implementing Risk Management methods with an emphasis on risk analyses and mitigation, loss control management and general insurance management. As part of its mandate to identify and manage the risks of its parent company, and in spite of the risk-aversion of traditional commercial insurance and reinsurance market for transmission and distribution, RSIC has arranged an insurance program to cover Meralco's transmission and distribution assets.

Visioning itself as the total risk solution provider, RSIC believes that it will become a major player in the local insurance industry within a short period of time. In a span of six months, RSIC was able to raise a gross premium of P55 million and net income of P 2.2 million.

In 2008, its first full year of operation, while continuing to build its organization, RSIC was able to generate a gross premium of P 185 million or 236% increase compared to 2007 figures. Net income was P 12 million or 445% increase over that of 2007.

RSIC also hopes to contribute to the promotion of Corporate Governance Best Practice and Corporate Social Responsibility (CSR) in the Philippines.

ROCKWELL LAND CORPORATION (ROCKWELL)

At a time when big corporations were shying away from risks, Rockwell made a move that eventually became the benchmark for top-quality innovation, with its joint venture between Meralco, Benpres Holdings Corporation and First Philippine Holdings Corporation. Rockwell Land Corporation, a property development company, turned the 15.5-hectare Meralco property in Makati into a Business Process Outsourcing (BPO) center, and prime residential and commercial area, now called the Rockwell Center.

In 2008, Rockwell launched a six-tower residential project on a 5.4-hectare property along E. Rodriguez, Jr. Avenue in Pasig City. Known as "The Grove", this is the first venture of the company outside of the Rockwell Center that caters to the broader middle-income market.

The completion of its sixth residential development, the 928-unit Joya Towers and Lofts at the Rockwell Center, capped 2008 for Rockwell. This development marked the first time that the loft concept was introduced in the Philippine market. To date, there are now over 700 proud new unit owners and tenants.

Rockwell's performance in 2008 is seen in a net income that grew 27%, roughly P 603.7 million on P 3.5 billion in revenue, driven mainly by the ground breaking of One Rockwell in Makati City. Another factor in the financial success of Rockwell is the recurring income brought into the company by the Power Plant Mall.

Today, Rockwell's financial condition remains sound with the current ratio at 1.7x and debt to equity ratio at 0.4x.

LIGHTHOUSE OVERSEAS INSURANCE COMPANY, LIMITED (LOIL)

LOIL is Meralco's captive reinsurer, a wholly-owned subsidiary domiciled in the British overseas territory of Bermuda. It was incorporated on August 24, 2007 and obtained its license to operate in the territory in March 2008. This offshore company serves as the vehicle to reinsure the Meralco's major catastrophic risk exposure.

FOUNDATIONS

MERALCO MILLENNIUM FOUNDATION, INC. (MMFI)

On its sixth year this year, the MMFI, Meralco's corporate foundation, continued to dispense of its role as its CSR arm, initiating, developing, supporting, financing, undertaking and managing its four areas of operation: Social Investment, Community Sponsorship, Environment Management, and Workplace Stewardship.

Educational projects topped this year's MMFI initiatives, with the construction of eight pre-school facilities, seven of which were Meralco Sibol Schools in Gawad Kalinga Villages and one Liwanag Learning Center for the Anyatam Elementary School in San

Ildefonso, Bulacan. Other MMFI projects for 2008 are: Teacher Education Project, Brigada Eskwela and Lugao Con Love Feeding Program.

Under the *Dangal Program*, MMFI facilitated the electrification projects for *Gawad Kalinga* communities. Various outreach projects were also done, reaching out to public schools, day-care centers, and depressed communities, not to mention the foundation's year-round corporate giving program.

Overall, the MMFI completed 17 branded projects in the areas of education and training, corporate giving, outreach projects and electrification of depressed communities, all of which were supported by Meralco and its employees through personal contributions and volunteerism.

MERALCO MANAGEMENT AND LEADERSHIP DEVELOPMENT CENTER (MMLDC)

MMLDC maintained it excellence in serving its purpose this year, with a number of accreditations and citations that continued to boost its performance:

- Accreditation by the Philippine Council for NGO Certification
- Only training center in the country certified in the Integrated Management System (ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:2000)
- Recognized since 2005 for achieving the Investors in People (IiP) standards by the UK Quality Centre

On its second year as an accredited Training Service Provider of the AUSAid-PAHRDF (Philippines-Australia HR Development Fund), MMLDC made three successful bids for development projects in two national public agencies (Department of Education and National Economic Development Agency) and one provincial government unit (Agusan del Sur).

Moreover, MMLDC continued to serve a growing customer base of progressive companies including Nestle, Rustan Coffee (Starbucks), Bayan Telecommunications, ABS-CBN, Bangko Sentral ng Pilipinas, Jollibee Foods Corp, Holcim, UP, Ateneo de Manila, Merck Sharp & Dohme, Soluziona, Accenture. Providing training solutions and facilities to the above organizations has been generating funds for its operations and mission programs.

VISION

To foster Corporate Social Responsibility programs which address the needs of communities within MERALCO's business environment

MISSION

To render a holistic response to society's needs by relying on the sense of dedication and service of the MERALCO volunteers

In 2008, MMLDC, as an educational foundation, implemented mission programs that reached 7534 beneficiaries.

Under its School-based Management Development Program (SBMDP), 45 batches or 2,100 teachers, school-heads, and other members of the School Governing Councils were trained in the DepEd Divisions of Cavite, Cavite City, Caloocan and Antipolo. The SBMDP is designed to develop among public school heads and principals the desire to continuously improve their respective schools and enable them to effectively prepare, implement, and evaluate School Improvement Plans (SIP).

The 3rd Educators' Forum held on November 25, 2008, about 1200 educators and education stakeholders participated. Dubbed "Ano ang Tama sa Mata ng Bata?" the forum centered on ethical leadership in the education sector. It provided the venue for discussing the accountability of all education stakeholders in shaping the child's values not only by teaching what is right, but more importantly, by doing what is right. The ultimate goal of the forum was to rekindle the educators' passion for service and excellence, and encourage them to continue to strive more and achieve more amidst the challenges that the public education sector faces.

The MMLDC also launched its own its own electric-powered jeepney in April 2008, under the MMLDC Environmental Programs. The battery-powered jeepney replaced the old diesel-fueled shuttle used by the center's clients and guests.

The MMLDC also conducted more than 40 batches of Lakbay Kalikasan, an environmental field trip for elementary pupils of selected public schools in Antipolo City.

Corporate Social Responsibility

DISTRIBUTING HOPE AND LIGHT IN TIMES OF NEED

"May liwanag ang buhay." So goes Meralco's apt battle cry, for life becomes brighter when light is made available to families and households.

The past few years have seen your company working hand in hand with the Department of Education, and many various civic organizations as we strive to distribute electricity to both homes and establishments in the country.

With the help of Meralco Millennium Foundation, Inc. (MMFI), the company's social responsibility program continues to uplift the lives of many.

MERALCO SIBOL SCHOOL PROJECT

Besides community outreach programs, the company has taken on the role of Big Brother to the country's underprivileged youth. Programs such as the Meralco Sibol School Project, a partnership with Gawad Kalinga,is considered a priority in the company's social responsibility program.

To date, the Meralco Sibol School Project has seen the construction of seven school buildings, all within the year 2008:

1. Ragojos Heritage GK Village in Novaliches, Quezon City—April 14, 2008
2. Camp David GK Village in Noveleta, Cavite—April 16, 2008
3. Quirino GK Village in Bagbag, Novaliches Quezon City—August 6, 2008
4. North Carolina Wyeth GK Vilage in Bagong Silang, Caloocan City—August 8, 2008
5. Paradise Heights GK Village in Balut Tondo, Manila)—Nov. 18, 2008
6. Staging Area GK Village in Bagong Silang Caloocan City—Nov. 18, 2008
7. Southville 2 GK Village in Brgy. Aguado, Trece Martires City, Cavite—Nov. 26, 2008

In keeping with Meralco's thrust to help bring education to the poor, Meralco has also teamed up with the Department of Education (DepEd) through ***Liwanag Learning Center*** facilities for pre-age school children in identified public schools within its franchise. And in 2008, the the beneficiary of Meralco's Liwanag Learning Center was Anyatam Elementary School of San Ildefonso, Bulacan.

A child development program promoting community-based education for pre-school children living in GK communities, Meralco supports this project through the construction of school facilities along with an education package called the Liwanag Learning Package; and a sustainability program for one year.

Meralco has also set up projects aimed to improve the quality of secondary education with its ***Teacher Education Project***: providing public school teachers with the skills and know-how that will enhance their teaching capabilities, especially in the fields of Mathematics, Science and English, with focus on computer literacy. This year, 87 participants from Dalandanan National High School and the Manila Police District were beneficiaries.

The company's ***Electricity in Philippine Public School Program***, an assessment manual drafted for DepEd in 2004 and entitled "A Guide in Inspecting and Assessing Electrical Wiring Installations in Public Schools," made it possible for DepEd to "rationalize budgetary requirements for its rehabilitation program for schools which are deemed at risk."

With the help of DepEd's Brigada Eskwela, 32 public schools were assessed for electrical safety and compliance in June of 2008.

Together with Gawad Kalinga, Meralco continued to help underprivileged communities by participating in a five-month feeding project called ***Lugao Con Love Program***, aimed to emphasize the importance of good nutrition for the development of children's physical and mental health. The feeding program benefited 220 malnourished children.

ELECTRIFICATION PROJECTS

Another partnership with Gawad Kalinga, called the ***Dangal Program***, also paved the way for the electrification of several GK Villages by providing the communities with their own distribution facilities, thereby ensuring safe, low-cost, and proper electrical consumption to the poor. This year saw the facilitation of electrification projects for seven Gawad Kalinga villages.

OUTREACH PROGRAMS

In keeping with the company's thrust of distributing light and hope to the needy, Meralco participates in charitable assistance projects for communities in need, such as:

Funtastic Friendship Fair sa Meralco. The company celebrated its 105th Anniversary through an Employees Day Outreach that benefited 245 children from Pasig, Taytay and Mandaluyong.

Munting Mukha ng Ligaya Outreach. The Chairman spearheaded a gift-giving program to Brookside, Quezon City's Meralco Sibol School community benefiting 562 persons.

Tulong Kapwa Outreach. On January 12, 2008, 2,465 beneficiaries from Bgy. Kalawaan, Pasig City were recipients of the company's fund-raising efforts through the Tulong Kapwa outreach programs.

Meralco's compassion for the needy is never more felt during the holiday season, where, instead of the usual round of Christmas parties, all Meralco employees—from the ground up—participate in outreach programs for the less-privileged.

Lingap Kapwa Sa Kapaskuhan. Each year, from the months of November to December, employees of the company voluntarily give contributions—matched, of course, by the company funds—to fund a corporate-wide Christmas outreach program that targets individual communities and public schools within Meralco's area of distribution. This year, we extended assistance to 12 churches including lighting up activities and sponsorship of Simbang Gabi.

Delightful Christmas. Each year Meralco employees participate in fun and lively activities for children, such as gift-giving, right inside the company's compound in Ortigas amidst the display of lights. This allows the employees to mingle with each other and be "ate" and kuya" for a day. There were 730 children from nine GK Villages given gifts, and nine public schools adopted.

Handog Ng Meralco Sa Pasko. This outreach program, sponsored by executives of Meralco and their spouses, reaches out to pre-school age children under the supervision of the Department of Social Welfare and Development (DSWD), who have no one else to celebrate Christmas with. A total of 400 children were the lucky beneficiaries of this generous Christmas event.

CORPORATE GIVING PROGRAM

Through Meralco's computer-donations project called ***E-Log On Mo Na Project***, the company donated complete computer packages including on-site literacy training to 36 institutions.

IN-REACH PROGRAM

Project Kasambahay. Believing that "charity begins at home," Project Kasambahay is Meralco's 'in-reach' program held every Christmas with Meralco's contracted service personnel as beneficiaries. This year, 2,350 service personnel were recipients of Project Kasambahay.

MERALCO EMPLOYEES FUND FOR CHARITY (MEFCI)

It is not just the top executives that give life to Meralco's corporate social responsibility. Employees set up the MEFCI, an employee-initiated organization that implements charity projects complementary to those sponsored by the company.

Together with the Meralco Corporate Wellness Center, MEFCI conducts regular dental and medical missions in depressed communities within the franchise area and provide scholarship grants to deserving individuals. Not only that, MEFCI also donates various medical equipments to charity institutions and government hospitals, and provides assistance in relief efforts during calamities. MEFCI funding is from employee contributions, deducted monthly from their salaries.

For 2008, MEFCI has participated in seven medical and dental missions, benefiting seven Barangays, or a total of 4,441 individuals. MEFCI has also been on hand to help out in six relief operations covering 22 barangays, or about 8,946 individuals, and 10 MMR vaccinations involving nine communities or 433 individuals.

MEFCI made three institutional donations. Two instances of early gift giving that benefited 13 barangays and one institution. And, in keeping with Meralco's educational projects, MEFCI awarded one lucky scholar a MEFCI Scholarship in 2008.

OTHER EVENTS

In February of 2008, Meralco participated in a *Valentine's Outreach Project* for Bahay Kalinga's Center for Girls, which was held in Barangay Dela Paz in Antipolo City. Meralco also took part in the *First Gawad Kalinga World Expo 2008*, held at Fort Bonifacio, Taguig City from October 10-11, 2008.

Environmental Initiatives

Responsible corporate citizenship is as much a serious business for us in Meralco as our commitment to bring the best quality of energy service to customers.

Over the years, this responsibility has shone brightly in the various environment, safety and health programs that we have vigorously initiated and sustained – all for the well-being of the communities we serve.

Collectively, these Meralco projects addr ess an array of ecological concerns, from air pollution to water and waste management, and even the creation of renewable energy resources. These came into fruition to complement and support our government's own environmental initiatives.

AIR POLLUTION CONTROL

Meralco's response to urgent call for clean air is engulfed in its own Air Pollution Control Program. The initiative includes regular emission testing of all diesel-fed company vehicles, use of unleaded gasoline and a strict no-smoking policy in all Meralco facilities. Also, there is the Greening the Meralco Compound project that is aligned with the Department of Environment and Natural Resources' (DENR) Linis Hangin Program.

WATER CONSERVATION

Together with the DENR, Meralco launched its water conservation program in 2004. The program was geared to build awareness on the importance of water conservation among Meralco employees, contractors and customers. A Task Force was consequently created to provide engineering solutions to further the cause. Some of these solutions had been tried and tested, namely: the installation of water meter, water level indicators and pump automatic shut-off to prevent overflowing of water; installation of mechanical float valves; continuous monitoring and repair of pipe leaks; installation of sensor faucets to limit use of water in lavatories; water recycling in the cooling tower; and use of recycled water in watering plants and gardening applications.

GREENING/TREE-PLANTING

Trees are believed to be one of the best solutions to air pollution caused by motor vehicles. Given their effectiveness in restoring clean air, the DENR thus launched in 2006 a massive tree-planting project called "Green Philippine Highways." The project banked on the support of various organizations and sectors through simultaneous tree planting activities in major highways throughout the country specifically in Metro Manila. Meralco, through its representatives from Pasig Sector, Corporate Social Responsibility Office (CSRO), HRD-Training Development Administration, Pasig and Sta. Rosa Logistics, and Safety and Environment Management, joined the project by planting seedlings in a patch of land adopted by Meralco along C5-Taguig. Also, Meralco volunteered for the tree planting project of the Pasig City government through its PASIGreen City program, and in some areas of Cavite in support of the DENR's Clean and Green Project.

"BANTAY BATERYA"

In October 2004, Meralco signed a memorandum of agreement with Bantay Kalikasan in support of the latter's "Bantay Baterya" project. The project's objective is to create a sustained public awareness on the health and environmental hazards posed by the indiscriminate disposal and handling of junk batteries. It also aims to recover and process junk batteries in an environmentally-safe procedure to prevent the generation of dangerous pollutants. In pursuance of these objectives, Meralco has taken as a matter of standard procedure the turn-over of all its junk lead acid batteries to Bantay Kalikasan, with the assurance that all environmental and safety regulations in handling and treating such items are being strictly followed. To date, the monetary value of all junk lead acid batteries turned over by Meralco to Bantay Kalikasan amounts to P3,135,841.32.

SOLID WASTE MANAGEMENT

Being a public utility that is just as environmentally-concerned with waste within its own walls, Meralco created in 2001 a solid waste management program through its Safety and Environment Management Office. To achieve an effective waste segregation, composting and disposal of garbage throughout Meralco, each sector office was installed with Materials Recovery Facilities (MRF) called Ecology Center. Here, reusable and recyclable wastes are brought for classification, cleaning and recycling for by-products to be sold after. Meralco's commitment to the cause comes in full circle as the income generated from the sale of recyclable materials is entirely donated to aid corporate outreach programs. To date, proceeds have reached to over P373,000.

BIO-INTENSIVE GARDENS (BIG)

In partnership with Haribon Foundation, Meralco started in 2009 its involvement in backyard farming by setting up Bio-Intensive Gardens (BIG) in Gawad Kalinga sites where Meralco has established its presence through Sibol Schools. The company's immersion involves training of beneficiaries, assistance in the actual putting up of gardens, provision of organic garden soil and seedlings, and monitoring of the project. BIG was formulated to provide GK families with a steady supply of nutritional food and to create a potential micro-enterprise that will augment the beneficiaries' income. It is an unconventional form of gardening that aims to reduce the hazardous effects of chemical fertilizers by employing only organic and ecologically-safe materials.

RENEWABLE ENERGY

Meralco's keen concern for the environment dates as far back the 1920s when the power company commissioned the 17 MW Botocan hydroelectric power plant in Majayjay, Laguna. At the time when power was supplied solely by oil-fired steam generators, Meralco opted to build a hydro plant which essentially produces low-cost and pollution-free electricity. After Botocan, Meralco has also been instrumental in the construction of two more hydroelectric power plants in the country, the 32 MW Caliraya plant in Lumban and the1.2 MW mini-hydro plant of Philippine Power Development Company (Philpodeco) in Nagcarlan, both in Laguna.

Aside from the hydro plants, Meralco can also take pride in its invaluable contribution to the Malampaya natural gas project in Palawan and the waste-to-energy power project of the Montalban Methane Power Corporation (MMPC) in Rizal.

The natural gas of Malampaya is a much cleaner fuel than coal or bunker oil, two of the most widely used fossil fuel for power generation. The MMPC project, on the other hand, reduces emission of harmful gases to the environment by using the methane from landfill gas in garbage, as fuel for power generation. Again, by being the off taker of these plants' electricity output, Meralco is helping keep their stability and also doing its share in environmental protection.

Corporate Governance Report

The largest electric distribution company in the Philippines with 106 years of experience, Meralco, continues to create business value enhancements for its stakeholders.

Our philosophy of "Service Excellence with Integrity" conveys the unwavering commitment to high standards of corporate governance principles and practices. Accountability, transparency and integrity are paramount considerations in the development and realization of the company's strategies, plans and objectives. These, too, are in our evolving culture and tradition creating a mindset that cultivates esteemed values of integrity, malasakit, customer focus, community service, teamwork and employee development.

On top of Meralco's mechanism for corporate governance are the pertinent provisions in its Articles of Incorporation and By-Laws, embodying the fundamental structure of the company, as well as the composition, qualifications, duties and responsibilities of its directors and officers. The adoption of a Manual of Corporate Governance approved by the Board of Directors ("the Board") in August 2002 reinforces Meralco's vision towards long-term business opulence and ever-growing shareholder value.

The succeeding sections briefly describe the key components in the company's good corporate governance infrastructure.

BOARD OF DIRECTORS

Key Responsibilities

The primary responsibility of compliance with corporate governance principles is lodged with the Board. The Board controls the affairs of the company with utmost responsibility and effectiveness, to ensure long-term success and sustained value enhancements for the company's stakeholders. The directors are cognizant of their collective and individual responsibilities. Each director acts in good faith, with due diligence and care, and in the best interest of the company and shareholders.

The Board also oversees the adequacy of internal control mechanisms in the company to ensure the reliability of financial reporting, efficiency and effectiveness in operations, protection of assets, and compliance with applicable laws and regulations. There are certain types of decisions which are reserved for approval at the Board level, including those relating to strategic directions, monitoring of Management's performance, operating and capital budgets, major acquisitions and disposal of assets, major investments, contracts and financing transactions.

Board Composition

The Board is composed of eleven (11) directors. As of the end of December 2008, three (3) are executive directors, two (2) are independent directors, and six (6) are non-executive directors.

The Chairman of the Board and Chief Executive Officer is Manuel M. Lopez; while the President and Chief Operating Officer is Jose P. De Jesus. The existing Board structure and practices provide a clear division of responsibilities at the top of the corporation- between the Board exercising oversight function and the Management discharging its executive responsibilities for the business.

The Board represents a mix of expertise, professional competencies and experience necessary to thoroughly examine and deliberate on the various issues and matters affecting the company. Each director is capable of adding value and contributing his own independent judgment to the formulation of sound corporate strategies and policies. All the directors have attended seminars on Corporate Governance, as prescribed under ERC Resolution No. 1, Series 2004 entitled "Program to Promote Good Corporate Governance in Distribution Utility."

The names and profiles of each director are found in

the Board of Directors section of this Annual Report and in the Definitive Information Statement.

Election of Directors
In accordance with the provisions of the Company's By-Laws and Manual of Corporate Governance, the Corporation Code and the Securities Regulation Code, the nominees to the Board undergo a nomination and screening process through the Board's Nomination and Governance Committee. The directors are elected by stockholders entitled to vote during the Annual Stockholders Meeting. They hold office for one year and until their successors are elected and qualified.

Throughout the year 2008, the company has complied with the requirement of SEC Memorandum Circular No.2 Series of 2002 on the number of independent directors- which is at least two (2) directors, or at least twenty percent (20%) of the members of the Board, whichever is the lesser. The independent directors in the company's Board provide the necessary balance and ensure the demarcation of responsibilities to prevent any individual or group from dominating in the Board's decision-making. The company defines an independent director to be independent of management; neither providing any other services, nor receiving compensation, income or privileges and benefits other than pertaining to a director; and can provide independent judgment and outside experience and objectivity, not subordinated to operational considerations, on all issues which come before the Board. The company also considers the requirements of the Securities Regulation Code Rule 38 in the nomination and election of independent directors.

Board Remuneration
The company's directors do not receive any compensation other than reasonable per diems for each regular or special Board or committee meeting attended. The remuneration is intended to provide the directors reasonable allowance in recognition of their responsibilities and the potential liability they assume. The existing rate of allowance for directors is the result of a benchmark study made by the company for purposes of evaluating its reasonableness.

Board Performance
The Board holds regular monthly meetings and special board meetings to deliberate on major issues affecting the company.

In normal circumstances, the Board adopts a formal and sequential agenda for each regular meeting. The agenda include brief reports or updates by the Chairman and the Board Committees, reports on operational and financial performance by the President and Chief Operating Officer, and reports on regulatory, networks and retail matters by the senior executives. The agenda also include items for the Board's deliberation and approval.

In 2008, the Board held twelve (12) regular meetings and three (3) special meetings. The details of attendance in these meetings are shown in the table (Figure 1). The average attendance rate in 2008 was 90%.

The Corporate Secretary, or in his absence, the Assistant Corporate Secretary provides assistance and advisory services to the directors on their responsibilities and obligations. The Corporate Secretary supplies the directors with detailed reports and materials pertinent to the agenda in Board and Committee meetings, at least a day prior to the scheduled meeting. He also assists any director who may need to communicate with the Management to clarify certain matters submitted for the Board's consideration.

BOARD COMMITTEES
The Company's Board has six (6) standing committees. All committees have approved Charters which define and specify the scope of their responsibilities. The members of each Board committee and their record of attendance in 2008 meetings are shown in the table (Figure 2).

The functions, authority, and responsibilities of each Board committee are as follows.

Executive Committee
The Executive Committee is composed of five (5) Board members, one of whom is an independent director. In between sessions of the Board, the Executive Committee assumes all the powers of the Board in the oversight of the business and the affairs of the company. The Executive Committee is guided by the rule of the majority of its members.

FIGURE 1
Board of Directors Attendance in Meetings (2008)

	REGULAR MEETINGS											
	01-29	02-26	03-17	04-28	05-26	06-23	07-28	08-26	09-22	10-27	11-24	12-15
Manuel M. Lopez	P	P	P	P	P	P	P	P	P	P	P	P
Felipe B. Alfonso	P	P	P	P	P	P	P	P	P	P	P	P
Jesus P. Francisco	P	P	P	P	P	P	P	P	P	P	P	P
Bernardino R. Abes	P	P	P	P	P	A	P	P	P	P	P	P
Daisy P. Arce						P	P	P	P	P	P	P
Arthur R. Defensor, Jr. *												
Gregory L. Domingo *	A											
Winston F. Garcia		A	P	P	P	P	P	P	P	P	A	A
Peter D. Garrucho, Jr.		P	P	P	P							
Christian S. Monsod	P	P	P	P	P	P	P	P	P	P	P	P
Artemio V. Panganiban *						P	P	P	P	P	P	P
Vicente L. Panlilio *						P	P	P	P	P	P	P
Jeremy Z. Parulan						P	P	P	P	P	P	P
Jose Manuel Prieto												
Federico E. Puno *	P	P	A	P	P							
Washington Z. Sycip *	A	P	P	P	P							
Generoso D.C. Tulagan *	P	P	P	P	P							
Cesar E.A. Virata	P	P	A	P	P	P	P	P	A	P	P	P

P - Present A - Absent
** Independent Director*

	SPECIAL			ASM			ORGANIZATIONAL		
	01-07	05-15	07-17		05-27			05-27	
Manuel M. Lopez	P	P	P		P			P	
Felipe B. Alfonso	P	P	P		P			P	
Jesus P. Francisco	P	P	P		P			P	
Bernardino R. Abes	A	P	P		P			A	
Daisy P. Arce			P					A	
Arthur R. Defensor, Jr. *	P								
Gregory L. Domingo *	P								
Winston F. Garcia		P	P		P			A	
Peter D. Garrucho, Jr.		P			P				
Christian S. Monsod	P	P	P		P			P	
Artemio V. Panganiban *			P					P	
Vicente L. Panlilio *			P					A	
Jeremy Z. Parulan			P					A	
Jose Manuel Prieto	A								
Federico E. Puno *	P	A			A				
Washington Z. Sycip *	P	A			A				
Generoso D.C. Tulagan *		P			P				
Cesar E.A. Virata	P	P	P		P			P	

P - Present A - Absent
** Independent Director*

The following changes in the Board's composition took effect within the year.

- *Mr. Arthur Defensor, Jr. resigned effective January 8, 2008. He was replaced by Mr. Generoso D.C. Tulagan*
- *Mr. Jose Manuel Prieto resigned effective January 24,2008. He was replaced by Mr. Peter D. Garrucho, Jr.*
- *Mr. Gregory L. Domingo resigned on January 31, 2008. He was replaced by Mr. Winston F. Garcia.*
- *The new directors like Ms. Daisy P. Arce, Chief Justice Artemio V. Panganiban, Mr. Vicente L. Panlilio, Mr. Jeremy Z. Parulan were elected during the Annual Stockholders' Meeting on May 27, 2008.*

FIGURE 2
Board Committees' Meeting Attendance (2008)

	Executive	Nomination & Governance	Audit & Compliance	Compensation & Retirement	Finance Committee	Risk Management
Manuel M. Lopez	C (4/4)		M (5/5)			
Felipe B. Alfonso	M (4/4)	C (9/9)	M (14/14)	C (2/2)		M (2/2)
Jesus P. Francisco	M (1/1)		M (9/9)		M (4/4)	C (2/2)
Bernardino R. Abes	M (0/1)					
Daisy P. Arce					M (7/8)	
Arthur R. Defensor, Jr. *						
Gregory L. Domingo *		M (1/1)				
Winston F. Garcia						M (0/2)
Peter D. Garrucho, Jr.						
Christian S. Monsod		C (9/9)			M (11/12)	M (2/2)
Artemio V. Panganiban *	M (3/3)		C (9/9)	M (1/1)		
Vicente L. Panlilio *	M (2/2)	M (2/2)	M (9/9)			M (2/2)
Jeremy Z. Parulan			M (8/9)			
Jose Manuel Prieto						
Federico E. Puno *		M (5/5)		C (1/1)	M (3/4)	
Washington Z. Sycip *	M (0/1)		C (5/5)	M (0/1)		
Generoso D.C. Tulagan *						
Cesar E.A. Virata	M (4/4)			M (2/2)	C (12/12)	

C - Chairman M - Member
** Independent Director*

In 2008, the Executive Committee met four (4) times. It approved some significant business matters which were subsequently deliberated by the Board in its regular meetings.

Nomination & Governance Committee
The Nomination and Governance Committee is responsible for screening qualified nominees for election as directors; assessing the independence of directors; introducing improvements on board organization and procedures; setting-up of mechanisms for performance evaluation of the Board and Management; and, providing programs for continuing education of the Board, including training for individual directors.

In 2008, the Nomination and Governance Committee held nine (9) meetings. Among the activities undertaken by the committee are the following: review and selection of the nominees for election as members of the Board; adoption of rules on proxy, validation and ballot appreciation and canvassing in preparation for the company's Annual Stockholders' Meeting in May 2008; recommendation of persons to occupy the positions of Compliance Officer and Corporate Secretary; the review of indicators used in Board performance evaluation; endorsement of proposed changes in the Board Committees' composition; discussion of the 2007 Corporate Governance Compliance Report; and, review of the Nomination and Governance Committee's charter.

Audit & Compliance Committee
The Audit and Compliance Committee assists the Board in fulfilling its oversight responsibilities over the company's internal and independent auditors, their financial statements and financial reporting process, as well as their compliance with legal and regulatory matters.

The committee held fourteen (14) meetings in 2008. Among the matters taken-up by the committee are the following: review of the company's 2007 audited financial statements; deliberation of issues relating to the review of the company's quarterly financial statements, function of independent auditors; performance evaluation of independent auditor; approval of the fees of independent auditor; review of the company's response to SEC's comments on the company's 2006 audited financial statements; review of the Internal Audit's 2007 report and approval of 2008 Internal Audit Plan and Budget; and, the confirmation of the appointment of new Engagement Partners by the independent auditor and the company's new Head of Corporate Audits.

Compensation & Retirement Committee
The Compensation and Retirement Committee is responsible for formulating and developing the overall corporate philosophy and policy on total

compensation package of the Board of Directors and officers of the company. When used in reference to the functions of this committee, "compensation package" covers all types of remuneration including retirement benefits.

It held two (2) meetings in 2008. Discussions and deliberations pertained to the company's performance management and rewards practices; performance management system implementation and evaluation results; company incentive plan, targets and results; Board remuneration survey; and, review of the Compensation and Retirement Committee's charter.

Finance Committee
The Finance Committee's primary responsibility is to review the financial operations of the company and other matters pertaining to the acquisition, investments in companies, businesses or projects. It also advises and recommends approval or action on financial matters like establishment of changes in major financial and treasury policies, financing transactions, corporate plans and budgets; major contracts, acquisitions and divestitures, financing guarantees and indemnities, and mortgage of company assets.

This committee held twelve (12) meetings. Among the matters acted upon by the committee were: the approval of corporate budget; review of significant contracts; and, deliberations on financing facilities, declaration of dividends, cash flow and long-term indebtedness.

Risk Management Committee
The Risk Management Committee's primary function is to ensure that the company has an effective risk management system. It provides an oversight over Management's activities in managing the most significant risks of the company. The task includes receiving periodic information on risk exposures and risk management activities.

It conducted two meetings in 2008. It covered the following matters: the company's Enterprise-wide Risk Management process; review of the listing/ matrix of company's risks; the appointment of the Chief Risk Officer; and, business continuity management initiatives.

MANAGEMENT

Management's primary accountability is to the Board. It is in charge of the company's successful implementation of the strategy and direction as approved by the Board.

Management is represented by a Management Committee (ManCom) composed of the corporate officers and executives formed and headed by the Chief Executive Officer, or in his absence, the President. ManCom meets regularly, at least once a week, to ensure the formulation and implementation of major policies and directions governing the company and its subsidiaries. It reports to the Board during regular Board meetings or during special meetings through the Chief Executive Officer and/ or the President. Management also formed various committees to focus on critical functions or processes, like power supply management, procurement and human resources.

Management's performance is annually assessed through the achievement of the company's established Balanced Scorecard indicators.

In order to ensure continued success in managing the company's operations, structured executive training and development, compensation and benefit plans and succession planning, programs for senior management and the executive levels were put in place.

Management, all employees and the Board of Directors are all subject to the Code of Ethics. This Code of Ethics embodies twelve (12) rules and norms manifesting the company's full commitment and dedication to uphold the fundamental principles of fairness, honesty and integrity. Ethical practices and prudent management of the company's affairs by Management and the Board are further reinforced through the adoption of a Code on Employee Discipline, Conflict of Interest Policy, Full Business Interest Disclosure, Strategic Guidelines for Major Capital Investment, and Subsidiary Management Policy.

ENTERPRISE WIDE RISK MANAGEMENT

The company recognizes the importance of institutionalizing a focused and disciplined approach to managing its business risks. An Enterprise-wide Risk Management Office was created to coordinate the development of an enterprise risk management framework and to re-tool the infrastructure to effectively operationalize risk management at all levels of the organization. All the progressive initiatives of the company towards reaching the maturity level on risk management have executive guidance and review by the Chief Risk Officer and an oversight approval by the

Risk Management Committee of the Board.

Since 2005, this Enterprise-wide Risk Management Office has embarked on an awareness and education program, starting with the identification of risks at the strategic level and evaluating the existing strategies and processes to further improve mitigation of such risks. In 2008, three (3) offices were piloted for the implementation of risk and control self-assessment project.

ACCOUNTABILITY AND AUDIT

The Audit Committee performs an oversight role to evaluate the performance of the independent and internal auditors. The Chairman of this committee is an independent director, in compliance with the pertinent provisions of the SEC Code of Corporate Governance and the Company's Manual of Corporate Governance.

Independent Public Accountants

Sycip, Gorres & Velayo (SGV&Co.) was reappointed as the principal accountant and independent auditor of the company. The new engagement partner assigned to the company is Mr. Gemilio J. San Pedro who has extensive accounting and auditing experience. SGV&Co. has not been engaged by the company to perform non-audit services.

The following fees (in Php million; exclusive of VAT) were incurred by the company for SGV&Co.'s services.

Audit Fees	13.35
Audit-related Fees	8.30
Total	21.65

There has been no instance of disagreement with the independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Internal Auditor

The company has an independent internal audit function which provides independent advisory and consulting services to help improve effectiveness and efficiency and to evaluate whether the company's organizational and procedural controls are effective, appropriate and complied with.

Internal Audit conducts its activities guided by the International Standards for the Professional Practice of Internal Auditing (ISPPIA).

The Head of Corporate Audits as the Chief Audit Executive (CAE) reports functionally to the Audit Committee and administratively to the Chairman and Chief Executive Officer.

Internal Control

The primary responsibility on the design, implementation and maintenance of internal controls rests on Management; while the Board and its Audit Committee oversee the actions of Management and monitor the effectiveness of the controls put in place.

FINANCIAL REPORTING

The company's consolidated financial statements were prepared in accordance with the Philippine Financial Reporting Standards, which are aligned with the International Financial Reporting Standards. The year-end audited financial statements are reviewed by the Audit Committee to ensure that they fairly present, in all material respects, the financial position of the company. In 2008, the review of the company's financial statements was conducted by the independent auditor. The results of the review were discussed by the Audit Committee and presented to the Board; after which, the financial statements were filed with the SEC and released to the public. The company has always been prompt in the submission of required financial statements to the SEC.

DEALINGS IN SECURITIES

The company has established an internal reporting system intended to guide the directors and principal officers when they trade the company's securities. This is to control the handling and dissemination of price sensitive information and to comply with the disclosure requirements on direct and indirect ownership of company securities. The concerned directors and principal officers are required to report their trading transactions to the Compliance Officer not later than the following day after the required event or transaction.

DISCLOSURES ON OWNERSHIP STRUCTURE

The company ensures that it consistently complies with the required disclosure on shareholdings of its securities. It annually discloses the top 20 shareholders of its common shares. It also provides an annual disclosure of security ownership of certain record and beneficial owners who hold more than 5% of its equity shares. In compliance with the SEC requirements, a quarterly report of the company's top 100 stockholders is disclosed in the company website.

SHAREHOLDER RELATIONS

The company recognizes the rights of its shareholders as well as the general investing public to obtain relevant information about the company in a timely and regular basis.

The company's financial performance and prospects are contained in the regular or mandatory reports submitted to the SEC and PSE. These reports are immediately made available to the public upon confirmation by the SEC of the disclosure receipt, through public release and/or posting in the company's website.

The company conducts regular quarterly Investors' Briefings. Representatives of the local and foreign institutional investors, securities, brokerage firms and investment bankers are invited to these briefings. Through conference call, analysts of foreign-based institutional investors and investment banks are afforded the opportunity to participate in such sessions.

Shareholders and investors are provided with adequate means and facility to communicate with and inquire from the company. The Investor Relations Office supervises the investors' briefings and attends to institutional investors needs; while the Stock and Dividends Administration attends to the other concerns of the shareholders. Inquiries are entertained by telephone, mail or electronic mail. The company website also serves as a communication tool and a reference for pertinent information about the company.

The Annual Stockholders' Meeting likewise provides an opportunity for shareholders to raise questions and clarify issues relevant to the company. The Board, the Chairman and CEO, Management and the external auditors are present to accommodate questions brought up in these meetings.

COMPLIANCE AND MONITORING

The Board has appointed a Compliance Officer for corporate governance. On a periodic basis, the Compliance Officer discusses with the Nomination and Governance Committee and the Chairman of the Board the status of the company's compliance with the Manual of Corporate Governance and identifies areas for improvement. The Compliance Officer also seeks from the Nomination and Governance Committee direction and guidance to further elevate the company's corporate governance practices to higher standards.

The company considers regulatory compliance as one of the high-priority areas. A Regulatory Management organizational unit has been created to further strengthen and drive more focus in the overall orchestration and management of regulatory management initiatives. Specifically, this unit is responsible for the outcome of major regulatory management processes on regulatory agenda development, policy research, policy advocacy management, rate case management and compliance management. A Regulatory Compliance Officer is also appointed to execute plans and programs related to such regulatory matters.

OBLIGATIONS TO OTHER STAKEHOLDERS

The company gives due regard on the impact of business decision both on the company's shareholders and other key stakeholders. An explicit statement of such regard is contained in the Declaration of Corporate Principles, Part 1 of the Company's Manual of Corporate Governance. An example is "The Company's objective is to protect and enhance the interest of its stakeholders through adherence to specific principles for customers, employees, investors, suppliers and competitors, community, and the government." The company also respects and maintains a cooperative relationship with its creditors who grant unwavering trust and confidence in the provision of financial facility, thus intensifying the company's leverage.

COPORATE GOVERNANCE APPLICABILITY TO SUBSIDIARIES

The company recognizes the equally important contribution of its subsidiary companies in boosting its shareholders value and pecuniary yield. To serve as a buttress of corporate governance application in its subsidiaries, a Subsidiary Management Policy has been developed and implemented. This policy institutionalizes a standard set of rules for creating and managing subsidiaries based on the criteria and principles embodied in the Company's Manual of Corporate Governance, Code of Ethics and existing laws, rules and regulations. Two of the many provisions in this policy pertain to the limit on the number of directorship in Meralco subsidiaries and affiliated companies by the company's officers. This is to ensure that the capacity of directors to serve with diligence is not compromised, and the rationalization of directorship appointments to avoid potential conflict of interest.

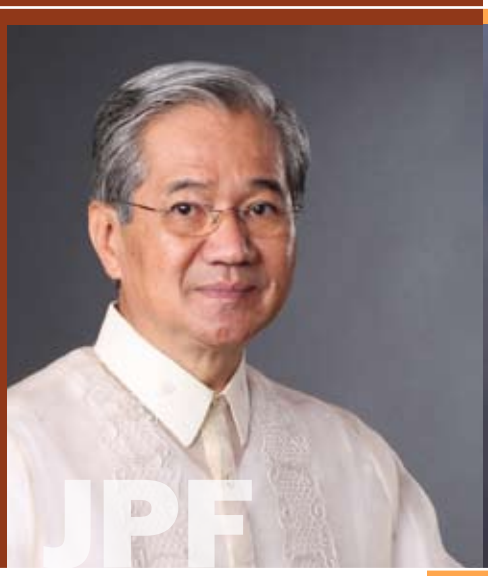
MANUEL M. LOPEZ, 66, Filipino
Director (since April 14, 1986)
Chairman & Chief Executive Officer (since July 1, 2001)

Mr. Lopez is Chairman of Rockwell Land Corporation, Soluziona Philippines, Inc.; a Director of First Philippine Holdings Corporation and First Private Power Corporation since 1992; and, Director of Benpres Holdings Corporation and Bauang Private Power Corporation since 1993.

FELIPE B. ALFONSO,* 72, Filipino
Director (since April 28, 1992)
Vice Chairman (since July 1, 2001)

Mr. Alfonso is the Vice Chairman of the AIM Board of Trustees and Executive Director of the Ramon V. del Rosario, Sr. AIM Center for Corporate Responsibility. He is a Chairman of CIS Bayad Center, Inc. and e-Meralco Ventures, Inc.; Director of Bauang Private Power Corporation, Benpres Holdings Corporation, First Private Power Corporation and Jolllibee Foods Corporation; and President of Lopez Group Foundation, Inc.

Board of Directors



JESUS P. FRANCISCO, 65, Filipino
Director, President and Chief Operating Officer (since July 1, 2001)

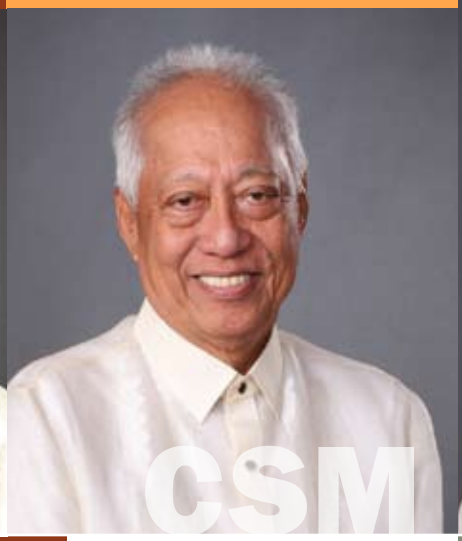
Mr. Francisco is a Director and Chairman of Meralco Industrial Engineering Services Corporation (MIESCOR), Meralco Energy, Inc. (MEI) and UP Engineering R & D Foundation, Inc. He is also Director and President of Clark Electric Distribution Corp. (CEDC); Trustee and President of Meralco Millennium Foundation, Inc. (MMFI); President of Haribon Foundation, Director and Vice Chairman of General Electric Philippines Meter and Instrument Company, Inc. (GEPMICI, e-Meralco Ventures, Inc. (e-MVI) and Corporate Information Solutions, Inc. (CIS, Inc.); a Director of First Private Power Corporation, Rockwell Land Corporation and Philippine Commercial Capital, Inc.; and Trustee of MMLDC Foundation, Inc.; and Trustee and Corporate Secretary of Haribon Foundation.

BERNARDINO R. ABES,* 78, Filipino
Director (since May 29, 2007)

Mr. Abes is the Chairman of Government Service Insurance System and Director of Petron Corporation. He served as Member of the Board of Directors of Union Bank of the Philippines and Philippine Stock Exchange; and was Chairman of the Social Security Commission.

DAISY P. ARCE,* 62, Filipino
Director (since May 27, 2008)

Ms. Arce is the Corporate Secretary of Export and Industry Bank, Director of Philippine Telegraph and Telephone Corporation, Legal Adviser of the Market Integrity Board of Philippine Stock Exchange and Legal Counsel of Australia and New Zealand Banking Group Ltd., Manila Branch.



WINSTON F. GARCIA,* 51, Filipino
Director (since February 26, 2008)

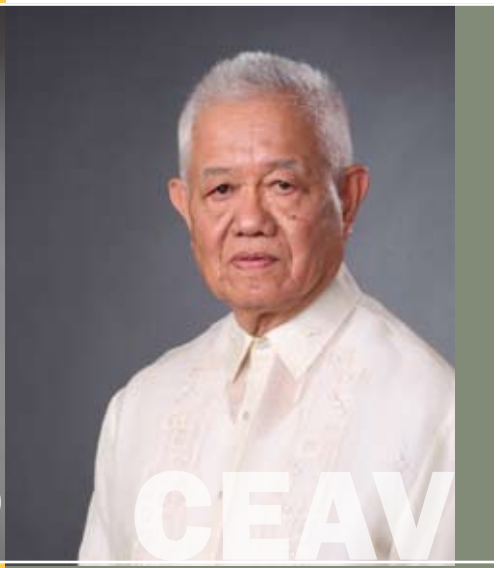
Mr. Garcia is the President and General Manager of the Government Service Insurance System, Director of Philippine National Construction Corporation and Philippine Health Insurance Corporation.

CHRISTIAN S. MONSOD, 72, Filipino
Director (since July 6, 1987)

Mr. Monsod is a Consultant of Meralco and Banco Filipino. He is also the Chairperson of Philippine Agrarian Reform Foundation for Unity and National Development (PARFUND), Chairman of the Screening Committee of the Gawad Haydee Yorac Award and One Voice, Inc., Trustee of Miriam College, Ramon Magsaysay Award Foundation, ABS-CBN Bayan and Task Force Mapalad.

ARTEMIO V. PANGANIBAN, 72, Filipino
Independent Director (since May 27, 2008)

Justice Panganiban was formerly The Chief Justice, Supreme Court of the Philippines. He is also the Independent Director of First Philippine Holdings Corporation, Metro Pacific Investments Corporation, GMA Network, Inc., Robinsons Land Corporation, Manila North Tollways Corporation and Tollways Management Corporation. He is the Senior Adviser of Metropolitan Bank and Trust Company and a Columnist of Philippine Daily Inquirer.



VICENTE L. PANLILIO, 63, Filipino
Independent Director (since May 27, 2008)

Mr. Panlilio is a Director of San Fernando Electric Light & Power Co., Inc. and the Philippine Dealing & Exchange Corporation. He is also a Trustee of TSPI Development Corporation (Microfinance). He was a Director of Equitable PCIBank and Philippine National Bank.

JEREMY Z. PARULAN,* 51, Filipino
Director (since May 27, 2008)

Mr. Parulan is currently the Managing Partner of the Firm, Board Member of Philippine National Construction Corporation and PNCC Skyway Corporation; and Chairman of PNCC Legal Committee.

CESAR E. A. VIRATA, 78, Filipino
Director (since May 28, 2002)

Mr. Virata is the Chairman and President of C. Virata and Associates, Inc. Management Consultants and Corporate Vice Chairman and Director of Rizal Commercial Banking Corporation. He serves as the Chairman and Director of RCBC Realty Corporation, RCBC Forex Brokers Corporation, Vice Chairman and Director of Bankard, Inc.; Director of RCBC Savings Bank, Inc., Malayan Insurance Company, Inc., Business World Publishing Corporation and Trustee of Mapua Institute of Technology.

** Messrs. Ramon S. Ang, Eduardo M. Cojuangco, Jr., Estelito P. Mendoza, Jose P. de Jesus and Ms. Aurora T. Calderon were elected by the Board on January 26, 2009 vice Bernardino R. Abes, Daisy P. Arce, Winston F. Garcia, Jeremy Z. Parulan and Felipe B. Alfonso.*

Corporate Officers

Manuel M. Lopez	Chairman & Chief Executive Officer
Felipe B. Alfonso	Vice Chairman
Jesus P. Francisco	President & Chief Operating Officer
Emmanuel R. Sison	Corporate Secretary & Compliance Officer
Jose C. Vitug	Management Consultant
Daniel D. Tagaza	Executive Vice President & Chief Financial Officer
Ricardo V. Buencamino	Executive Vice President
Roberto R. Almazora	First Vice President
Rafael L. Andrada	First Vice President, Treasurer & OIC Information Disclosure Officer
Jaime R. Camacho	First Vice President & Chief Information Officer
Leonisa C. de la Llana	First Vice President
Angelita S. Atanacio	Vice President
Ruben B. Benosa	Vice President
Elpi O. Cuna	Vice President
Ruth B. David	Vice President
Rustico C. de Borja, Jr.	Vice President
Helen T. de Guzman	Vice President & Comptroller
Ivanna G. de la Pena	Vice President
Nixon G. Hao	Vice President
Fortunato C. Leynes	Vice President
Leonardo V. Mabale	Vice President
Redentor L. Marquez	Vice President
Ruben A. Sapitula	Vice President
Antonio R. Valera	Vice President & Assistant Comptroller
Manolo C. Fernando	Senior Assistant Vice President & Assistant Treasurer
Anthony V. Rosete	Senior Assistant Vice President, Assistant Corporate Secretary & Information Disclosure Officer
Alfonso Y. Lacap	Assistant Vice President & Assistant Corporate Secretary
Ferdinand P. Pabalan	Senior Manager & Corporate Auditor

As of December 31, 2008

Glossary of Terms

MERALCO'S UNBUNBLED TARIFF COMPONENTS

GENERATION CHARGE cost of power generated and sold to Meralco by its suppliers, the National Power Corporation (NPC), the Independent Power Producers (IPPs), and the Wholesale Electricity Spot Market (WESM).

TRANSMISSION CHARGE cost of delivery of electricity from generators, usually located in remote areas or provinces, to the distribution system of Meralco. This goes to the National Grid Corporation of the Philippines (NGCP).

SYSTEM LOSS CHARGE recovery of the cost of power lost due to technical and non-technical system losses. The level of losses that may be recovered is currently set a maximum of 9.5% for private distribution utilities, as provided for by Republic Act 7832.

DISTRIBUTION CHARGE cost of developing, building, operating and maintaining the distribution system of Meralco, which brings power from high-voltage transmission grids, to commercial and industrial establishments and to residential end-users.

METERING CHARGE cost of reading, operating and maintaining power metering facilities and associated equipment, as well as other costs attributed to the provision of metering service.

SUPPLY CHARGE cost of rendering service to customers, such as billing, collection, customer assistance and associated services.

LIFELINE DISCOUNT/LIFELINE SUBSIDY socialized pricing mechanism provided for by Section 73 of the EPIRA. In Meralco's case, as approved by the ERC, residential customers using up to 100 kWh in a given month will enjoy a Lifeline Discount to be applied to the total of the generation, transmission, system loss, distribution, supply and metering charges. The discount varies according to consumption and is funded by a Lifeline Subsidy Charge to be paid by all other customers.

INTER-CLASS CROSS SUBSIDY CHARGE imposed on industrial and commercial end-users in order to reduce electricity rates of other customer sectors such as the residential end-users, hospitals and streetlights and charitable institutions. This subsidy was fully removed in November 2006.

CURRENCY EXCHANGE RATE ADJUSTMENT (CERA) adjustments for fluctuations in the exchange rate of the Philippine Peso against the US Dollar.

LOCAL FRANCHISE TAX paid local to local government units in accordance with the provision of the Local Government Code.

UNIVERSAL CHARGE NON-BYPASSABLE CHARGE remitted to the Power Sector Assets and Liabilities Management Corporation (PSALM), owned and controlled by the government, and created by Republic Act 9136. At present, this includes the missionary electrification and environmental charges.

MISSIONARY ELECTRIFICATION CHARGE mandated by EPIRA to fund the electrification of remote and unviable areas, as well as areas not connected to the transmission system.

ENVIRONMENTAL CHARGE mandated by EPIRA, for the rehabilitation and maintenance of watershed areas surrounding hydroelectric plants for sustained power generation.

VALUE ADDED TAX (VAT) percent tax (e.g. 12%) imposed on the value of the sale of electricity and related services through all the stages of generation, transmission, distribution and sale of electricity to the final consumer. It is a form of indirect sales tax because the totality of the VAT collected on each sale transaction in all the stages mentioned is charged to the final consumer as part of the purchased price with sellers acting merely as tax collectors.

MERALCO'S TARIFF CATEGORIES

RESIDENTIAL AND GENERAL SERVICE (RGS) rate class applicable to all domestic customers for purposes such as lighting, heating, etc., in a single dwelling unit. This rate class is also applicable to non-residential customers with a connected load of not more than 5,000 watts.

INDUSTRIAL SERVICE (IS) rate class applicable to industrial customers with demand of more than five kilowatts for general power, heating, and/or lighting purposes. This rate category has five sub-classifications:

- Small, for customers with demands greater than five kilowatts but less than 40 kilowatts

- Medium, for customers with demands of at least 40 kilowatts but not more than 200 kilowatts
- Large, for customers with demands greater than 200 kilowatts but less than 2,000 kilowatts
- Very large, for customers with demands of at least 2,000 kilowatts, but less than 10,000 kilowatts
- Extra large, for customers with demand of at least 10,000 kilowatts

NON-INDUSTRIAL SERVICE (NIS) rate class applicable to non-industrial customers with demands of more than five kilowatts for general power, heating and/or lighting purposes. This rate class has four sub-classifications: small, medium, large and very large depending on load, as similarly defined for industrial service, except that very large covers all non-industrial customers with demand of at least 2,000 kilowatts.

GOVERNMENT HOSPITALS AND METERED STREETLIGHTING SERVICE (GHMS) rate class applicable to government-owned metered streetlights; government hospitals and traffic lights; certain public parks; and, duly registered facilities of charitable institutions.

FLAT STREETLIGHTING SERVICE (FS) rate class applicable to customers who wish to avail of public streetlighting at a fixed monthly rate. Streetlamps for this service are installed by Meralco on existing distribution poles in accordance with company specifications for equipment, installation, maintenance and operation.

OTHER ELECTRICITY RATE TERMS

GENERATION RATE ADJUSTMENT MECHANISM (GRAM) cost recovery mechanism implemented by the ERC, which allows distribution utilities to file with the ERC on a quarterly basis, for an adjustment in the Generation Charge to cover fluctuation in the price of electricity sourced from the NPC and IPPs. This has been replaced by a new mechanism, covered by the Guidelines for the Automatic Adjustment of the Generation and System Loss Rates by Distribution Utilities.

AUTOMATIC ADJUSTMENT OF GENERATION AND SYSTEM LOSS CHARGES automatic recovery mechanism promulgated by the ERC that allows the Generation and System Loss Charges to change monthly, depending on the movement in generation costs and the losses per voltage level. This mechanism better reflects the true cost of electricity, since changes in the generation cost are immediately manifested on customers' bills. The automatic nature of the mechanism was suspended in September 2006 following the Supreme Court Decision on Meralco's Second GRAM. The automatic adjustment mechanism resumed in July 2007 upon the effectivity of amendments to EPIRA IRR Section 4(e) of Rule 3. The suspension was lifted by the ERC.

RATE BASE the value established by the ERC, on which a utility is allowed to earn a specified rate of return. The rate base represents the utility's appraised asset value — or investment in facilities, equipment and other property used and useful in the provision of electric service — and one-sixth of the utility's annual operations and maintenance expenses.

PERFORMANCE-BASED REGULATION (PBR) internationally accepted ratemaking methodology allowed by Section 43 (f) of the Electric Power Industry Reform Act (R.A. 9136). Replacing the Return-on-Rate Base (RORB) or Cost-Plus regulation, the PBR entails the use of incentive and penalty mechanisms as determined by the performance of the public utility.

RETURN ON RATE BASE (RORB) the ratio of operating income to the utility's rate base expressed as a percentage. Meralco's current unbundled tariffs were based on an RORB equivalent to its weighted average cost of capital (WACC) for the year 2000, as determined by the ERC.

RULES FOR SETTING DISTRIBUTION WHEELING RATES (RDWR) alternative form of rate setting methodology recently adopted by the ERC. The RDWR is based on performance-based regulation (PBR), as opposed to the traditional Return on Rate Base methodology. Under this new scheme, utilities are offered incentives to improve performance and reduce costs, which is expected to result in lower electricity rates in the long term. This is an update of the Distribution Wheeling Rates Guidelines (DWRG) considering specific entry points among private distribution utilities.

TIME-OF-USE RATES electricity prices that vary depending on the time periods in which energy is consumed. With time-of-use pricing, higher rates will be charged during hours when the demand for electricity is at its highest, and lower rates during off-peak hours. Demand for electricity peaks at about 11 am, 2 pm and 7 pm. Such rates provide an incentive for consumers to curb power use during peak times, thus reducing the peak system demand of the utility. This can avoid or defer the construction of new power plants, substations, transmission and distribution facilities, freeing much needed resources that can be redirected for other productive activities.

ELECTRIC INDUSTRY PARTICIPANTS

ENERGY REGULATORY COMMISSION (ERC) independent regulatory body performing the combined quasi-judicial, quasi-legislative and administrative functions in the electric industry. The ERC was created by the EPIRA and replaced the Energy Regulatory Board (ERB), which previously carried out regulatory and adjudicatory functions pertaining to the energy sector.

DISTRIBUTION UTILITY (DU) any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate an electric distribution system within a specific geographic area.

INDEPENDENT POWER PRODUCER (IPP) non-utility power producers, entities that own and/or operate a generating facility primarily on a wholesale basis and whose facilities do not form any part of a local utility's rate base.

NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP) is a privately owned corporation granted, through Republic Act No. 9511, a fifty-year franchise to operate and maintain the country's power transmission grid. NGCP took over the operation of the transmission Grid of TransCo starting January 15, 2009.

NATIONAL POWER CORPORATION (NPC) state-owned generator of electricity, whose assets are currently undergoing privatization.

POWER SECTOR ASSETS AND LIABILITY MANAGEMENT CORPORATION (PSALM) corporation owned and controlled by the government created by virtue of the EPIRA. Its principal function is to manage the orderly sale, disposition and privatization of NPC generation assets, real estate and other disposable assets, and IPP contracts.

PHILIPPINE ELECTRICITY MARKET CORPORATION (PEMC) created by the Department of Energy (DOE) under Section 30 of the Electric Power Industry Reform Act (R.A. 9136) undertake the preparatory work and maintain, operate and govern the Wholesale Electricity Spot Market (WESM) during its initial operation.

RETAIL ELECTRICITY SUPPLIER (RES) is a person or entity authorized by ERC to sell, broker, market or aggregate electricity to end-users in a Contestable Market.

WHOLESALE ELECTRICITY SPOT MARKET (WESM) venue for the trading of electricity as a commodity between generators and suppliers and large consumers. In the WESM, the price for electricity will be based on supply and demand, as the hourly offers submitted by bulk sellers of electricity are matched with submitted demand bids of wholesale buyers of electricity.

OTHER ELECTRIC INDUSTRY TERMS

BUSINESS SEPARATION UNBUNDLING PLAN (BSUP) a document that describes the functional and structural separation of the various business activities of an electric power industry participant, as required by EPIRA. The BSUP is to be submitted by electric power industry participants to the ERC for its approval.

MAGNA CARTA FOR RESIDENTIAL ELECTRICITY CONSUMERS compilation of residential consumer rights and obligations under existing laws and rules. The Magna Carta balances the interests of both the distribution utilities and the consumers.

OPEN ACCESS system of allowing any qualified person the use of transmission and/or distribution system and associated facilities subject to the payment of transmission and/or retail wheeling rates duly approved by the ERC.

PRIVATIZATION sale, disposition, change and transfer of ownership and control of assets and IPP contracts from the government or a government corporation to a private person or entity.

RESTRUCTURING process of reorganizing the electric power industry in order to introduce higher efficiency, greater innovation and end-user choice. It shall be understood as covering a range of alternatives enhancing exposure of the industry to competitive market forces.

TRANSITION SUPPLY CONTRACT (TSC) a document, as provided in the Section 67 of the Electric Power Industry Reform Act (R.A. 9136) that contains the agreement between the generator and distribution utility on the terms and conditions of the energy to be supplied and the corresponding schedule of rates to be applied.

REVISED RULES, TERMS AND CONDITIONS FOR THE PROVISION OF OPEN ACCESS TRANSMISSION SERVICE (REVISED OATS RULES) approved by the ERC in December 2006, outlines the responsibilities of the Transmission Provider and the functions of the System Operator as specified in the Philippine Grid Code and the Wholesale Electricity Spot Market (WESM) Rules.

TECHNICAL TERMS

NATIONAL POWER CORPORATION (NPC) TRANSMISSION AND GENERATION TROUBLES those that arise out of the inability to meet the Meralco system demand due to power plant outage and/or transmission line outage resulting in the reduction of the available power supply. This situation causes the electric power demand to exceed the available supply necessitating instantaneous or scheduled interruption of electric service.

SYSTEM TROUBLES interruptions resulting from equipment failure, operating problems, construction troubles and design deficiencies.

TRANSIENT FAULT a fault that is self clearing or one that can be cleared by momentary interruptions of the circuit.

MAINTENANCE any activity intended to keep equipment in satisfactory working condition including tests, measurements, replacements, adjustments and repairs that are either corrective or preventive in nature.

AUTOMATIC LOAD DROPPING (ALD) automatic tripping of selected circuits when the system frequency goes below normal (59.2 Hz) brought about by generating plant outage, system instability, regulation problem, and substation and transmission line trouble and outage.

MANUAL LOAD DROPPING (MLD) manual tripping of circuits due to expected high power generation deficiency brought about by several generating plant outages.

INTERRUPTION FREQUENCY RATE (IFR) average number of times each customer connected to the Meralco distribution system experiences power interruption within a certain time period. Forced interruptions result from emergency conditions directly associated with a power system component requiring that it be taken out of service immediately, either automatically or through a switching operation. Examples of interruptions of this nature include those that are initiated by typhoons, fires, earthquakes, equipment failures, trees and other foreign objects touching the lines, and transient faults.

CUMULATIVE INTERRUPTION TIME (CIT) cumulative length of power interruption, in hours, that a customer connected to the Meralco distribution system experiences on the average, within a certain time period.

RESTORATION TIME (RT) average length of time, in minutes, it takes to restore service after an interruption.

SYSTEM LOSS electrical energy lost through line and equipment losses (technical losses) and pilferages (nontechnical losses).

ELECTRIC POWER GENERATION process of converting primary energy, e.g. flowing water, fossil fuels (oil, coal and natural gas) and radioactive (uranium) materials, solar radiation, wind and geothermal, into electricity.

ELECTRIC POWER PLANT facilities for producing electricity from various sources of energy such as rivers and waterfalls (hydro), oil and coal (fossil), sun (solar), volcanic heat (geothermal), wind and nuclear power.

DISTRIBUTION LINES networks of conductors connecting all individual loads in a given locality to distribution substations.

GRID the network of transmission lines and associated equipment that link all generating plants in a region with local distribution networks.

LUZON GRID electric power transmission network in the island of Luzon.

KILOWATT HOUR (kWh) unit of energy equal to 1,000 watthours.

GIGAWATT HOUR (GWh) unit of electric energy equal to 1,000,000,000 watthours.

POWER time rate of transferring or transforming energy.

KILOWATT (kW) unit of electric power equal to 1,000 watts.

GIGAWATT (GW) unit of electric power equal to 1,000,000,000 watts.

KILOVOLT-AMPERE (kVa) practical unit of apparent power, equivalent to 1,000 volt-amperes.

LOAD amount of electric power required at any specified point or points in a system.

LOAD FACTOR ratio of average load over a particular period to the peak load occurring during that period.

SUBTRANSMISSION LINES carry power from a bulk power source to distribution substations, i.e., 115 kV lines connecting Balintawak substation and Marikina substation.

ENERGY amount of work done.

Investor Information

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Telephone Numbers: (632) 490-0060
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stockholder.affairs@meralco.com.ph

EXTERNAL AUDITOR
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COMMON STOCK
The company's common stock is listed in the Philippine Stock Exchange (Ticker symbol: MER). The declassification of the company's common stock removed the Class "A" and Class "B" classification effective September 3, 2007. The declassification does not entail a recall, a cancellation or a replacement of certificates previously issued. All existing stock certificates, whether Class "A" or Class "B", will remain valid. Shares are available to foreign investors up to a maximum of 40 percent of the outstanding capital stock.

Meralco Global Depositary Receipts (GDRs) listed in the Luxembourg Stock Exchange and Meralco American Depositary Receipts (ADRs) traded over-the-counter in the United States were terminated effective November 26, 2007. Holder of ADRs and GDRs may convert their holdings to local shares from November 26, 2007 to May 26, 2008.

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