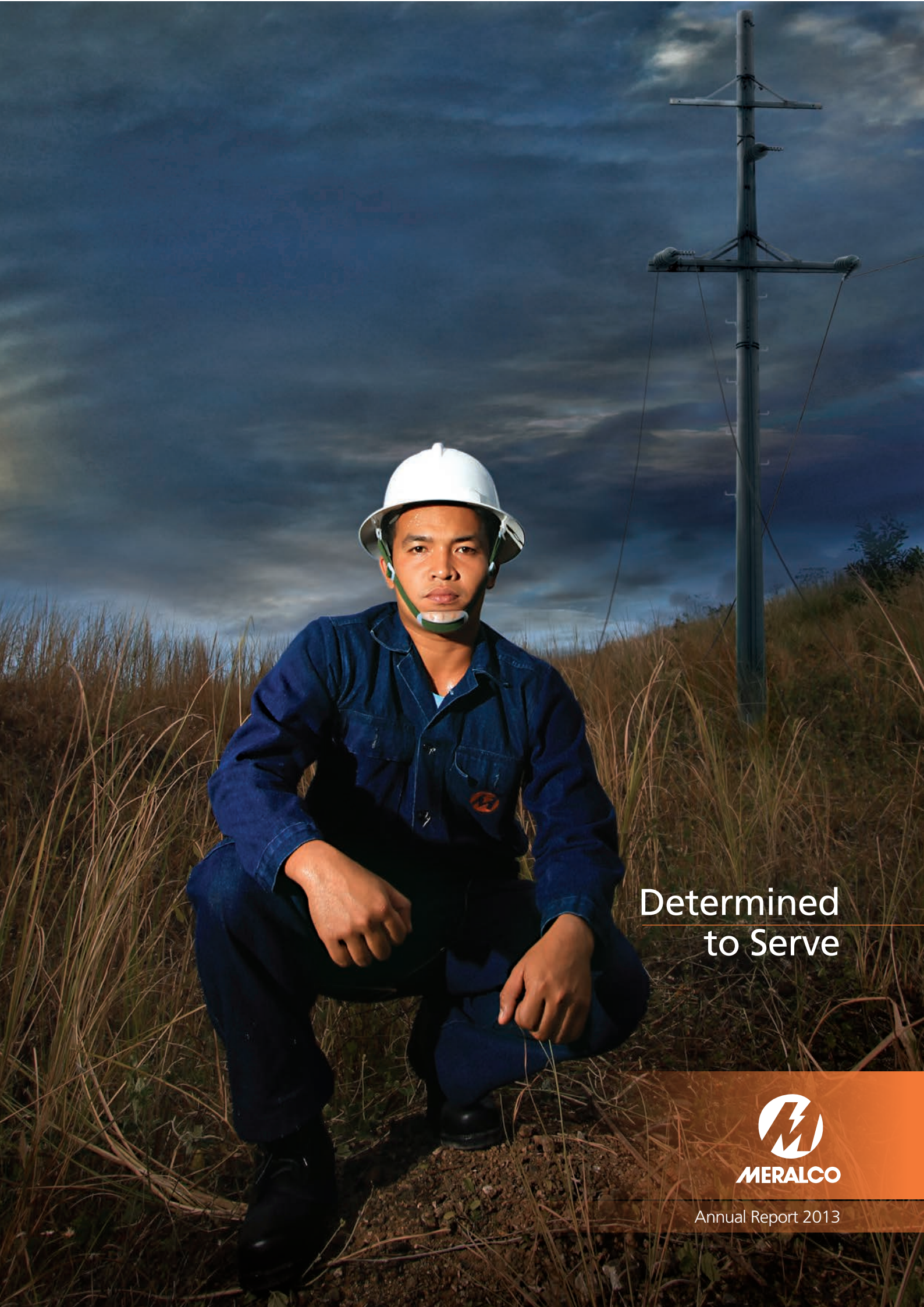


Determined to Serve

MERALCO

Annual Report 2013



On November 8, 2013, Typhoon *Yolanda,* among the world's most powerful typhoons to make landfall, slammed Eastern Visayas bringing 378 kph wind speed and 6-meter surge causing massive destruction.



Alongside relief efforts led by One Meralco Foundation, a total of **187 personnel and 42 vehicles** were deployed by Meralco to assist in power restoration in the areas ravaged by super typhoon *Yolanda*.

To give light, restore hope and help rebuild lives.

Our Cover

The resolute character to serve reaches beyond our business borders, beyond the call of duty, beyond the norm. On our cover is a Meralco lineman whose face manifests the desire to serve and pursue the Company's commitment to the customer, the community and the country. The pages of this Report qualify what "Service" means to Meralco: creating options, trailblazing efforts, putting the consumer first, rendering service with a smile, notching unparalleled performance.

We are Meralco, determined to serve.

Who we are

Our Company is the largest electric distribution utility in the Philippines.

We celebrate our 111th year in service in 2014.

We power 5,367,720 customers.

Our footprint covers over 9,337 km^2

- Home to approximately 25% of Philippine population
- About 50% of Philippine Gross Domestic Product (GDP) generated within the Meralco franchise
- 60% of Philippine manufacturing output produced within the franchise
- Accounts for nearly 75% of Luzon's and 55% of Philippine energy sales
- Social, political and economic center of the Philippines
- Strong organic growth

Our sales revenue was PhP298.6 billion in 2013, equivalent to US$7.0 billion.

Our market capitalization at year-end 2013 was PhP282.9 billion, equivalent to US$6.4 billion.

Our Company recorded all-time best levels in sales, operational and financial performance in 2013.

We aim to be the total energy solutions provider of choice.

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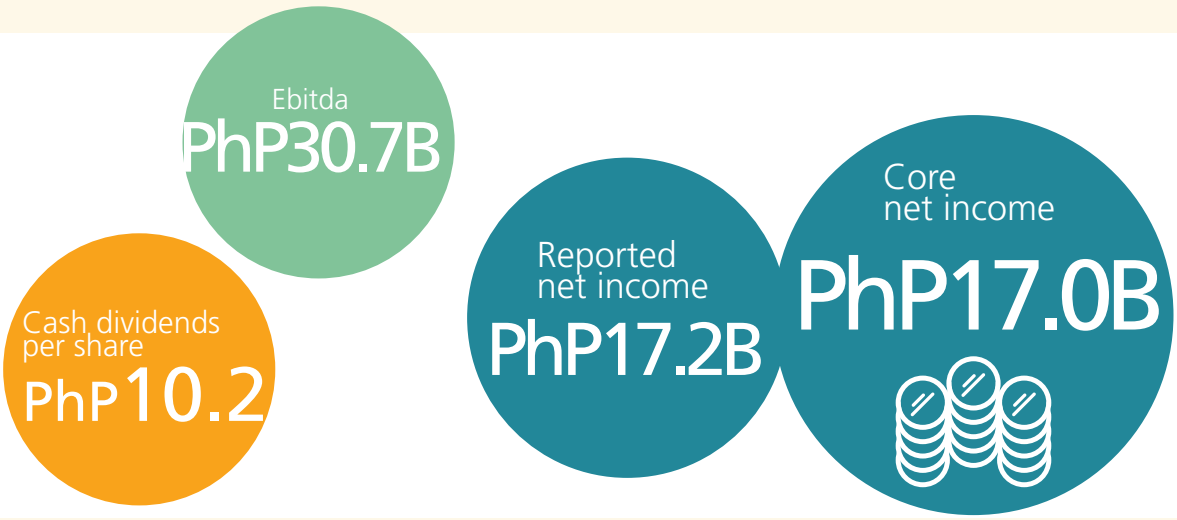
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Financial and Operating Highlights

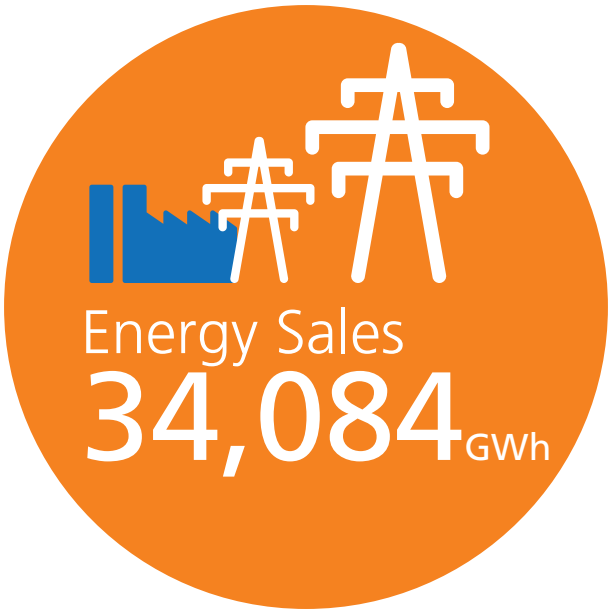
COMPARATIVE HIGHLIGHTS

	2009	2010	2011	2012	**2013**
FINANCIAL INFORMATION (in Million Pesos, Except Per Share Data and Percentage)					
Revenues					
Electric	178,686	239,077	253,989	282,991	**294,849**
Non-electric	2,072	1,856	2,819	2,279	**3,787**
Total	180,758	240,933	256,808	285,270	**298,636**
Costs and Expenses					
Purchased power costs	150,928	200,916	205,674	232,068	**238,198**
Operations and maintenance	14,634	16,462	19,133	18,689	**18,775**
Depreciation and amortization	4,831	5,911	5,504	5,576	**6,118**
Interest and other financial charges (income) - net	499	(1,044)	(819)	(1,041)	**307**
Others	1,811	5,370	8,570	7,956	**10,911**
Total	172,703	227,615	238,062	263,248	**274,309**



(in Million Pesos, Except Per Share Data and Percentage)	2009	2010	2011	2012	**2013**
Net income attributable to equity holders of parent	6,005	9,685	13,260	17,117	**17,211**
Core net income	7,003	12,155	14,887	16,265	**17,023**
EBITDA	13,169	18,841	24,649	27,690	**30,682**
Utility plant and others - net	101,858	103,250	105,510	109,312	**112,586**
Interest-bearing long-term financial liabilities	21,303	21,072	24,376	22,826	**31,777**
Notes payable	513	149	67	1,787	**1,814**
Equity attributable to equity holders of parent	57,369	58,969	62,156	67,902	**75,162**
Capital expenditures	8,890	9,053	8,748	10,321	**10,187**
Market price per share at year-end	205.00	228.00	247.20	260.60	**251.00**
Core earnings per share	6.32	10.78	13.21	14.43	**15.10**
Cash dividends declared per common share	2.50	6.95	7.80	8.10	**10.20**
Market capitalization	231,091	257,018	278,625	293,722	**282,902**
Shareholder returns	248.7%	14.6%	11.8%	8.7%	**0.2%**

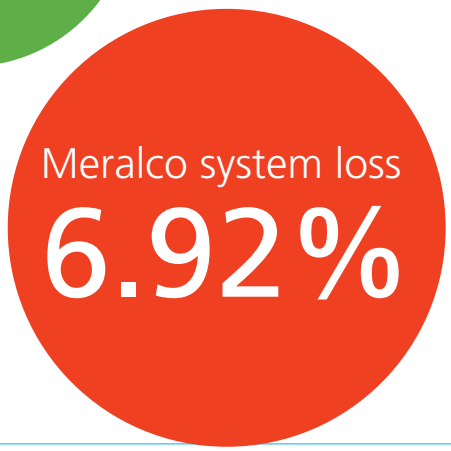




	2009	2010	2011	2012	**2013**
OPERATING INFORMATION					
Number of Customers (in Thousands)					
Residential	4,277	4,412	4,580	4,735	**4,901**
Commercial	410	421	433	440	**453**
Industrial	10	10	10	10	**10**
Streetlights	4	4	4	4	**4**
Total	4,701	4,847	5,027	5,189	**5,368**
Energy sales (in GWh)					
Residential	8,904	9,540	9,344	9,779	**10,235**
Commercial	10,922	11,830	12,027	12,749	**13,302**
Industrial	7,548	8,734	9,080	10,111	**10,417**
Streetlights	142	143	141	132	**130**
Total	27,516	30,247	30,592	32,771	**34,084**
System Loss (in %)					
Meralco	8.61	7.94	7.35	7.04	**6.92**
CEDC	3.86	3.81	3.96	3.75	**4.33**









To Our Fellow Shareholders

Our strongest year yet was also the most challenging. The stellar performance of the economy, the sustained confidence of the investment community, the first-ever investment grade rating on the sovereign and the upgrade of Meralco's credit rating by Standard & Poor's (S&P) Ratings contributed to our outstanding results in 2013. Our efficient operations and timely strategic initiatives carried out by a committed workforce were vital to achieving our all-time best records.

...the first-ever investment grade rating on the sovereign and the upgrade of Meralco's credit rating by Standard & Poor's (S&P) Ratings contributed to our outstanding results in 2013.

Our 2013 Consolidated Core Net Income was up 5% at PhP17.0 billion from PhP16.3 billion in 2012. Consolidated Reported Net Income amounted to PhP17.2 billion, flattish compared with 2012. Core Earnings per Share for the year reached PhP15.10, while Reported Earnings per Share stood at PhP15.27.

The results reflect the favourable impact of the increase in Consolidated Sales Volume by 4% to 34,084 GWh, spurred by the over 3% growth in number of customers to almost 5.4 million; improved contribution from our major subsidiaries; minority interest in Global Business Power Corporation (GBPC) acquired in the course of the year – GBPC being the largest power producer in the Visayas region; and, containment of costs and operating expenses.

Consolidated Revenues increased by 5% to PhP298.6 billion, where electricity sales accounted for 99% or PhP294.8 billion. We realized higher revenues in 2013 due to the 4% increase in volume as well as to a favourable change in the overall sales mix. The Consolidated Revenues include unbilled revenues for November and December 2013, relating to the amount of generation and other pass-through charges which were the subject of a Supreme Court Temporary Restraining Order.

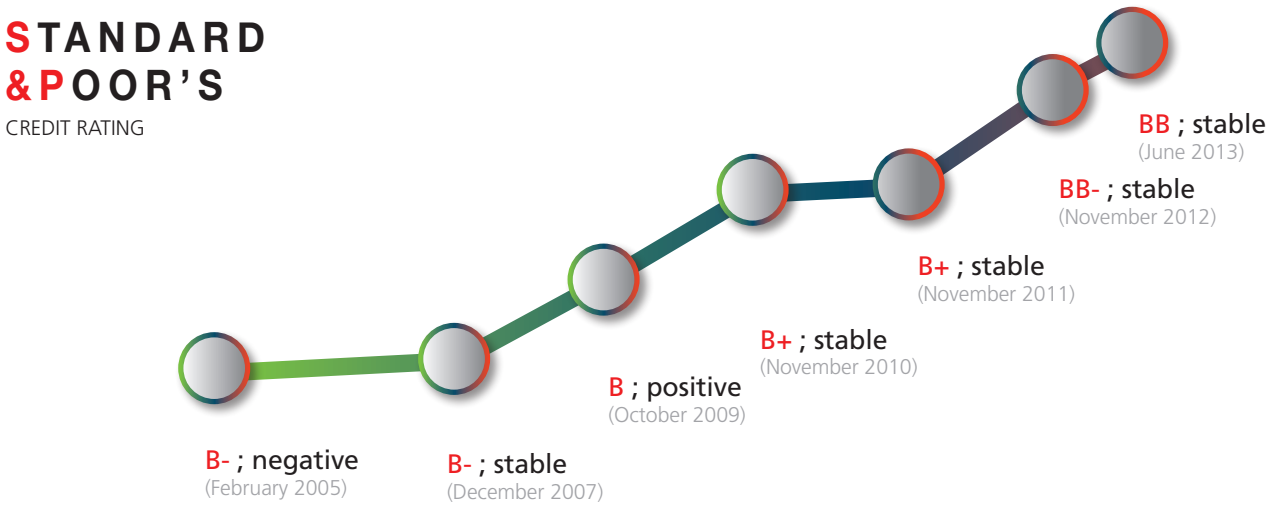
Our Consolidated EBITDA amounted to PhP30.7 billion, equivalent to a Core EBITDA margin of 10% on consolidated revenues.

Only six months after granting Meralco a credit rating of BB- with stable outlook, the Company received from S&P a re-rating, upgrading it to BB with stable outlook. What made this more gratifying was that S&P does a re-rating on an annual basis. In granting the upgrade, S&P took cognizance of Meralco's improving financial risk profile, also citing a strong demand for power.

Meralco's first-ever peso bond offering of PhP18.5 billion in 2013 was met with overwhelming support from the market. This bond issuance was to refinance, on more favorable terms and rates, our existing debts. The bond issue constitutes a seven-year puttable tranche of PhP11.5 billion issued at a fixed rate of 4.375%, and a 12-year puttable and callable tranche of PhP7.0 billion at 4.875%. The lower financing cost resulting from these bonds is expected to reduce our interest expenses in 2014, and onwards. Average financing rate for 2013 was about 5.6%.

Defining Challenges

Significant changes and challenges marked the power industry in 2013. Retail Competition and Open Access



(RCOA), a landmark commercial development in the Philippine power industry's history, commenced its first phase with the implementation of its commercial operations on June 26, 2013. Customers in the Luzon and Visayas grids qualified as "contestable" – those with connected loads of at least 1 MW over the preceding 12 months - began sourcing their power from Retail Electricity Suppliers or RES. Out of the 782 qualified contestable customers in our franchise, 287 opted for contestability and have switched their supply to eight RESs, including Meralco's local RES MPower, which accounted for 167 of the 287 customers.

For a country seasonally battered by typhoons every year, nothing hit the consciousness more than the devastating effects of typhoon *Yolanda* (Haiyan) which made landfall on November 8, 2013 in the Visayas region, several hundred nautical miles away from our franchise. But distance should not mean indifference or apathy from us. We sent our personnel and equipment to affected areas to assist in the rehabilitation of power distribution facilities. Moreover, our One Meralco Foundation mobilized several teams to bring relief goods to our countrymen hit by the massive devastation.

Hardly had we recovered from the memory of wrath, Meralco then faced its most daunting challenge which also helped bring to the forefront the stark reality of aging power plants and thinning power supply reserves in the Luzon Grid. Overlapping the 30-day shutdown of the Malampaya natural gas production facility, forced outages compounded the impact on power supply of the scheduled and extended maintenance shutdowns of major baseload gas-fired and coal-fired power plants in the November and December 2013 supply months. These were further complicated by non-compliance of the "Must Offer" rules of the Wholesale Electricity Spot Market (WESM), triggering a series of adverse price developments. This black swan event – an unforeseen and unfortunate confluence of events – caused an aberrant spike in the generation and other pass-through charges during these supply months. Acting on the petition of certain interest groups, the Supreme Court issued a 60-day TRO against the implementation of any increase, particularly for the November 2013 supply month, which complaint was extended to cover certain generation

companies. Upon the expiration of the 60-day TRO on April 22, 2014, the High Court extended it indefinitely until further orders.

Driving Performance Further

Further to our Growth Pillars of Power Generation, Franchise Expansion and RES, we are pleased to report that in 2013, our power generation arm Meralco PowerGen (MGen) inked in August a Joint Development Agreement with New Growth B.V., a wholly-owned subsidiary of Electricity Generating Public Company Limited of Thailand. This paved the way for the development of activities for a new 455 MW (net) coal-fired power plant in Mauban, Quezon, which will be the Philippines' first supercritical technology plant with higher fuel-efficiency and environmental performance relative to existing sub-critical power generation plants. MGen also acquired a 20% interest in GBPC, among the largest independent power producers in the Visayas owning nine power plants with a total installed capacity of 627 MW. In March 2013, FPM Power Holdings, a 60/40 partnership between First Pacific Company and MGen completed the acquisition of 70% of GMR Energy (re-named Pacific Light Power or PLP), owner of an 800-MW liquefied natural gas-fired power project in Jurong Island, Singapore.

Year 2013 was likewise significant for our foray into overseas operations-related undertakings as we sealed in August a technical services agreement with the Integrated Energy Distribution and Marketing (IEDM) of Nigeria. Meralco-nominated executives began managing the operations of two newly-privatized Nigerian electricity distribution companies (EDCs), namely, Ibadan EDC and Yola EDC. Combined, the two EDCs serve a population of 41 million and cover 300,000 square kilometres.

These are previews of many other milestones for MGen and our other growth pillars.

Serving beyond us

We have witnessed growing economic opportunities around us. We have seen improvements in health, agriculture and technology. Yet many of our people still live in poverty. This awareness drives the work of our One Meralco Foundation, whose overarching goal is the amelioration of poverty. In 2013, the Foundation expressed its commitment tangibly to transform communities by empowering them through various programs on community electrification, grassroots partnerships, education, and disaster response and rehabilitation.

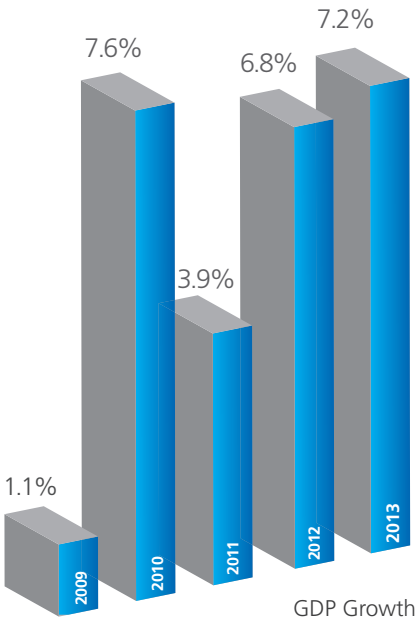
We energized 3,079 households from low-income communities through our rural electrification program—which has already benefited at least 15,000 families the last two years—



transforming them from simply being residents to participants in economic growth. Our Foundation likewise energized 24 public schools in island and remote barangays through solar photovoltaic energy systems. Moreover, we were able to provide over 5,300 teachers and students with new learning opportunities. As part of the Foundation's advocacy, we engaged 1,949 public schools for electrical safety assessments. This helped prevent the risk of electrical incidents and prevent accidents by educating students about electrical hazards.

We hold the conviction that Sports is an effective avenue to encourage the youth's participation in the development of their talents and of their own communities. Over 2,000 disadvantaged youth joined our community tournaments involving basketball, chess and football.

The strong spirit of volunteerism among Meralco employees helped raise funds for educational grants given to 110 underprivileged 4th year college students from our franchise area, in commemoration of the Company's 110th anniversary in 2013. We also recognized 84 outstanding alumni of the MVP Academic Assistance Awards who graduated with honors this school year. Grantees of this program come from deserving children of rank-and-file and supervisory employees of Meralco and its subsidiaries.



GDP Growth

Our efforts to reach out to fellow Filipinos in and beyond our franchise are more thoroughly discussed in the CSR section.

A banner season

Through all the feats and triumphs, the changes and challenges, we are heartened by the various recognitions bestowed on our Company by several local and global award-giving bodies. We dedicate all these to you – our customers, shareholders, and partners. It was a breakthrough year for us with the awards acknowledging outstanding work in the areas of corporate governance, investor relations, communications, customer and employee engagement, and Corporate Social Responsibility.

The year was our finest in Corporate Governance as we gained local and international distinctions for best practices. Among these is the Philippine Stock Exchange Bell Awards where the Company stood out amongst 280 Philippine publicly-listed companies. Similarly, the Institute of Corporate Directors recognized the Company as a Top Local Corporate Governance Practitioner among listed companies. We were also named among Asia's Icon on Corporate Governance at the 9th Corporate Governance Asia Recognition Awards. During the 3rd Integrity Summit in Manila, Meralco was cited as one of only seven Philippine companies in the Advanced Level for mainstream and best integrity practices.

We look forward to creating more milestones with you in 2014. Determined to serve as always, we are Meralco.

At the 3rd Asian Excellence Recognition Awards in Hong Kong, key executives shared the stage in different categories.

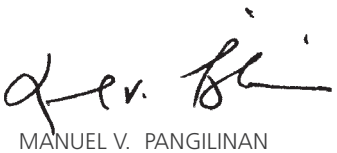
In FinanceAsia's Annual Best Managed Companies Poll, Meralco was feted by investors for upholding shareholders' rights through pay-outs of above-average industry trends. Noting its financial performance and outstanding accomplishments for fiscal year 2012, the Company was cited at the 2013 Platts Global Energy Company Award, given in September in Singapore.

The Company was named Grand Winner at the Asian Human Capital Awards in September, besting 89 entries from 11 countries for its innovation culture and employee engagement. The award is given by the Ministry of Manpower in Singapore.

We are very grateful for the acknowledgments received for our various communication initiatives with various stakeholders. Meralco received the plum Company of the Year trophy at the Philippine Quill Awards where it garnered 16 Excellence and 19 Merit citations, the most by any company. Soon after at the 49th Anvil Awards we were recognized with seven trophies, one Excellence and six Merit awards. The Anvil Awards is considered the most prestigious recognition for Public Relations.

In closing, we would like to thank the members of the Board of Directors for their valuable guidance as we fulfill our goal of a brighter Philippines; our employees, for their unrelenting dedication and commitment despite the odds; and to our customers, for their continued trust in our service and our Company.

We look forward to creating more milestones with you in 2014. Determined to serve as always, we are Meralco.



MANUEL V. PANGILINAN
Chairman



OSCAR S. REYES
President and CEO

The Philippine Economy in 2013



- A record year for the economy with GDP growth of 7.2% in 2013, up from 6.8%, the fastest in Asia after China.
- The economy outperformed expectations amid a soft global economy, with recovery in the U.S. and the Eurozone still at a very early stage despite massive financial stimuli and near-zero interest rates, and the economies of Brazil, Russia, India and China (BRIC) trending down.
- Growth was driven by strong domestic consumption, with remittances of overseas Filipinos totaling close to US$23 billion for the year, higher by 6.4% over 2012, and steady expansion of Business Process Outsourcing (BPO) services generating an additional US$13 billion, up 14.7% over 2012, boosting household disposable income and consumer spending.
- Consumption-led growth was complemented by healthy private investment, as a result of strong corporate earnings providing a boost to domestic private investment and a significant increase in Foreign Direct Investment, encouraged by three ratings upgrades:
  - Fitch in March 2013 to investment grade "BBB-" from "BB"



- Standard and Poor's in May 2013 to "BBB-" from "BB+"
- Moody's in October 2013 to "Baa3" from "Ba1"

- Growth was further supported by increased government spending, due to a much improved fiscal situation with higher government revenues and controlled government infrastructures and operations spending.

- Inflation was contained at 3.0%, down from 3.2% in 2012, as global commodity prices remained soft and local interest rates remained relatively low.

- The Philippine peso lost some ground against the U.S. Dollar, with the average rate of PhP42.43 from PhP42.24 in 2012.

- The economy's record growth was achieved notwithstanding the damages wrought by catastrophic natural calamities. A major earthquake registered at magnitude 7.2 that hit Bohol on October 15 and was felt in Central Visayas. Super Typhoon *Yolanda*, internationally known as Haiyan, the 4th strongest storm ever recorded in the world, caused massive devastation and loss of over 6,200 lives due to its huge storm surge and gale force winds.



Service as Bedrock



Efficient operations and timely strategic initiatives carried out by a committed workforce were vital to achieving our all-time best records.

Strengthening the Core Power Distribution Business: Energy Sales and Customer Count Reaching new Highs

- Consolidated energy sales, inclusive of Clark Electric Distribution Corporation (CEDC), rose 4.0% in 2013, reaching a new high of 34,084 GWh from 32,771 GWh in 2012.
- Total energy sales consists of 39% Commercial, 31% Industrial and 30% Residential.
- Growth in sales across all major classes was driven by higher average ambient temperature and by favorable domestic conditions, encouraging consumer and government spending and domestic business expansion.
- Residential Energy Sales was the major growth driver, increasing by 4.7% to 10,235 GWh from 9,779 GWh in 2012, supported by an aggressive real estate property sector. In turn, this sector is being fueled by higher disposable income with increased OFW and BPO remittances, benign inflation and warmer temperature.
- Commercial Energy Sales was a significant contributor, rising by 4.3%

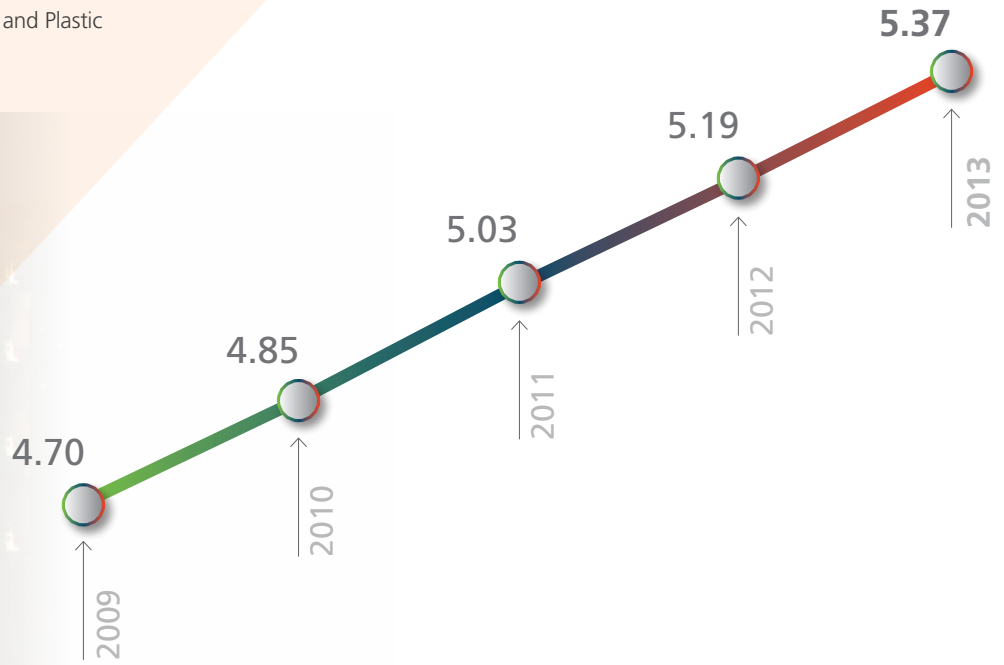


to 13,302 GWh from 12,749 GWh in 2012, riding on the strong pace of vertical and horizontal construction of the Real Estate sector, brisk business activity in the Services sector including hotels, casinos and restaurants, and growth in Retail Trade covering malls, department stores, supermarkets, convenience outlets and other retail shops.

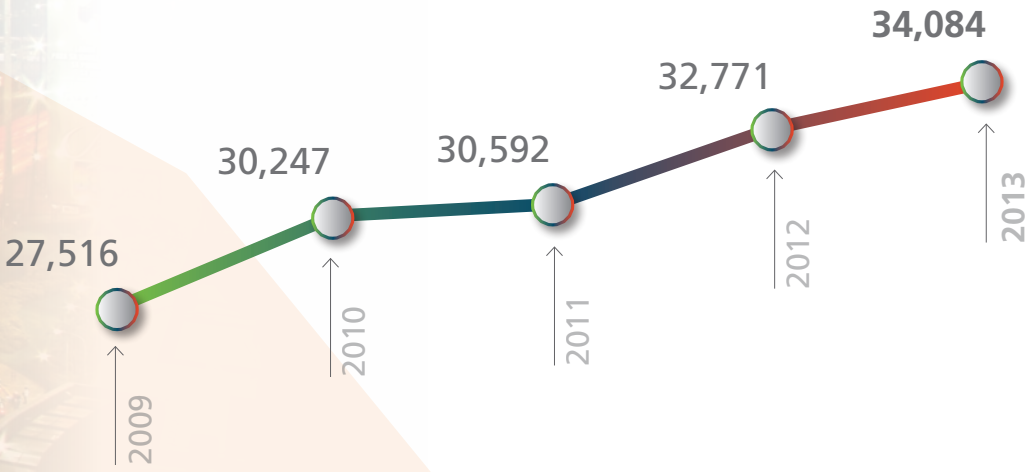
- Industrial Sales expanded by 3.0% to 10,417 GWh from 10,111 GWh in 2012, with Electrical Machinery and Electronic parts, particularly Semiconductors, Food and Beverages, and Rubber and Plastic







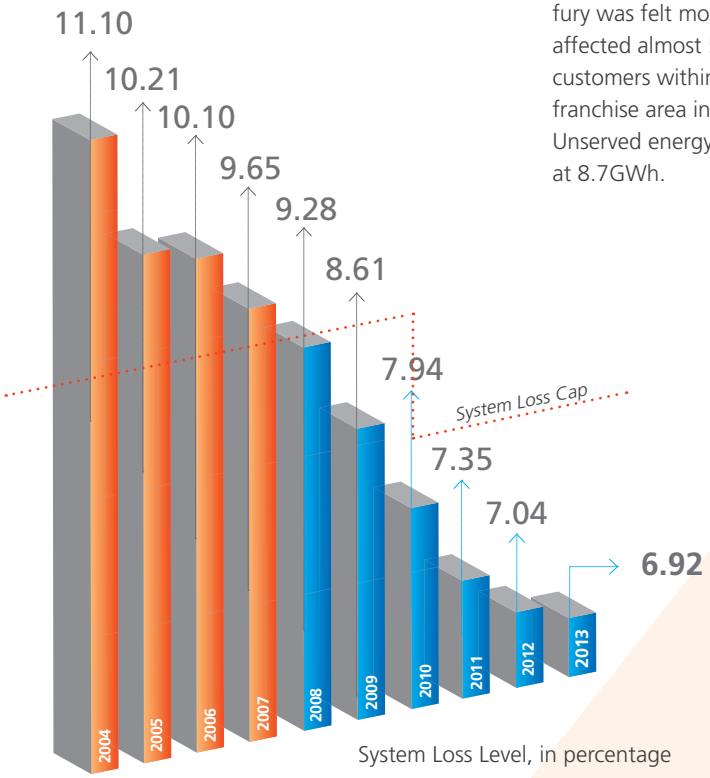
Customer Count in Millions



Energy Sales in GWh

Products, as the top movers. They were complemented by the shift from self-generation to Meralco service by certain large industrial accounts, such as those in the cigarette, tobacco and other industries.

- Meralco's strong sales performance in 2013 was not without difficulties and challenges. Its franchise area was hit with unusually strong weather disturbances affecting its operations.
  - The habagat, intensified by Tropical Storm Maring, in August caused the outage of 37 circuits and PhP13.6 million worth in damaged facilities. This affected nearly 300,000 customers and resulted in 17.9 GWh of unrealized sales.
  - Super Typhoon *Yolanda* whose fury was felt most in the Visayas affected almost 500,000 customers within Meralco's franchise area in November. Unserved energy was contained at 8.7GWh.



System Loss Level, in percentage



- Consolidated customer base grew Meralco's network, customer service, and shared services performance surpassed previous records, increasing 3.4% in 2013 to 5,367,720 fom 5,189,247 in 2012.
  - Residential customers at over 4.9 million, accounted for 91% of total customer count.
  - Commercial customers at less than 0.5 million, 8% of the customer base.
  - Industrial customers numbered less than 10,000 but contributed 31% to total energy sales.
- Outperformed all eight S-Factor and GSL standards set by the Energy Regulatory Commission (ERC) as well as all previous years' performance since 2007.
- System loss, system reliability and

availability, power quality, time-to-process applications, time-to-connect customers, and Call Center performance reached record levels.

- System performance gains translated into rewards and savings under the Performance Incentive Scheme (PIS) of the Performance-Based Regulation (PBR).
- Meralco system loss in 2013 was at all-time low of 6.92% from 7.04% in 2012.
  - 1.58 percentage points lower than the 8.5% system loss cap set by the ERC and a 0.12 percentage point improvement from the previous year's level.
  - PhP3.87 billion savings in 2013 or a cumulative PhP12.59 billion savings over the last six (6) years, equivalent to 7.02 centavo per kilowatt hour, realized by customers.
- CEDC's system loss was at 4.33% in 2013.

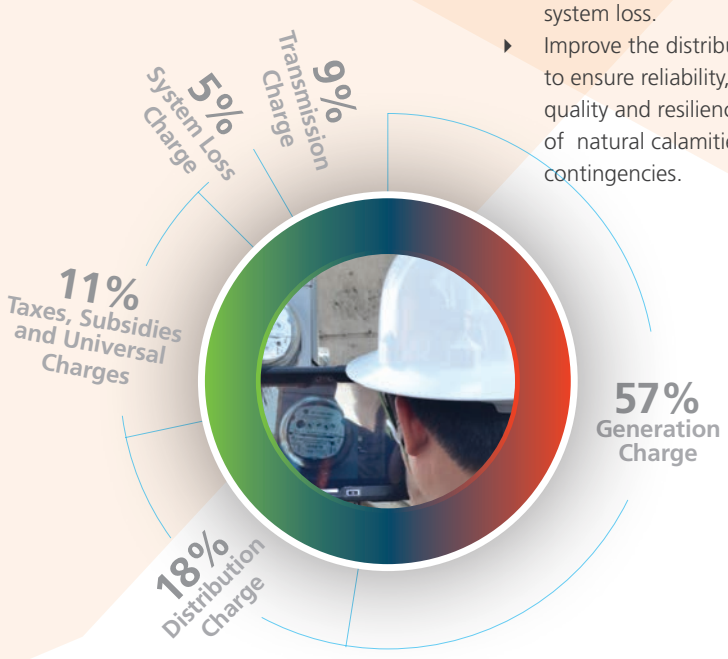


Capital Expenditures: Enabling Record Growth and Operational Excellence

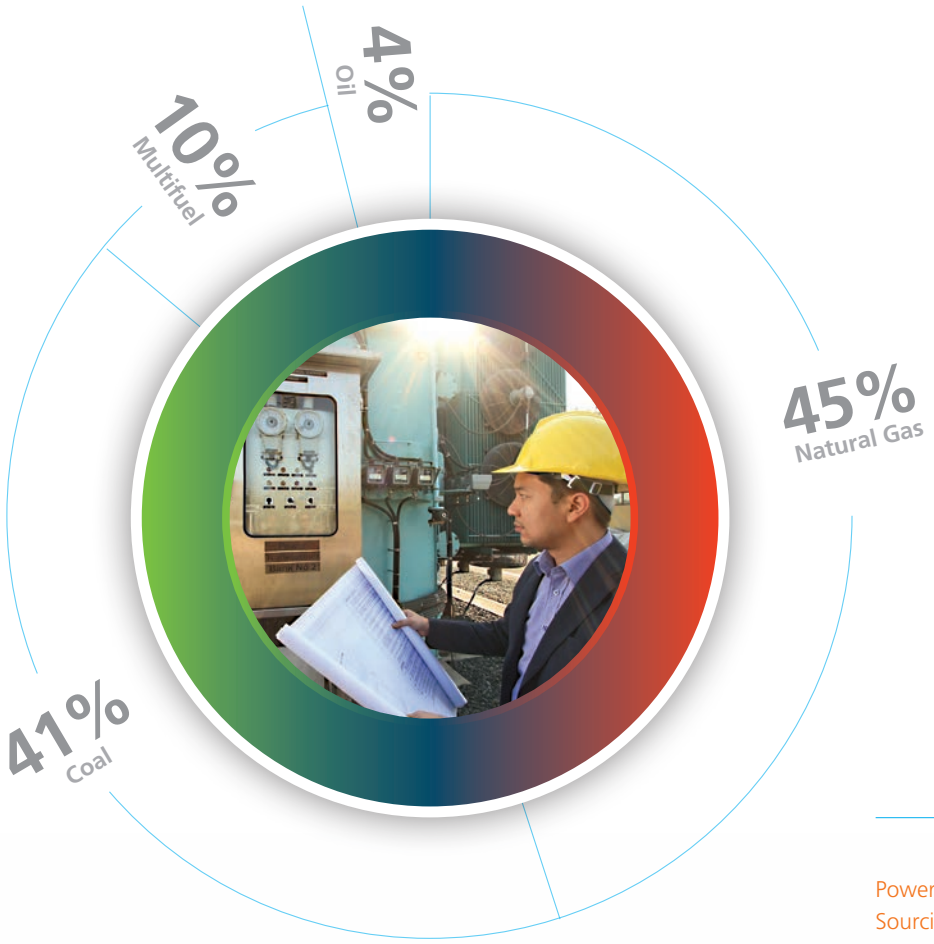
- Capital expenditures in 2013 was at PhP10.2 billion, down from P10.3 billion in 2012.
- Electric Capital Projects (ECP) accounted for the greater part of the expenditures to:
  - Meet growth in power demand and enhance the customer experience of existing and new customers.
  - Control and further reduce system loss.
  - Improve the distribution system to ensure reliability, power quality and resiliency in the face of natural calamities and other contingencies.

The Meralco Customer Bill: Containing Generation Charge, the Dominant Component

- Average retail rate of electricity across all customer classes in 2013 was PhP9.45 per kWh.
  - The single largest component continues to be the Generation Charge, which was at an average PhP5.39 per kWh, 57% of the total average bill for 2013.
  - Meralco's Distribution Charge of PhP1.66 per kWh accounted for only 18% of the average bill of customers.
  - Transmission Charge comprised 9% of the customers' bill, averaging 86 centavos per kWh.
  - Taxes, Subsidies and Universal Charges was 11% of customers' bill at PhP1.08 per kWh.
  - System Loss Charge made up 5% of the average bill at 46 centavos per kWh.



2013 Average Rates Breakdown by Bill Components



2013 Power Plant Mix by Fuel Type

Power Supply and Demand: Sourcing to Ensure Adequate, Reliable, Least Cost Supply

- Consolidated Net System Input (NSI) rose by 3.9% to a record 36,673 GWh from 35,304 GWh in 2012.
- The lower NSI growth relative to the increase in energy sales reflects further gains in system loss reduction.
- In 2013, Meralco sourced power for its captive customers from:
  - The original Power Purchase Agreements (PPAs) with First Gas Power Corporation (Santa





Meralco e-Vehicle Power Station launch in July with Department of Energy Secretary Carlos Jericho L. Petilla joined by (from left): Mitsubishi Motors Philippines Executive Vice President for Marketing Junya Masuda, Meralco Senior Vice President and Customer Retail Services and Corporate Communications head Alfredo S. Panlilio, Meralco President & CEO Oscar S. Reyes, Mandaluyong City Mayor Benjamin C. Abalos, Jr. and Meralco Chairman Manuel V. Pangilinan.

Rita Plant, and FGP Corp.- San Lorenzo Plant) and Quezon Power, accounting for a combined 13,100 GWh or 36% of total NSI.

- The more recent Power Supply Agreements (PSAs) with South Premiere Power Corporation (Ilijan), San Miguel Energy Corporation (Sual), SEM-Calaca Power Corporation (SCPC), Masinloc Power Partners Company Ltd. (Masinloc), Therma Luzon, Inc. (Pagbilao) and Therma Mobile, Inc. (TMO) contributed 18,437 GWh or 50% of the total consolidated NSI.

- All these PPAs and PSAs were previously filed with, and approved by, the ERC.

- The Wholesale Electricity Spot Market (WESM), which accounted for 1,949 GWh or only 5 %, despite the confluence of scheduled and extended maintenance shutdowns, and unscheduled forced outages of base load power plants in November and December 2013.

- Contestable customers, which wheeled their supply through Meralco, sourced power through their respective Retail Electricity Suppliers, accounting for 2,711 GWh or 7% of total NSI.

- Customers under Special Contracts such as Sunpower, Cocochem Agro-Industrial Park (CAIP) and Cavite Economic Zone (CEZ), sourced a total of 476 GWh or 2% of total NSI.

- Meralco peak demand rose by 5.2% at 5,928 MW recorded on May 8, 2013, up from the 2012 peak demand at 5,633 MW. Luzon peak demand registered on the same day was higher by 5.3% at 8,305 MW over the 7,889 MW in 2012.





Customer Service:
Shored-up Growth

Customer centricity, efficiency and innovation were key to sustaining the growth achieved in the area of customer service. Customer analytics, insighting, market intelligence research on customer preferences and needs propelled customer satisfaction to the next level.



Customer Centric Engagement: Building Better Value and Deeper Relationships

- Customer Satisfaction Index (CSI) rating posted an all-time high of 7.79, well above the stretch goal of 7.75. Clear focus on customer needs and anticipation of expectations helped drive up CSI.

- Ramped up information campaign covered typhoon preparedness and safety, managing energy consumption through an app, prepaid electricity, and planned new services. Also, a monthly Meralco Advisory to hand-hold customers on rate movements and provide "bright ideas" for efficient, safe consumption of electricity was launched.

- Ramped-up customer engagements included the Luminaries Awards given to industrial, commercial and LGU customers showcasing stellar partnerships between Meralco and its clients to drive progress, and Strategic Planning with 15 major corporate accounts and government agencies.



Typhoon Watch Ad



- Power-up Forums were conducted to update corporate and government customers on company policies and industry developments, operational safety requirements, custom-made based on industry-specific concerns and timely topics such as Retail Competition and Open Access (RCOA) and the electric bill.

- Faster processing of electric service was enabled through a more streamlined process and through the Accredited Meralco Contractors program that provided resources to assist customers applying for electric service in their technical requirements.

- Extended channel partnership programs were adopted beyond the technical organizations by including industrial associations, industrial parks, property managers, financial organizations and educational institutions.



Among the top 100 apps in the App Store and Google Play in 2013, with over 145,000 downloads and a customer satisfaction rating of 94%, MoVE's success compelled Meralco to enhance the app further, introducing new features and an even better interface.

Reinforced online presence through www.meralco.com.ph; @meralco, the official Twitter account; the official Meralco Facebook page; the MoVE App, which ranked as Top 3 download in the Appstore on June 20, 2013.

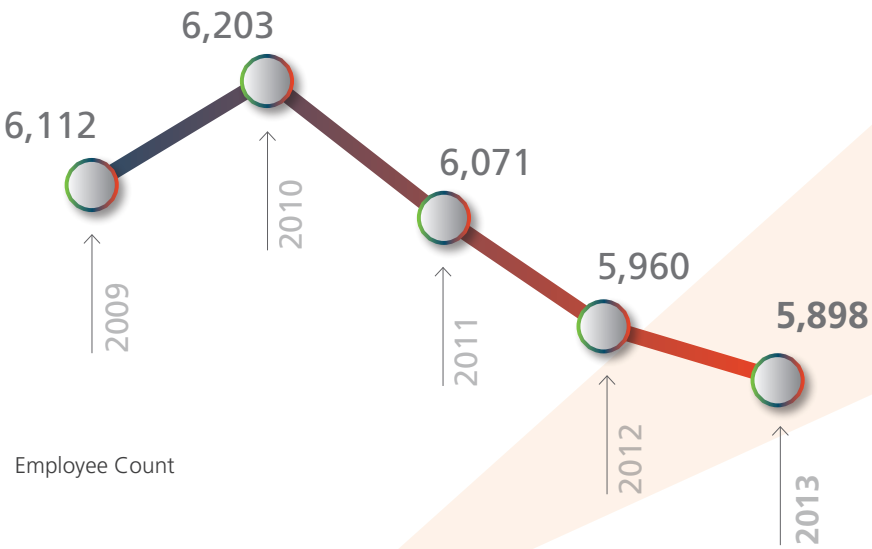


Human Resources: Sustaining Excellence in the Organization and in People Management

- Higher levels of labor productivity, managed headcount even with increases in number of customers and energy sales; robust employee development and capability building and organization development to enable the attainment of business goals characterized human resource activities in 2013.
- Meralco was named Grand Winner at the Asian Human Capital Awards in September 2013 in Singapore.
- Creation of Strategy and Innovation organization to develop and execute an integrated "forward looking" business strategy and technology innovation roadmap and to institutionalize innovation as a way of life in the organization.
- Creation of Competitive Market Group to enable the performance of Meralco's role as a Distribution Utility beginning June 2013, when the commercial run of RCOA started.

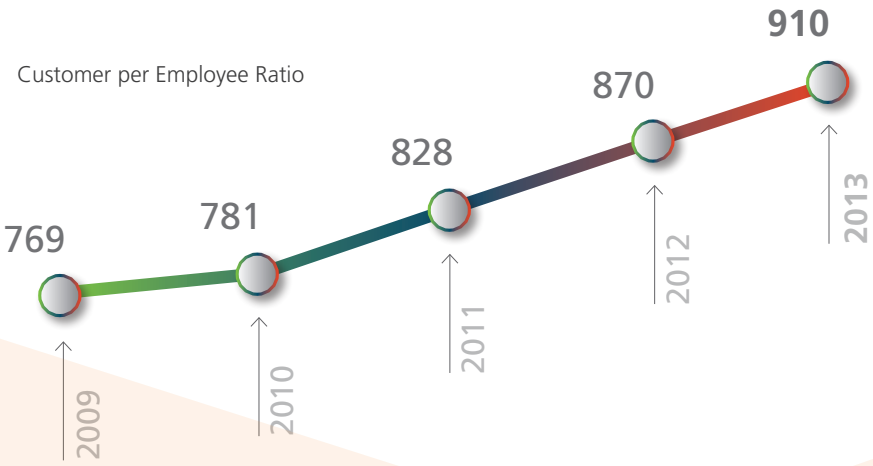


- Strengthening leadership and organizational capabilities of subsidiaries through key strategic appointments, and performance-based review and rewards programs that drive the long-term growth of the company
- Launch of a pioneering linewomen training program, a first in Meralco's 110-year history, with the first batch of eleven (11) linewomen employees.
- The Meralco Power Academy was incorporated as a non-stock, non-profit organization on July 14, 2013 to expand its advocacy of creating knowledge parity among its stakeholders in the power industry through education.
- Power Talks Series on Renewables and Solar Energy, 1st National Electrical Safety Summit, and Power Engineering Programs for distribution utilities, customers and contractors.
- Plenary IIEE National Conference on Future Proofing Electrical Engineering Professionals (IIEE is the Integrated Institute of Electrical Engineers).



Employee Count

Customer per Employee Ratio



- Robust Employee Development Programs to ensure availability and capability buildup of employees to enable effective performance leading to the attainment of organization and business strategies and goals.

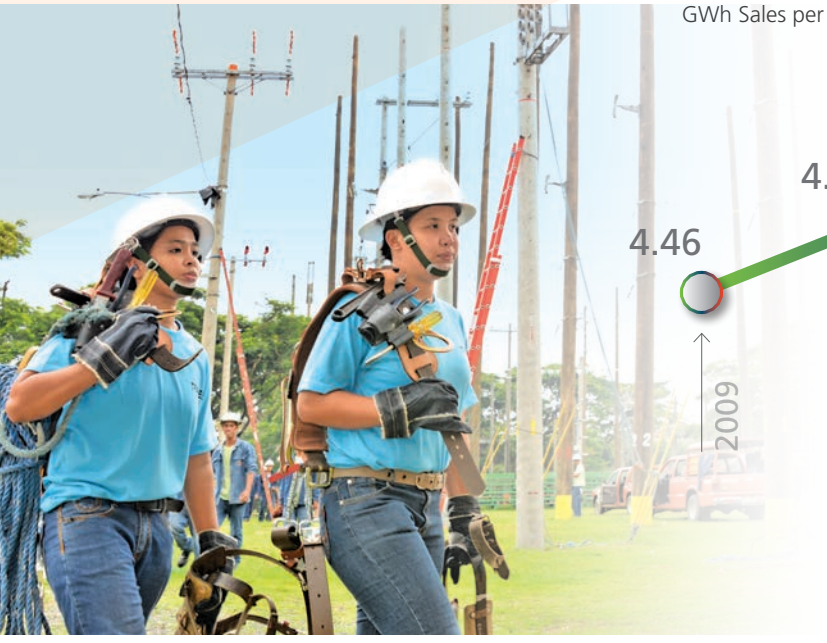
- Alabaster program to drive career growth and upgrade employee capabilities; Meralco Linewomen's Training Program; Breakthroughs, a comprehensive leadership development course for first-line managers; The League, a program to engage, develop and recognize line trainers; Me in 21, teaches practical steps in becoming the director of one's self; Friday Info Bites, short learning sessions on a wide range of topics relevant to participants; and iLead, one-day learning events for professional/technical employees to share, connect and learn about self-leadership.



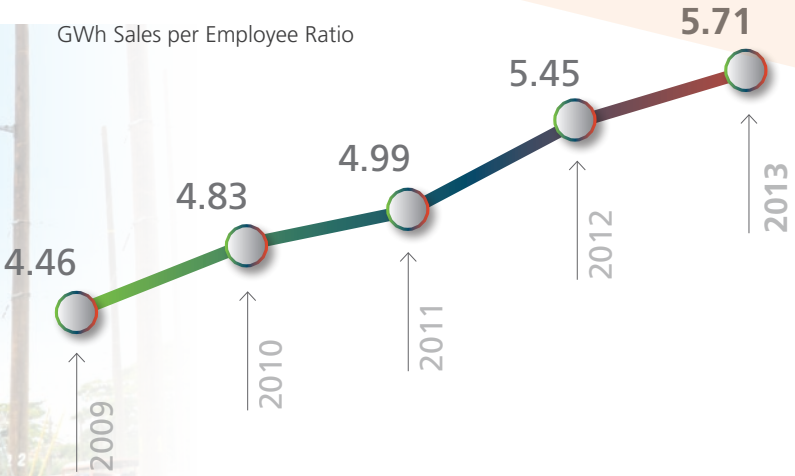
- Orange Fit promoted a healthier and more productive lifestyle for employees through a program on health and wellness focused on the mind, the body and spirit.

- Performance-based annual and long-term incentive plans implemented to engage employees of One Meralco to collaborate and work towards the achievement of corporate goals and targets.

- Management and the Meralco Employees and Workers Association (MEWA), the Collective bargaining representative of rank and file employees, signed a new Collective Bargaining Agreement on December 12, 2013, benefiting 1,473 rank and file employees or close to 25% of total employee population. The new CBA, concluded in record time reflecting the strong constructive partnership between Meralco and its people, will be valid for three years from December 1, 2013 to November 30, 2016.



GWh Sales per Employee Ratio





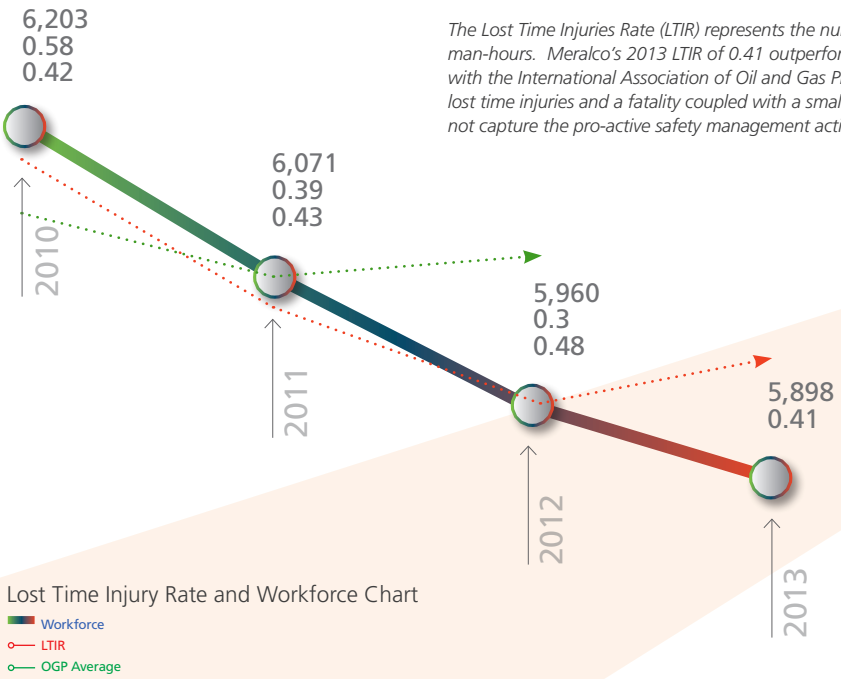
Safety & Environment: Milestones and Continuing Initiatives

- Safety & Environment Management activities increased three-fold in 2013.
  - Nine Distribution Sectors, Subtransmission Services, and Safety and Environment Mangement were successful in implementing the integrated Environmental Management System (EMS-ISO 14001) and the Occupational Health and Safety Assessment System (OHSAS 18001).
  - Sta. Rosa Sector, situated in the southern area of the franchise and Balintawak Sector located in the northern part, gained milestone achievements by reaching 10-years and 5-years of Zero Lost Time Incidents, respectively.
  - Regular safety meetings were re-established in various organizations situated in the Head Office and Business Centers.
  - Initiatives on public safety were given more emphasis focusing on pocket learning sessions conducted in building work sites by personnel from Networks, Customer Retail Services and Safety & Environment Management.
  - Around 12,500 trees and mangroves were planted across the franchise area.
  - Work is underway for an integrated Crisis Management: Earthquake Response Plan.
  - The Meralco Rescue Team was formally created following a series of intensive search and rescue capability training of 35 employee-volunteers

Innovation: Committed to Lead

- Sustainable, reliable, secure and cost effective energy supply is, and will continue to be, an essential enabler of economic performance, market competitiveness and societal prosperity at a community, country and regional level.





The Lost Time Injuries Rate (LTIR) represents the number of lost time injuries per 1,000,000 of worked man-hours. Meralco's 2013 LTIR of 0.41 outperformed the 2012 global average of 0.48 as benchmarked with the International Association of Oil and Gas Producers. The rise in LTIR for 2013 was due to the five lost time injuries and a fatality coupled with a smaller workforce denominator. However, this chart does not capture the pro-active safety management activities currently being implemented.

- To meet the economic and societal demand for growth and sustainability, Meralco is relentlessly pursuing an innovation journey in the areas of:
  - Business operations - defining new ways to do business in the Company's core competencies as well as disciplined growth through justifiable business cases.
  - Customer centricity - enabling new and added value services to all customers.
  - Network modernization - deploying modern technologies and solutions to provide increased reliability, efficiency, and security of power supply, as well as preparing for an uptake of advanced technologies such as embedded generation and e-transportation.
- Meralco is much closer today to its customers with efforts for a deeper understanding of their diverse needs, and a better response for power reliability, affordability and quality, among others.
- Innovation on the network side is focused on developing smart grid capabilities and new operating practices. This means deployment of modern automation: advanced applications enabling optimized network performance and active voltage and reactive power management; faster and more accurate outage detection and restoration capabilities; intelligent electronic devices for asset performance optimization and IT capabilities, maximizing technology value realization through integration and scalability.
- A priority is also on preparing for the approaching "green agenda" where ustomers will become "prosumers" - consumers who can locally generate and manage electricity from renewable sources and who will commute by electric transportation.
- Commitment is to pursue the journey of business and technology innovation to effectively address the country's increasing challenges of energy supply, security and affordability, electric gird performance improvement, consumer empowerment and environmental protection.

Regulatory Developments

Performance-Based Regulations

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

Rate filings and settings are done on a RP basis. One RP consists of four Regulatory Years (RYs). An RY for Meralco begins on July 1 and ends on June 30 of the following year. As at May 5, 2014, Meralco is operating in the third quarter of the third RY of the third RP. The third RP is from July 1, 2011 to June 30, 2015.

MAP for RY 2013 and RY 2014

On June 11, 2012, the ERC provisionally approved the MAP for RY 2013 of ₱1.6303 per kWh, which was reflected starting with the July 2012 customer bills. Meanwhile, Meralco filed its application for the approval of its MAP for RY 2014 on April 1, 2013. On June 10, 2013, the ERC provisionally approved the MAP for RY 2014 of ₱1.6474 per kWh and the rate translation per customer class.

MAP for RY 2015

On March 31, 2014, Meralco filed its application for the approval of its MAP for RY 2015 of P1.5562 per kWh. The application is yet to be scheduled for hearing.

Retail Competition and Open Access

On January 9, 2013, Department of Energy (DOE) issued Department Circular No. DC2013-01-0002, "Promulgating the Retail Rules for the Integration of Retail Competition and Open Access (RCOA) in the Wholesale Electricity Spot Market", to provide rules for the integration of retail competition in the operations and governance processes of the Wholesale Electricity Spot Market (WESM), the management of the transactions of Suppliers and Contestable Customers, and the operations of the Central Registration Body.

On March 26, 2013, the Philippine Electricity Market Corporation (PEMC) began the RCOA Trial Operations Program, a nine-week test period participated in by the various entities and service providers of RCOA.

On June 19, 2013, the ERC issued a resolution adopting the Supplemental Rules to the Transitory Rules for the implementation of RCOA. The resolution seeks to prevent contestable customers who have yet to execute a Retail Supply Contract with a RES from being disconnected or transferred to SOLR service upon the commencement of initial commercial operations of RCOA. Qualified contestable customers who fail to enter into a RSC with a RES shall be deemed to stay with their current DU until 26 December 2013 or until such time that it is able to find a RES provided that they inform the DU

In accordance with the ERC's "Transitory Rules for the Initial Implementation of Open Access and Retail Competition", commercial operations of RCOA began on June 26, 2013. As of May 5, 2014, there were 317 customers within the Meralco franchise which opted for contestability and are now being supplied by competitive retail electricity suppliers.

Feed-in-Tariff (FIT)

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

On May 16, 2011, the National Renewable Energy Board (NREB) filed its Petition to Initiate Rule Making for the Adoption of FIT, and proposed a specific FIT Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the ERC approved FIT Rates that are significantly lower than the rates applied by the NREB.

To fund the FIT payments to eligible RE developers, a FIT-Allowance charge will be imposed on all end-users. The FIT-Allowance will be established by the ERC upon petition by the National Transmission Corporation or TransCo, which had been designated as the FIT Fund Administrator. The FIT-Allowance Petition will go through the process of public hearings and consultations.

To supplement the FIT Rules, the ERC released on February 5, 2014 the FIT-Allowance Disbursement and Collection Guidelines. This set of guidelines governs how the FIT-Allowance will be calculated using the formulae provided. It also outlines the process of billing and collecting the FIT-Allowance from the electricity consumers, the remittance to a specified fund, the disbursement from the FIT-Allowance fund and the payment to eligible RE developers.

Net Metering Program

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

After consultations with stakeholders, the ERC on July 3, 2013 issued its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The rules govern the DUs' implementation of the Net Metering program. Included in the Rules are the Interconnection Standards that provide technical guidance to address engineering, electric system reliability and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the ERC in due course. Meantime, the distribution utilities' blended generation cost equivalent to the generation charge, will be used as the preliminary reference price in the net metering agreement. The rules took effect on July 24, 2013. As of May 5, 2014, Meralco has already energized seven Net Metering customers, the country's first participants in the Net Metering program.







Our Growth Pillars

Onward to further milestones

Our Growth Pillars

POWER GENERATION
– Focus on new Domestic Generation, Post-Overseas Acquisition

- On March 28, 2013, FPM Power Holdings Limited, a 40-60 joint venture company between Meralco Power Gen Corporation (MGen) and First Pacific Company Limited, acquired a 70% stake in GMR Energy Singapore (now PacificLight Power Co. Ltd. or "PLP"), owner of an 800-MW (2 X 400 MW) LNG-fired power plant in Jurong Island, Singapore. The remaining 30% stake is held by Petronas of Malaysia. Commissioning of the two (2) power generating units was completed in December 2013 and January 2014, respectively. Both units have commenced commercial operations. The PLP acquisition offers the opportunity of early net income and cash flow accretion, and of LNG-fired power plant construction and operations, while MGen is developing its power generation projects.

- In partnership with New Growth BV, MGen signed on August 29, 2013 the Joint Development Agreement for the development of a 460-MW (net) supercritical coal-fired power plant in Mauban, Quezon.
    - New Growth is a wholly-owned subsidiary of Electricity Generating Public Company Limited of Thailand, partly-owned by Electricity Generating Authority of Thailand. A Shareholders Agreement signed on November 15, 2013 provides MGen 51% Equity Interest, of which 2% may be assigned and transferred by MGen to a third party designate. Target commissioning is 2018.

- On October 22, 2013, MGen and Global Business Power Corp. (GBPC) signed the Share Sale and Purchase Agreement (SSPA) for the acquisition of 20% shareholding interest. Other shareholders include GT Capital Holdings, First Metro Investment Corporation and ORIX Corporation.
    - GBPC is the largest Independent Power Producer in the Visayas Region with 627 MW of gross capacity (556 MW net) in operation, of which 410 MW (gross) coal-fired power plants and 217 MW (gross) are diesel power plants
    - An 82 MW (gross) coal-fired power plant is under construction in Cebu, scheduled to be in commercial operation in late-2014, and a 150-MW (gross) coal-fired power plant in Panay starts construction in 2014, to be in commercial operation by 2016

- On December 18, 2013, Redondo Peninsula Energy (RPE) filed a Manifestation with the Supreme Court (SC) submitting its "Petition for Review on Certiorari" for resolution of its appeal to the SC of a Court of

Appeals decision. The CA decision denied the separate Motions for Reconsideration (MR) filed by RPE, the Department of Environmental and Natural Resources (DENR) and the Subic Bay Metropolitan Authority (SBMA) to reverse its decision declaring invalid the original Environmental Compliance Certificate (ECC) issued by the DENR, and the original Lease and Development Agreement (LDA) signed with the SBMA, due to supposed procedural and documentation lapses when the same were issued. The CA also denied the MR filed by the Writ of Kalikasan petitioners seeking a reversal of its decision against the issuance of the Writ of Kalikasan on the RPE project.

  - RPE is a 47%/3%/25%/25% joint venture among MGen, the Meralco Electric Company Pension Fund, the Taiwan Cogeneration International Corporation – Philippine Branch; and Therma Luzon, Inc., respectively. RPE is building a 2x300 MW circulating fluidized bed (CFB) coal-fired plant in the Subic Freeport Zone.

- MGen is developing other highly fuel efficient and reliable base load and mid-merit coal- and gas-fired power projects for its targeted power generation portfolio of up to 3,000 MW.



RETAIL ELECTRICITY SUPPLY – Competing to Supply Service To Contestable Customers

- Retail and Customer Service

  - Contracted and switched 167 Contestable Customers during the six-month period of Retail Competition Competition and Open Access (RCOA) which started commercial operations on June 26, 2013.

  - Established strong market presence in the retailing sector by obtaining a significant share of contestable customers within the Meralco franchise.

  - Focused customer centricity through Strategic Account Management.



- Strengthened customer partnerships through a series of technical orientations and fora for customers in North, Central and Southern Luzon on the benefits and requirements on RCOA, to better understand their energy requirements, available pricing options and industry developments.

- Promoted the MPower brand through active participation and sponsorships in various business organizations and academic events, as well as through brand development programs.

- Market Research and Product Development

  - Developed various innovative and competitive energy products and pricing options to meet varying customer energy requirements.

  - Provided energy consultancy, energy efficiency options and demand forecasts as value-added services.

  - Continuous updating of Customer Demand Analytics and Customer Segmentation initiatives.

- Energy Management

  - Operationalized Power Supply Agreements with a portfolio of Suppliers to assure supply stability and reliability.

  - Commenced 24/7 energy trading operations to optimize plant dispatch and utilization.

  - Conceptualized and implemented financial hedges as a risk mitigation initiative for interim periods of supply instability.

- Regulatory and Business Group Advocacy

  - Registered MPower, the Meralco Local RES, as a Direct WESM Participant

  - Active supported and participated in consultative meetings with DOE, ERC, PEMC and RESA for power industry advocacies and RCOA implementation preparations.

  - Active involvement with various business groups including the Philippine Chamber of Commerce (PCCI), Semiconductor and Electronics Industry (SEIPI), Federation of Philippine Industries (FPI), and IIEE EPIRA Advocacy Committee for power industry related concerns.

  - Active involvement with the different business groups including the Philippine Chamber of Commerce and Industry, Semiconductor and Electronics Industries of the Philippines, Federation of Philippine Industries, EPIRA Advocacy Committee.

- Resource and Support Systems

  - Developed and implemented robust information systems for Contracting, Billing and Payments, Energy Trading and Risk Management, as well as Customer Analytics and Business Intelligence

  - Developed business processes for energy management, retail contracting, tariff generation, customer management and billing and collection

- Talent and Organizational Development
  - Accelerated manpower build-up and in-house talent development.
  - Developed strong job competencies for the core positions in Energy Management, Retail Sales, Market Research and Pricing and Commercial Operations

DISTRIBUTION BUSINESS EXPANSION- Creating Value in Underserved Areas

- Meralco's intent to operate in new underserved areas locally and overseas where it can leverage on its track record and expertise to help improve lives and livelihood has become a reality with its first "win".
  - Its joint venture technical partnership with the Integrated Energy Distribution and Marketing (IEDM) of Nigeria succeeded in winning the bid to operate two (2) newly privatized Nigerian Distribution Utilities.
  - On November 1, 2013, Meralco's newly-formed subsidiary in Nigeria, Meridian Atlantic Light Company, Ltd., assumed the management of Ibadan Electricity Distribution Company (IBEDC) and Yola Electricity Distribution Company (YEDC), following their simultaneous turnover by the Nigerian government agency to the Meridian management team.
  - IBEDC is the largest Nigerian electricity distribution company in number of customers and energy sales. YEDC is largest in service area.
  - Operations are under a Technical Services Agreement with IEDM.
- In the Philippines, Meralco has been working closely with private distribution utilities, electric cooperatives, and the relevant government agencies and units in areas where electricity service can be significantly improved to benefit the community. The aim of the parties is to jointly develop opportunities where Meralco can invest, operate, or provide management operations and technical services to raise the level of power related services in their areas.
- Driving Business Expansion and Profitability of Meralco Subsidiaries and Affiliates
- The Company has various operating subsidiaries and affiliates engaged mostly in the Services business, except for Clark Electric Distribution Corporation (CEDC) and General Electric Philippines Meter and Instrument Co., Inc. (GEPMICI) an electric meter manufacturer.
- In 2013, increased focus and resources have been given to enable these companies to broaden their product and service offerings, expand their target markets and customer base, improve their operating efficiencies and financial results, and strengthen their balance sheet. It is the intent that these companies will grow their value and contribute a higher share in the Company's consolidated core net income in the longer term.



Corporate Social Responsibility

How We Inspired




At your service
Call 16211



...it is the spirit and determination to serve that keep us going so the people who deserve the opportunity to live productively and build a better future for their families and communities can see them truly happen.



33,396

Families directly benefited from OMF's various development programs.

Determined to Serve and build the nation

Across the country, we see growing economic opportunities as well as improvements in health, agriculture and technology. These developments bring with them the promise of better lives for millions of Filipinos and the potential for a more inclusive society.

Despite this progress, we continue to see many people left out and left behind, unable to cope from poverty. For these families, the burdens of exclusion stand in stark contrast to the progress that inspires and enlivens much of today's Filipino society. It is this reality which drives the work of One Meralco Foundation (OMF), the corporate social responsibility arm of Meralco. In 2013, the Foundation continued to live up to its commitment of transforming communities by empowering them through various programs on community electrification, grassroots partnerships, education, youth development and disaster response and rehabilitation.

Serving communities for productivity

In 2013, the Foundation's community electrification program has benefited 3,079 households from low-income communities. For these communities. access to reliable and affordable energy is a fundamental driver of economic growth, environmental sustainability and social development. The Foundation worked with local governments' in-city housing programs of Quezon City and Valenzuela which benefited 1,257 families for household electrification.

The Foundation also expanded its school electrification program with the inclusion of 24 public schools located in island and remote barangays all over the country. By using solar photovoltaic energy systems, more than 5,300 teachers and students in these far-flung communities provided new learning opportunities, equalizing their education with the rest of the country. Teachers are now able to integrate the use of multimedia-based instructional materials and educational DVDs in their daily classroom activities.



Determined to serve and build the nation

As part of the Foundation's advocacy, we launched the "Safe Ang School Ko" program which engaged 1,949 public schools for electrical safety assessments that helped them in reducing the risk of electrical incidents and prevent tragic accidents by educating students about electrical dangers.

In partnership with the Department of Environment and Natural Resources, One Meralco Foundation honored 41 schools with the Meralco Energy Leadership Award during the National Search for Eco-Friendly and Sustainable Schools. The program aims to highlight schools which model energy-efficient and sustainable environment programs. Over 200 elementary, high-school and colleges joined the search.

Serving the next generation to grow their full potential

This year, we honored 84 outstanding MVP Academic Assistance Awards alumni who graduated with honors for this school year. This is on top of the 180 new grantees of the program coming from the rank-and-file and supervisory employees of Meralco and its subsidiaries. Educational grants were also given to 110 underprivileged 4th year college students from Meralco's franchise area to meaningfully commemorate Meralco's 110th anniversary in 2013. The funds were raised through an internal campaign which reflected the strong "employee giving" culture in the company.

We continued to utilize sports as an effective tool in honing young people's participation in the development of their own communities and their own talents. A total of 2,638 disadvantaged youth became part of community tournaments such as the Meralco Basketboys as well as chess tournaments in public schools. This year, we also hosted the Football for Peace program where almost 200 youths from the Autonomous Region









2,638

Youth benefited from youth development activities

of Muslim Mindanao improved their football skills by learning from the Loyola Meralco Sparks. This project hopes to increase interest of the ARMM youth into sports programs and take them away from the armed conflict.

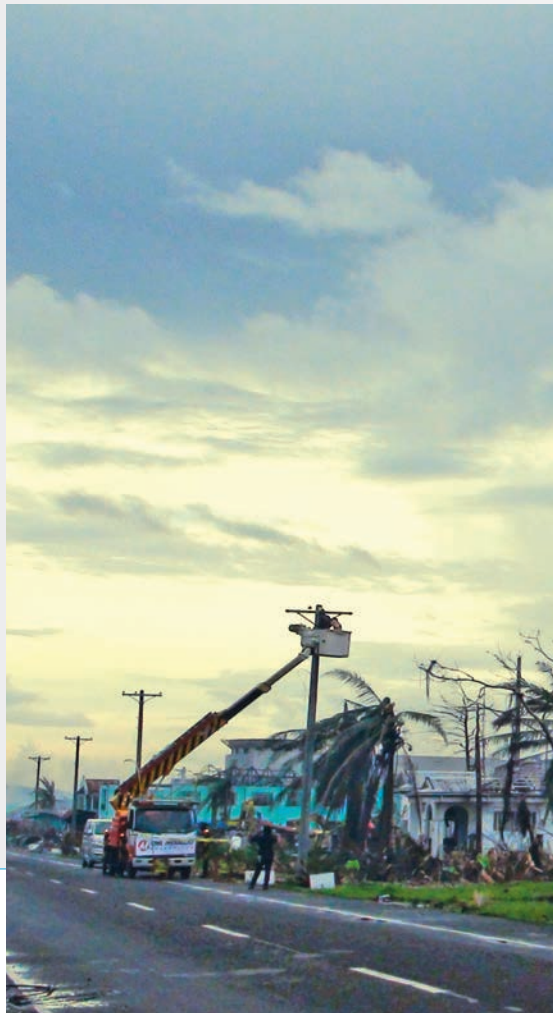
The Foundation also piloted, Akapela Open, a contemporary a capella group singing competition that hopes to improve our youth's artistic inclinations and use their talent in contributing to their communities' social development agenda.

Youth groups from both parish- and school- based choirs as far as Baguio in the north and Davao in the south joined the competition. This project is in partnership with the PLDT-Smart Foundation and the Music School of Ryan Cayabyab.

Serving at the greatest time of need

Perhaps, the biggest national challenge of 2013 was the devastation brought by Typhoon *Yolanda (Haiyan)*. The Company and the Foundation wasted no time in responding to the immediate needs of the victims and assisted the local electric cooperatives in restoring power in areas worst hit by the typhoon. OMF distributed bags of relief goods immediately to more than 12,000 families. Employees also volunteered in repacking the relief goods and sending them to various distribution points while the Foundation staff made actual relief distribution in the hard hit areas. Meralco employees also spearheaded Project 9 Mornings, where they sponsored dawn masses and breakfast for 1,000 church-goers in nine different towns to put more meaning to the traditional Simbang Gabi in Typhoon Yolanda affected areas.

To expedite the restoration of power in the provinces in the Panay Island and Leyte, Meralco sent 187 Meralco personnel in four contingents of linemen and power restoration equipment to aid electric cooperatives in Leyte, Iloilo,



Aklan and Capiz. Generator sets were also provided to immediately power-up vital facilities such as telecommunication facilities government offices, hospitals, evacuation and feeding centers.

In December 2013, One Meralco Foundation launched an internal fund-raising campaign dubbed "1 Day 2 Give" by Meralco employees to support the rehabilitation of schools severely damaged by the typhoon. It raised Php6.7M to be used for the reconstruction and rehabilitation of schools in Leyte, Capiz, Iloilo and Aklan. Some funds were also used to donate fishing boats to help revive livelihood for families in the various coastal towns.

Serving beyond us

Employee volunteerism is at the heart of our CSR philosophy. This year, 2,724 Meralco employees volunteered 25,584 hours in various programs that helped improve the life and lot of communities where Meralco operates. Nurtured by our corporate values of *malasakit* and *makabayan*, volunteerism activities included feeding undernourished children for six months, painted pedestrian lanes in public schools, coastal clean-up and tree-planting. Some 200 linemen also participated in the annual Brigada Eskwela program and assessed electrical safety of public schools.

25,584
Volunteer hours logged

24,808
Families affected by fire, monsoon, typhoons and earthquake received relief

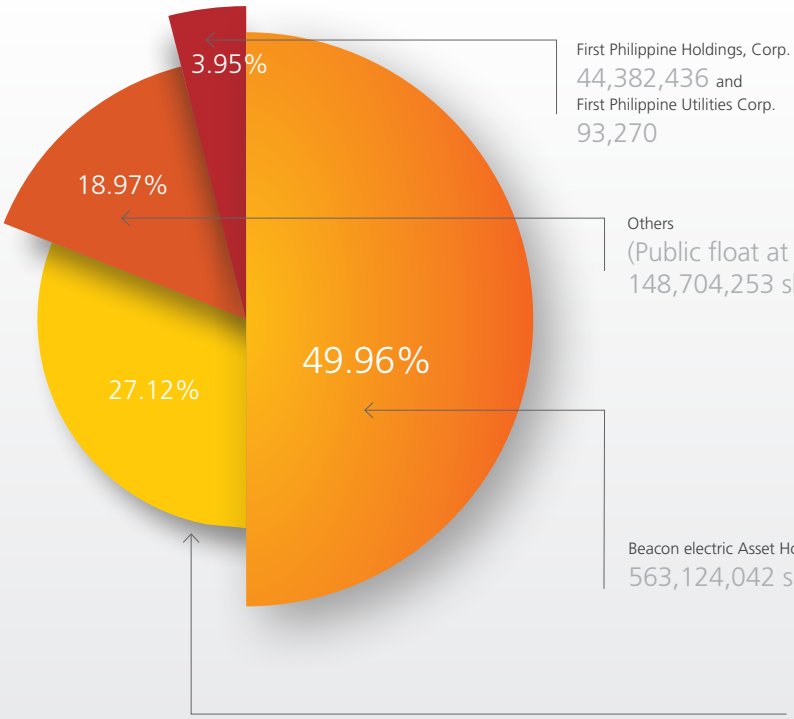


VISAYAS POWER RESTORATION
TYPHOON YOLANDA

In OMF, it is our privilege to work with countless servant leaders – in the Company, in partner organizations, in the communities – who look at the challenges face-to-face every day and never waiver in the commitment to overcome them. While the times we live in demand that we push ourselves harder, it is the spirit and determination to serve that keep us going so the people who deserve the opportunity to live productively and build a better future for their families and communities can see them truly happen.

How We Govern

Corporate governance plays a key role in ensuring sustainable relationships and interests among all stakeholders of the Company.



SHAREHOLDERS
as at December 31, 2013

The complete list of the Public Ownership Report of Meralco (the Company) as at December 31, 2013 was disclosed to the SEC and PSE on January 15, 2014, where approximately 14.50% of the Company shares is held by non-controlling institutional investors, and 5.04% is held by government financial institutions at 56,756,176 shares.

The Company's shares are held directly by the foregoing named shareholders. There is no known holding or cross-holding of shares. There is no pyramid shareholding structure within the Group.

2013 AWARDS FOR EXCELLENCE IN GOVERNANCE

Our governance structure is anchored on our strict adherence to the principles of fairness, accountability, integrity and transparency. In recognition of its good governance initiatives and practices, the Company received the following awards and distinctions in 2013:

- The Philippine Stock Exchange (PSE) recognized the Company as one of 5 recipients of the prestigious Bell Award for Publicly Listed Companies;
- The Institute of Corporate Directors (ICD) recognized the Company as a forerunner of the Top 50 Philippine Publicly Listed Companies;
- Corporate Governance Asia distinguished the Company as Asia's Icon on Corporate Governance;
- Integrity Initiative rated the Company as within the Advanced level in terms of integrity practices.

The Company's awards are featured on page 152 of this Annual Report.

I. RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

The Company treats its shareholders in an equitable manner and upholds their statutory rights, including the right to participate and vote in matters concerning:

- Changes in the Company's constitutional documents, such as amendments to its Articles of Incorporation or By-laws;
- Authorization for issuance of new shares or sale or transfer of the Company's substantial or major assets;
- Annual General Meeting (AGM);
- Election of members of the board of directors and board remuneration; and
- Appointment of external auditors.

Dividend Policy

The Company's dividend policy calls for the payment of regular cash dividends equivalent to 50% of core earnings for the year with a "look-back" basis, which allows the Company to pay special dividends of up to 70% of the core earnings for the year, subject to availability of unrestricted retained earnings and cash, in accordance with the guidelines of the Securities and Exchange Commission (SEC).

On June 19, 2013, Meralco was ranked 4th among the top Philippine corporations which received the distinction of being the "Most Committed to a Strong Dividend Policy" in a recent investor poll done by Hong Kong-based publication, FinanceAsia. This manifests the investors' recognition of how the Company upholds its shareholders rights through regular pay-out of dividends.

In 2013, the Company declared dividends amounting to PhP 10.55 per common share. Initial dividends amounting to PhP 4.10 per share was paid on September 20, 2013 and the final dividends amounting to PhP 6.45 per share was paid on May 8, 2014.

Annual General Meeting (AGM)

It is the Company's policy to encourage all shareholders, including institutional shareholders, to attend the AGM. The 2013 AGM was held on Tuesday, May 28, 2013, at 10:00AM at the Meralco Theater, Lopez Building, Ortigas Avenue, Pasig City.

The Company facilitates participation by shareholders who cannot attend the meeting in person, by enclosing proxy forms in the AGM Notice, on which they can indicate their votes. Shareholders may also download from the Company website, www.meralco.com.ph, proxy forms where they can provide detailed instructions to their duly appointed proxy.

The Corporate Secretary validated the existence of a quorum with the attendance of shareholders who owned or held a total of 992,725,792 shares or approximately 88.07% of the total issued and outstanding shares of the Company.

The Company granted all, including minority, shareholders with the right to propose in advance or inquire regarding agenda items and nominate directors, which were approved by the Board on March 22, 2013.

To provide shareholders with enough time to examine the information, the AGM Notice, which is in English, was posted on the Company's Website and distributed to shareholders on April 26, 2013, 32 days ahead of the AGM date of May 28, 2013.

In the AGM Notice, the Company stated essential facts and rationales on all agenda items for shareholders' due consideration.

A two-hour registration period was allotted before the AGM. An electronic system facilitated the registration and vote tabulation to expedite the process and ensure accuracy and reliability of all information.

The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that shareholders are entitled to one vote for one share. Votes were tallied and tabulated by the Corporate Secretary. Representatives from Reyes Tacandong and Co., an independent third party, validated the voting results for each agenda item.

The Company allowed shareholders to freely express their views and their questions were answered by the directors and senior management at the AGM.

2013 AGM Attendance

Director	Designation	Annual General Meeting (AGM) May 28, 2013
Ramon S. Ang	Vice-Chairman and Director	Present
Ray C. Espinosa[1]	Director	Present
Jose Ma. K. Lim	Director	Present
Manuel M. Lopez	Director	Present
Estelito P. Mendoza	Director	Absent
Artemio V. Panganiban[2]	Independent Director	Present
Manuel V. Pangilinan[3]	Chairman	Present
Vicente L. Panlilio*	Director	Present
Eric O. Recto*	Director	Present
Oscar S. Reyes	Director, President & CEO	Present
Pedro E. Roxas[4]	Independent Director	Present

[1] Chairman, Finance Committee
[2] Chairman, Audit and Risk Management Committee
[3] Chairman, Remuneration and Leadership Development Committee
[4] Chairman, Nomination and Governance Committee
* Messrs. Eric O. Recto and Vicente L. Panlilio resigned effective December 11, 2013. Messrs. James L. Go and Lance Y. Gokongwei were elected on December 16, 2013.

The Company posted the resolutions at the AGM on its website the following day so that non-attending shareholders might be immediately informed. Minutes of the AGM were distributed in English through the Company's website after the meeting date.

CORPORATE GOVERNANCE POLICIES

The Company's Manual of Corporate Governance (MCG) embodies the Company's fundamental governance policies and processes, which includes the qualifications, duties and responsibilities of directors and officers as well as the rights of the shareholders.

The Company's Code of Ethics (COE) prescribes ethical values and behavioral standards, required of all directors, officers and employees of the Company as they perform their respective duties and responsibilities.

The COE also includes provisions on the anti-corruption programmes and procedures of the Company. It strictly prohibits the commission of any act that may be construed as direct or indirect bribery and corruption of government officials to facilitate any transaction or gain any perceived or actual favor or advantage. It also mandates full cooperation in any investigation undertaken by government agencies.

The Company's Conflict of Interest Policy (COI) requires all directors, officers and employees to disclose promptly any personal interest in transactions involving the Company or other conflicts of interest situations. The Company requires directors and key management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when they are conflicted.

The Company monitors strict compliance with the COE, COI and other CG policies online through "HR Express Corporate Governance Facility," which is made accessible to all officers and employees.

Failure to comply with the COE, COI and other CG policies is immediately dealt with under the Company's internal rules and regulations.

The Policy on Blackout Period restricts the trading of shares by Company executives, officers and employees with direct access to unpublished information relating to the Company's financial and operating results through observance of a blackout period (15 calendar days before and 2 trading days after the release or announcement of the Company's quarterly and annual financial and operating results), when trading in Company shares is strictly prohibited.

The Company requires all its directors and officers to disclose to the SEC, PSE and Philippine Dealing & Exchange Corporation (PDEx) the details of any dealings, acquisition, disposal, or change in their beneficial ownership of the Company shares, within two business days after the transaction.

The E-Report Mo (Whistleblowing Policy) is an online facility which encourages the reporting of any violation of the Company's COE, COI or other CG policies, questionable accounting or auditing matters, and other malfeasance, including corrupt practices that may have been committed by the Company's directors, officers and employees. Employees, suppliers, customers, other stakeholders and the general public are allowed to freely communicate with the Company in good faith through the contact information of Corporate Governance Office (CGO) stated herein. The CGO, which functionally reports to the Board's Nominations and Governance Committee, is primarily tasked to investigate and submit its findings on any whistle blower report that it receives.

The Company provides appropriate protection to an employee/stakeholder who reports illegal/unethical/corrupt behaviour from any retaliation. In the

Corporate Governance Office

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

event of retaliation, the reporting person or witness may report the same to the CGO by filling out a Retaliation Protection Report Form for appropriate action by the Company.

In 2013, the Company resolved 82% of the reports it received from whistle blowers and investigations are on-going on the remaining cases.

The Suppliers' Business Conduct Policy requires the Company's Suppliers to adopt, practice and comply with the same corporate governance standards and business ethics that the Company has provided as a pre-requisite to their continuing accreditation.

The Company's Related Party Transactions (RPT) Policy ensures that transactions of the Company with its related parties are conducted in fair and at arms'-length terms. It requires the review of material/significant RPTs by the Audit and Risk Management Committee to determine whether these are in the best interest of the Company. This Policy also states that the Company does not grant loans or any special financial assistance to its directors.

The foregoing CG policies are available at the Company's website (www.meralco.com.ph) and the Company's Corporate Governance Intranet Portal.

In 2013, there has been no case of insider trading involving directors or officers of the Company and no RPTs may be classified as financial assistance to any entity other than the Company's wholly-owned subsidiary companies. The Company is fully compliant with the code and policies of corporate governance.

II. ROLE OF STAKEHOLDERS

The Company values its stakeholders and upholds their rights and interest as mandated by relevant laws and regulations, and the Company's internal policies.

Customers

The Company renders a high standard of service and fair treatment to its customers through the provision of reliable and reasonably priced services. It regularly undertakes, among others, customer satisfaction index (CSI) surveys to monitor its performance and continuously improve its services. Comprehensive details of these activities are discussed on page 22 of this Annual Report.

Suppliers

The Company prescribes clear and detailed procurement policies and procedures to ensure mutually beneficial relationship with its suppliers.

Company purchases are listed in a sourcing plan, which specifies the criteria and method for sourcing these purchase requirements. This plan is reviewed and approved through the Procurement organization. Pre-bid conferences are held among the Company's procurement personnel, end-users and prospective bidders. Only accredited suppliers may participate in Company's bidding. Details on the Company's supplier/contractor selection practice of vendor accreditation, bidding, technical and commercial evaluation and awarding procedures may be found in the "Suppliers" tab of the Company website.

Creditors

The Company strictly complies with its credit agreements through timely loan and interest payments, and adherence to loan covenants. It competently operates the business to assure creditors of the Company's financial standing and credit rating. More details are found on the Notes to Consolidated Financial Statements on Financial Assets and Liabilities on page129 of this Annual Report.

Employees

The Company guarantees fair treatment and equal opportunity to all its employees, in terms of compensation, competency development and career advancement. The Company also provides suitable and safe working conditions to protect its employees from injury and illness in the workplace. In addition, the Company encourages open and honest communication and sharing of information that promote teamwork, productivity and empowerment. More details on employee training and compensation policy appear on page 26 of this Annual Report.

Government

The Company strictly complies with the laws, rules and regulations promulgated and issued by the Government including those of the SEC, PSE, PDEx, Energy Regulatory Commission (ERC), Department of Energy (DOE), Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and Local Government Units (LGUs), for the common good.

Society, Communities and the Environment

The Company strictly monitors its business activities and operations to ensure sustainable development and safeguard the quality of life of society, communities, and the environment in the areas where it operates. Relevant details appear on page 38 of this Annual Report.

INTERNAL AUDIT

The Company's Internal Audit is a key role and functioning instrument in safeguarding the efficiency, effectiveness, control and risk management of the Company's operations, the accuracy and reliability of its financial reports, and strict compliance to relevant laws and regulations. The tasks of the Internal Audit team in monitoring and reporting on control of the financial reporting process and internal control system; information technology security and control; the auditing process;

enterprise-wide risk management; and compliance are set out in the Corporate Audit Charter and the Manual of Corporate Governance of the Company.
A risk-based internal audit plan is prepared annually and approved by the Audit and Risk Management Committee. The Internal Audit Group issues reports to Senior Management and the Audit and Risk Management Committee as well as the concerned group being audited on the results of reviews and audits covering various units of the Company and its subsidiaries including specific areas of concern identified by Management. The findings are reviewed and resolved as appropriate, by the Audit and Risk Management Committee, which in turn renders the relevant report to the Board. Significant concerns, which have been reported by the Internal Audit team, and the implementation of responsive remedial measures, are monitored by Management and by the Audit and Risk Management Committee. The Audit and Risk Management Committee recommends to the Board the appointment and/or removal of the internal auditor.

The Company's Internal Audit Group is headed by the Chief Audit Executive who reports functionally to the Audit and Risk Management Committee and administratively to the President & CEO in a manner outlined in the Corporate Audit Charter.

EXTERNAL AUDIT

The Company's external auditors, SyCip, Gorres, Velayo & Co. (SGV) were evaluated and nominated by the Audit and Risk Management Committee which endorsed to the Board SGV's re-appointment together with their audit fees. Such recommendation was approved by the Board for endorsement to the shareholders and thereafter was approved by the shareholders in the AGM held on May 28, 2013.

III. DISCLOSURE AND TRANSPARENCY

The Company is committed to transparent, thorough, and timely disclosures of information, whether financial or non-financial, so that regulators, shareholders and all stakeholders may regularly receive reliable and adequate information for their decisions. These disclosures cover material information or current news clarifications such as quarterly reports, public ownership report, trading and shareholdings of major and/or substantial shareholders, directors, officers, strategic stockholders, subsidiaries and affiliates (please refer to page 55 for details of their shareholdings as of Dec. 31, 2013), business acquisition or financing plans, and annual reports which are submitted to the SEC, PSE's Electronic Disclosure Generation Technology (EDGE) disclosure system, PDEx, and posted on the Company website.

Highlights of the Company's 2013 Audited Consolidated Financial Statement were released on March 17, 2014, 76 days after financial year end. The Statement of Management's Responsibility accompanying the Audited Consolidated Financial Statements was signed by the Chairman of the Board, the President & CEO, and the Chief Finance Officer (CFO), a copy of which is presented on page 73 of this Annual Report.

Through quarterly Analysts' and Media Briefings attended by shareholders, analysts, investors and members of the media, the officers of the Company, including the President & CEO, CFO, Head of Networks, Head of Regulatory, Head of Customer Retail Services and Corporate Communications and Investor Relations Officers, present information on the Company's performance results, business progress, industry trends, impact of external factors and regulations. Presentations used in these meetings are posted on the Company website to ensure that the Company's quarterly performance is comprehensively disseminated to all investors, including those who were not able to attend and participate.

IV. BOARD RESPONSIBILITY

The Board is governed by the SEC's Revised Code of Corporate Governance and the MCG. The duties and responsibilities of the Board include, but are not limited to, the formulation, regular review and update of the Company vision, mission, strategic objectives, policies and procedures including corporate governance that guide its activities; the approval and pro-active oversight and review of the implementation of the corporate strategy including the Company's 5-year Business Plan and the Company's current year operations and capital expenditures and investments; oversight on risk management; setting up an accountability system with the inclusion of rewards, incentives and penalties; and the promotion of an ethical, social and good governance

CONSOLIDATED EXTERNAL AUDITOR'S FEES
(in million PhP)

	2013	2012
Audit of Consolidated Financial Statements	7.3	6.3
Review of Interim Consolidated Financial Statements	1.8	–
Total	9.1	6.3

No non-audit services were performed by the external auditors in 2013.

culture within the Company. A complete list of the Board duties and responsibilities is provided in the MCG, which is accessible at the Company's website. Also the types of decisions for approval by the Board such as acquisitions, issuance of new shares, loan agreements, major contracts and the like, are fully disclosed.

The Board plays a crucial role in steering the Company's growth by overseeing Management's implementation of the corporate objectives, which are measured using financial and non-financial indicators and may be found in the Joint Report of the Chairman and the President & CEO on page 6 of this Annual Report.

Board Nomination and Selection Criteria

All members of the Board are elected by the shareholders during the AGM. The Nomination and Governance Committee is responsible for the screening of candidates in accordance with the criteria set under the MCG, which includes the following: a) college education or skills needed to effectively carry out his functions as director; b) integrity/probity; c) strong adherence to legal and moral principles, and; d) practical understanding of business in general and of the Company's business, in particular. The final list of candidates, as screened by the Nomination and Governance Committee, are submitted to the Board for approval and is made known to all shareholders through the Information Statement filed by the Company.

Board Structure

The Board consists of 11 directors: two of which are independent directors (ID), eight are non-executive directors and one executive director. A list of directors' profiles appears on page 58 of this Annual Report.

The separate roles and responsibilities of the Chairman of the Board and the President & CEO is highlighted by the election of a non-executive director, Mr. Manuel V. Pangilinan, as Chairman of the Board and an executive director, Mr. Oscar S. Reyes, as the President & CEO.

A non-executive director, Ambassador Manuel M. Lopez, had prior work experience in the sector or broad industry group to which the Company belongs. He had been the Chairman, President & CEO of the Company since 2001 up to 2010. Please refer to the section Board of Directors of this Annual Report for the complete profile of our directors.

Board Diversity

To encourage diversity, Board members are selected without regard to their gender, race, religion, or age.

Board Independence

The Company complies with Rule 38 of the Implementing Rules of the Securities Regulation Code on the qualifications, nomination and election of independent directors. Each elected independent director has no business or other relationship with the Company that could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as an independent director.

The Company is also governed by SEC Circular No. 9 Series of 2011, which sets the qualifications for independent directors as individuals who: (a) exercise independent judgment and with no close relationship, either by blood (within the third degree of consanguinity) or marriage, with significant stockholders, the CEO or any member of our Company's top management team; and (b) have not served the Company as an officer or significant service provider (including the Company's external auditor), unless two (2) years have elapsed since the termination of that service.

The profiles and certificates of qualifications of the Company's IDs are disclosed to the SEC and posted in the Company website immediately after their election at the AGM. No one among the Company's IDs have served as such for more than nine (9) years.

Please refer to the section on "Board of Directors" for details on the term of appointments of our IDs.

Chairman of the Board

The Chairman of the Board sets the agenda for and presides at the AGM and the Board meetings; ensures that the meetings of the Board are held in accordance with the Company's By-Laws; maintains qualitative and timely lines of communication and information between the Board and Management; and ensures that the Board exercises strong oversight over the Company and its Management. His roles and responsibilities are specified in the Company's By-laws and the MCG.

Board Meetings

The Board jointly plans meeting dates at the start of the calendar year, with at least twelve regular monthly meetings for the year. In 2013, there were thirteen Board meetings held and each director had attended at least 77% of all the meetings.

All directors may propose agenda items for consideration by the Chairman for inclusion in the meeting.

The Corporate Secretary distributes the Board meeting materials and papers to all directors at least five days prior to the date of the meeting.

In 2013, the non-executive directors met 13 times without the presence of the executive director.

Board Remuneration

The Company's directors receive a per diem allowance for their attendance in the Board and Board Committee meetings. Each director is entitled to a per diem allowance of One Hundred Twenty Thousand Pesos (Php 120,000.00) for each board meeting attended. Each member of the different committees is entitled to a per diem allowance of Twenty Thousand Pesos (Php 20,000.00) for each committee meeting attended.

In 2013, to recognize and reward the invaluable services rendered by the Company's directors and their guidance and oversight in profitably steering the Company to consistent outstanding sales, operations and financial performance in the last four (4) years, the shareholders approved an additional remuneration for the Board of Directors. The additional remuneration is in the form of a stock grant (Grant) of 5,000 common shares of stock of the Company per year for each director for a total Grant of 15,000 shares over a three (3) year period payable at the end of the third year. A director may opt to receive the cash equivalent of the shares fixed at PHP 1.5 million for each year. A director who resigns or is nominated and appointed through the remaining term of a resigned director shall be entitled to a proportionate amount of the Grant. The total value of such additional compensation, in whatever form so given, shall not exceed one percent (1%) of the net income before income tax of the Company during the preceding year.

Accomplishments of the Board

In accordance with the provisions of the MCG, the Board is primarily responsible for the governance of the Company. It establishes the Company's vision and mission statements, strategic objectives, policies and procedures that shall guide its corporate activities, including the mechanisms for effective monitoring of the Management's performance.

In 2013, the Board's major accomplishments include:

- Review of the mission and vision of the Company;
- Review of the annual corporate strategy;
- Review of the performance of the President & CEO vis-à-vis the attainment of the Company's corporate objectives and goals;
- Approval of major acquisitions by the Company;
- Approval of the Company's performance incentive plans;
- Approval of nominees to the Board;
- Approval of the Annual Corporate

2013 Board Meeting Attendance

Director	Designation	May 28, 2013		Board Meetings
		Annual General Meeting	Organizational Meeting	
Ramon S. Ang*	Vice-Chairman and Director	Present	Present	10/13
Ray C. Espinosa[1]	Director	Present	Present	13/13
Jose Ma. K. Lim	Director	Present	Present	12/13
Manuel M. Lopez	Director	Present	Present	13/13
Estelito P. Mendoza*	Director	Absent	Absent	11/13
Artemio V. Panganiban[2]	Independent Director	Present	Present	13/13
Manuel V. Pangilinan[3]	Chairman	Present	Present	13/13
Vicente L. Panlilio**	Director	Present	Present	10/13
Eric O. Recto**	Director	Present	Present	12/13
Oscar S. Reyes	Director	Present	Present	13/13
Pedro E. Roxas[4]	Independent Director	Present	Present	12/13
James L. Go**	Director	N/A	N/A	1/1
Lance Y. Gokongwei**	Director	N/A	N/A	1/1

[1] Chairman, Finance Committee
[2] Chairman, Audit and Risk Management Committee
[3] Chairman, Remuneration and Leadership Development Committee
[4] Chairman, Nomination and Governance Committee
* Mr. Ramon S. Ang and Atty. Estelito P. Mendoza resigned and were replaced by Messrs. John L. Gokongwei, Jr. and Napoleon L. Nazareno effective March 31, 2014.
** Messrs. Eric O. Recto and Vicente L. Panlilio resigned effective December 11, 2013. Messrs. James L. Go and Lance Y. Gokongwei were elected on December 16, 2013.

2013 Executive Sessions

Date	Meeting
February 25	Finance Committee
March 15	Audit and Risk Management Committee
March 18	Nomination and Governance Committee
March 22	Finance Committee
April 22	Finance Committee
May 27	Nomination and Governance Committee Finance Committee
July 29	Finance Committee
August 23	Finance Committee
September 23	Finance Committee
October 25	Finance Committee
December 16	Nomination and Governance Committee

Governance Report (ACGR) and Related Party Transactions Policy;
- Approval of the Company's long-term peso bond offering;
- Approval of cash dividends;
- Review of reports on the Company's material controls (including operational, financial and compliance controls) and risk management systems; and
- Approval of the schedule of regular Board meetings, AGM, and organizational meetings.

The Board is primarily responsible for the governance of the Company. It establishes the Company's vision and mission statements, strategic objectives, policies and procedures that shall guide its corporate activities.

MISSION - To provide our customers the best value in energy, products and services.

VISION - To be a world-class company and the service provider of choice.

Conduct of Board and Committee Performance Assessment

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

The Board conducted a performance assessment on February 24, 2014, using assessment forms, which covered the following criteria:

1. **Board Self-Assessment** - each director assessed the board performance as a whole and their individual performance on the following categories:
   - Board structure and qualifications
   - Board duties and responsibilities
   - Duties and Responsibilities as an Individual Director

2. **General Board Committee Performance Assessment** – each director assessed the overall performance of the following committees, based on the provisions of the Board Committee Charters.

3. **Board Committee Self-Assessment** each committee member assessed his committee's performance vis-à-vis the respective charters and SEC's Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange.

A summary of the responses is prepared by the Corporate Governance Office and submitted to the Nomination and Governance Committee and the Board as an agenda item for acknowledgment.

Conduct of President & CEO Performance Assessment

The Board also reviewed the performance of the President & CEO, based on the attainment of key performance indicators and corporate goals. The President & CEO's 2013 performance review was conducted on April 30, 2014.

Training and Seminars of the Board

The Company encourages its directors and officers to attend continuous professional education programs. It provides information to the Board of upcoming seminars and training courses dedicated to directors. Details of attendance at seminars and participation in directors' training courses may also be found under the Corporate Governance -Meetings and Seminars Section in the Company's website.

Accomplishments of Board Committees

The Board formed five Board Committees to assist in the exercise of its functions. The members of these committees were appointed by the Board during the organizational meeting held immediately after the AGM. All committees have approved charters defining and specifying the scope of their responsibilities. Copies of the Board Committee charters were disclosed to the SEC and are also available in the Company website.

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

A. The Executive Committee is composed of five (5) directors, one of whom is an independent director. The Executive Committee may act, by majority vote of its members, on such specific matters within the competence of the Board, as may be delegated to it under the By-Laws, or upon a majority vote of the Board, subject to the limitations provided by the Corporation Code of the Philippines.

In 2013, the Executive Committee had four (4) meetings and accomplished, among others, the following:

- Evaluation of major acquisitions of the Company; and
- Review of financing structure for capital expenditure projects;

Corporate Governance Trainings and Seminars of Directors

Director	Program	Trainor/Training Institution
Manuel V. Pangilinan Ray C. Espinosa Jose Ma. K. Lim Oscar S. Reyes Artemio V. Panganiban	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Partner, Compliance System Legal Group
	Navigating the New World of Business (Exclusively for First Pacific Group of Companies)	Thomas Donaldson The Wharton School of Business
	Board Governance Responsibilities: Risks, Culture and Leadership (Sponsored by PLDT Corporate Governance Education Program)	Steven John Priest, Senior Advisor, Global Compliance Services, Inc. USA.
Pedro E. Roxas	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson – Partner, Compliance System Legal Group
	Navigating the New World of Business (Exclusively for First Pacific Group of Companies)	Thomas Donaldson The Wharton School of Business
	Board of Directors Fiduciary Duties and Role in Relation to ERM: Best Practices in Dealing with the Agency Dilemma and Setting a Company's Risk Appetite	Mr. Marc Ronez, Managing Director, Asia Risk Management Institute (AriMI)
Manuel M. Lopez	Corporate Governance Orientation	Cecile R. Galvez Partner, SGV & Co. and Knowledge Institute, Makati City
James L. Go	Corporate Governance Orientation	Leonardo J. Matignas Jr., Partner, SGV & Co. and Knowledge Institute, Makati City
Lance Y. Gokongwei	Corporate Governance and Risk Management	ATENEO-Bankers Association of the Philippines, Institute of Banking
Ramon S. Ang	Directors Training: Role of Company Director and Regulatory Framework and Board Practices Overview of Risk Management	The Hong Kong Institute of Directors
Estelito P. Mendoza	Corporate Governance Orientation	Danilo L. Concepcion, Associate Dean and Supervisor (U.P. Law Center)

B. The Remuneration and Leadership Development Committee is composed of four (4) directors, one of whom is an independent director. The duties and responsibilities of the Remuneration and Leadership Development Committee as defined in its charter include assistance to the Board in the development of the Company's overall performance management, compensation, retirement and leadership development policies and programs.
The Remuneration and Leadership Development Committee had five (5) meetings in 2013 and accomplished the following:

- Reviewed the results of and corresponding merit increase for employee performance;
- Reviewed and endorsed for approval the annual incentive plans for employees;
- Reviewed and endorsed the first cycle of employees' Long-Term Incentive Plan;
- Presented the study on Board remuneration;
- Conducted performance evaluation of the President & CEO;
- Presented the talent management and succession planning program and activities; and
- Reviewed and endorsed to the Board confirmation of officers' appointment.

Advisers/Consultants to the Remuneration and Leadership Development Committee
Towers Watson, a human resources consulting firm, provided professional consultancy services to the Company in the areas of employee engagement and compensation and benefits management.

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

The Nomination and Governance Committee had four (4) meetings in 2013 and completed the following:

- Screening and selection of the nominees for election as members of the Board as provided by the rules on nomination of candidates;
- Review and approval of the Company's Annual Corporate Governance Report (ACGR);
- Validation of proxies for 2013 AGM;
- Review of the charter of the different board committees;
- Conduct of the Board and Board Committee Performance Self-assessment and evaluation of its results;
- Facilitation of annual corporate governance enhancement and continuing education programs for the Board and Senior Management; and
- Facilitation of directors' resignation, nomination and election.

D. Audit and Risk Management Committee - The composition, meetings and functions of the Committee are found in the Audit and Risk Management Committee Report on page 72 of this Annual Report. The Audit and Risk Management Committee charter is reviewed and assessed annually. Proposed changes are submitted to the Board for approval and appropriate disclosure as may be required by law or regulation is ensured. The terms of reference as set out in the MCG and the Audit and Risk Management Charter are available in the Company's website.

E. The Finance Committee – is composed of four (4) directors, one of whom is an independent director, with the Chief Finance Officer (CFO) as ex-officio member. It reviews the Company's financial operations and other matters such as acquisition and/or divestment of investments, businesses or ventures, and major procurement contracts.
In its 12 meetings in 2013, the following were covered:

- Review and recommendation of approval of the medium-term financial plans;
- Endorsement of cash dividend declarations;
- Review of quarterly cash projections and finance operations reports;
- Review of proposals for new debts and refinancing of existing obligations;
- Review of joint ventures, investment and acquisition plans;
- Review and recommendation of equity infusion or capital restructuring of subsidiaries;
- Review of major purchase contracts and special purpose vehicles;
- Endorsement of the disposal of a Company property no longer necessary to operations;
- Resolutions for tax credit claims; and
- Review and recommendation of approval of bond offering, bank accreditation and signing authorities.

Corporate Secretary
The Corporate Secretary is tasked to provide adequate and reasonable support and assistance to the Board.

Among his duties are the following:
- Facilitate the scheduling and conduct of AGM, Organizational and Board meetings;
- Prepare the necessary Board papers for each of the items in the meeting agenda and circulates such materials at least five business days prior to the date of the Board meetings;
- Provide ready and easy access to information that directors may need for their deliberation on issues listed on the agenda of the Board;
- Attend all board meetings and maintain records of the same ensuring proper safekeeping of all records;
- Ensure that all board procedures, rules and regulations are faithfully followed;

- Submit required reports and disclosures to SEC, PSE, PDEx and other regulatory agencies; and
- Conduct orientation program for new members of the Board regarding the Company's organizational structures and business operations. Such Orientation Program for New Directors was held January 13, 2014 for Messrs. James L. Go and Lance Y. Gokongwei.

The outline of the orientation program is available in the Company's website.

The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer possessed all the qualifications and skills required of his position including adequate legal, administrative, basic accountancy, company secretarial and interpersonal skills.

The attendance of the Board Committee members are provided as follows:

Succession Planning of CEO and Senior Management

The Board and its Remuneration and Leadership Development Committee are responsible for overall guidance and direction on succession planning and leadership development of the President/CEO and Senior Management. The President/CEO, working closely with the Head of Human Resources, drives the strategy for succession planning, leadership development and talent management. The Head of Human Resources develops and implements the processes and the tools to ensure robust pools of succession candidates for the President/CEO, Senior Management, middle management and first line management.

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

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

Board Committee Meetings

Member	2013 Board Committee Meeting Attendance				
	Executive	Nomination and Governance	Audit and Risk Management	Remuneration and Leadership Development	Finance
Ramon S. Ang	1/4	N/A	N/A	N/A	N/A
Anabelle L. Chua [1]	N/A	N/A	8/9	N/A	9/12
Ferdinand K. Constantino[1]	N/A	N/A	N/A	N/A	11/12
Ray C. Espinosa	N/A	4/4	N/A	N/A	12/12
Jose Ma. K. Lim	N/A	3/4	8/9	3/5	N/A
Manuel M. Lopez	2/4	N/A	N/A	N/A	10/12
Estelito P. Mendoza	N/A	3/4	N/A	N/A	N/A
Artemio V. Panganiban[2]	4/4	N/A	9/9	N/A	N/A
Manuel V. Pangilinan	4/4	N/A	N/A	5/5	N/A
Vicente L. Panlilio	N/A	N/A	8/9	N/A	N/A
Eric O. Recto	4/4	N/A	8/9	4/5	11/12
Oscar S. Reyes	N/A	N/A	N/A	N/A	N/A
Pedro E. Roxas[2]	N/A	4/4	8/9	5/5	9/12

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

Shareholdings of Directors and Key Officers as at December 31, 2013
(As disclosed to the PSE/SEC in 2013)

Name	Starting Balance[1]	Buy[2]	Sell[2]	Ending Balance	Direct	Indirect Holdings[3]	Total Shares[3]	% to Total Share[3]
A. Directors								
1. Manuel V. Pangilinan - Chairman	25,000	-	-	25,000	1,000	24,000	25,000	0.00%
2. Ramon S. Ang – Vice Chairman	1	-	-	1	1	-	1	0.00%
3. Oscar S. Reyes – President/CEO	268	-	-	268	268	-	268	0.00%
4. Ray C. Espinosa	1,000	20,000	-	21,000	1,000	20,000	21,000	0.00%
5. James L. Go	-	10	-	10	10	-	10	0.00%
6. Lance Y. Gokongwei	-	10	-	10	10	-	10	0.00%
7. Jose Ma. K. Lim	10	-	-	10	10	-	10	0.00%
8. Manuel M. Lopez	796,625	-	-	796,625	796,625	-	796,625	0.07%
Manuel M. Lopez &/or Ma. Teresa Lopez	1,449,293			1,449,293	1,449,293	-	1,449,293	0.13%
9. Estelito P. Mendoza	1		-	1	1	-	1	0.00%
10. Artemio V. Panganiban	1	-	-	1	1	-	1	0.00%
11. Pedro E. Roxas	1,000			1,000	1,000	-	1,000	0.00%
TOTAL	**2,273,199**	**20,020**	**-**	**2,293,219**	**2,249,219**	**44,000**	**2,293,219**	**0.20%**
B. Executive Officers with shareholdings in the Company								
1. Simeon Ken R. Ferrer – Corporate Secretary	767	-	-	767	668	99	767	0.00%
2. Ricardo V. Buencamino	20,000	-	-	20,000	-	20,000	20,000	0.00%
3. Roberto R. Almazora	56,674	-	-	56,674	50,935	5,739	56,674	0.00%
4. Alfredo S. Panlilio	-	668	-	668	-	668	668	0.00%
5. Ramon B. Segismundo	-	6,500	-	6,500	-	6,500	6,500	0.00%
6. Rafael L. Andrada	44,681		24,681	20,000	-	20,000	20,000	0.00%
7. Ruben B. Benosa	11,731	-	-	11,731	232	11,499	11,731	0.00%
8. Helen T. De Guzman	3,580	511	-	4,091	1,091	3,000	4,091	0.00%
9. Ivanna G. Dela Peña	3,500	25,731[4]	2,500	26,731	26,231	500	26,731	0.00%
10. Marthyn S. Cuan	2,150	-	-	2,150	-	2,150	2,150	0.00%
11. Rustico C. De Borja, Jr.	31,194	-		31,194	16,069	15,125	31,194	0.00%
12. Gerardo F. Dela Paz	14,074	-	5,000	9,074	874	8,200	9,074	0.00%
13. Manolo C. Fernando	14,456		-	14,456	14,456	-	14,456	0.00%
14. Ferdinand O. Geluz	-	1,000	-	1,000	1,000	-	1,000	0.00%
15. Nixon G. Hao	22,263	-	19,472	2,791	601	2,190	2,791	0.00%
16. Nestor P. Sarmiento	323	18,653[4]	-	18,976	18,976	-	18,976	0.00%
17. Liza Rose G. Serrano-Diangson	18,294	-	2,000	16,294	11,338	4,956	16,294	0.00%
18. Manuel Lorenzo L. Tuason	22,180	-	-	22,180	-	-	22,180	0.00%
TOTAL	**265,867**	**53,063**	**53,653**	**265,277**	**164,651**	**100,626**	**265,277**	**0.02%**

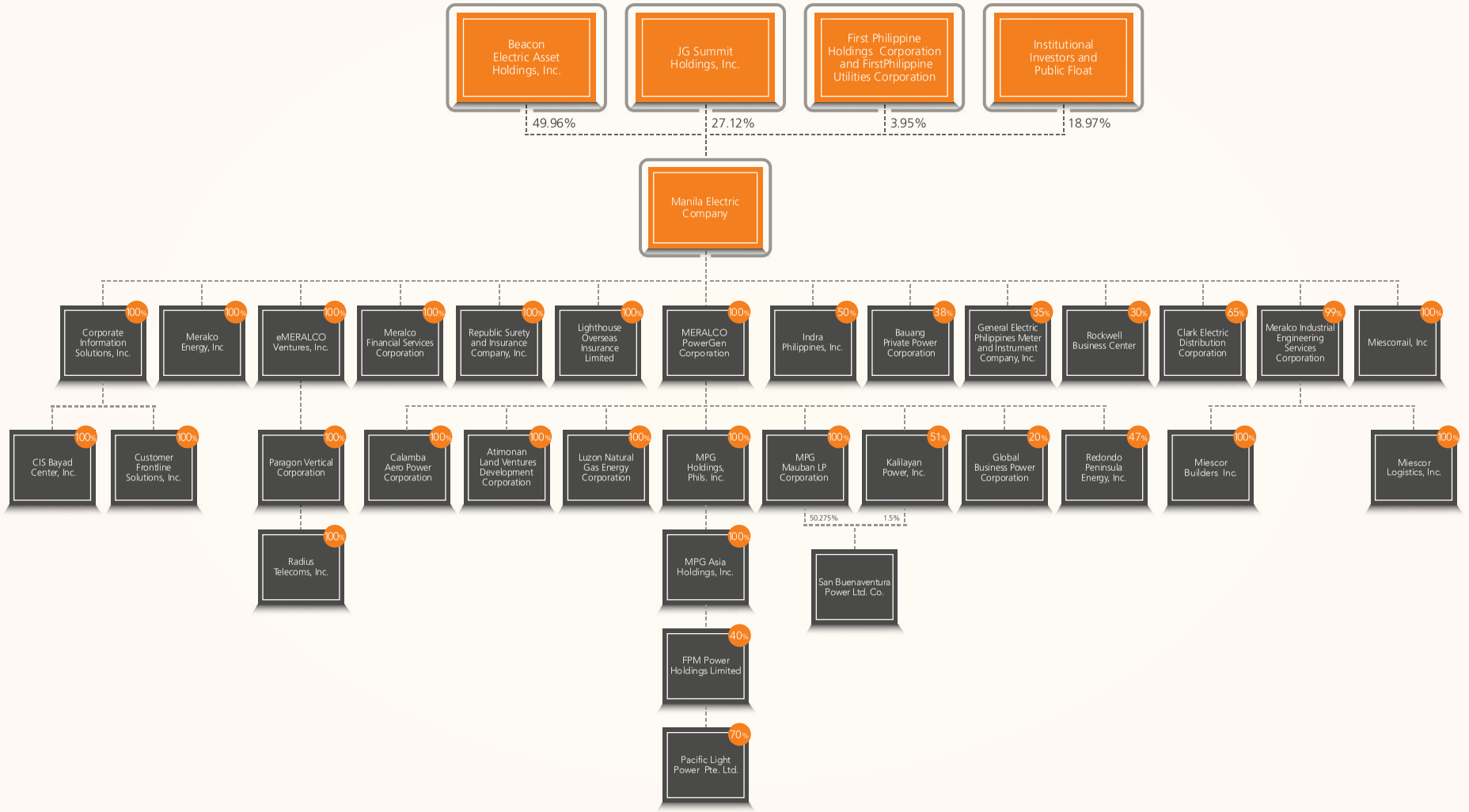
Note:
[1]Based on the January 14, 2013 PSE/SEC Disclosure on Public Ownership Report as at December 31, 2012.
[2]Based on the PSE/SEC Disclosures on Statement of Beneficial Ownerships for the year ended December 31, 2013.
[3]Based on the January 14, 2014 PSE/SEC Disclosure on Public Ownership Report as at December 31, 2013.
[4] Paid up Employee Stock Purchase Plan (ESPP)

Principal, Strategic and Subsidiaries/Affiliates Shareholdings as at December 31, 2013
(As disclosed to the PSE/SEC in 2013)

	Name	Beginning Shareholdings[1]	Buy[2]	Sell[2]	Ending Shareholdings	Direct Holdings[3]	Indirect Holdings[3]	Total Shares[3]	% to Total Share [3]
A.	Principal Stockholder								
	Beacon Electric Asset Holdings, Inc.	544,442,898	18,861,144		563,124,042	563,124,042	-	563,124,042	49.96%
	JG Summit Holdings, Inc.		153,191,489		153,191,489	153,191,489	-	153,191,489	13.59%
	JG Summit Holdings, Inc. (thru PCD)		152,497,908		152,497,908	152,497,908	-	152,497,908	13.53%
	San Miguel Corporation	241,872,280		241,872,280	-		-	-	0.00%
	SMC Global Power Holdings Corporation	69,059,538		69,059,538	-		-	-	0.00%
	San Miguel Pure Foods	59,090,909		59,090,909	-		-	-	0.00%
	TOTAL	914,465,625	324,370,541	370,022,727	868,813,439	868,813,439	-	868,813,439	77.08%
	Note: PCD Nominee Corp. owns over 10%, however other than what is reflected herein, any participant owning 10% ormore is unknown to the issuer.								
B.	Strategic Stockholder								
	First Philippine Holdings Corporation	44,382,436			44,382,436	44,382,436	-	44,382,436	3.94%
	First Philippine Utilities Corporation	93,270			93,270	93,270	-	93,270	0.01%
	TOTAL	44,475,706	-	-	44,475,706	44,475,706	-	44,475,706	3.95%
C.	Subsidiaries/Affilites with Shareholdings in the Company								
	Corporate Information Solutions, Inc.	12,526,00			12,526,00	12,526		12,526,00	0.00%
	TOTAL	12,526,00	-	-	12,526,00	12,526	-	12,526,00	0.00%

Note:
[1]Based on the January 14, 2013 PSE/SEC Disclosure on Public Ownership Report as at December 31, 2012.
[2]Based on the PSE/SEC Disclosures on Statement of Beneficial Ownerships for the year ended December 31, 2013.
[3]Based on the January 14, 2014 PSE/SEC Disclosure on Public Ownership Report as at December 31, 2013.

MANILA ELECTRIC COMPANY
As at December 31, 2013



Our Guiding Leadership



MANUEL V. PANGILINAN, 67

Director (since May 26, 2009)
President and CEO (July 1, 2010 to May 28, 2012)
Chairman (since May 29, 2012)

Mr. Pangilinan is the Chairman of Beacon Electric Asset Holdings, Inc., Philippine Long Distance Telephone Company*, Smart Communications, Inc., Metro Pacific Investments Corporation*, PLDT Communications and Energy Ventures Inc., Landco Pacific Corporation; Medical Doctors, Inc. and Colinas Verdes Corporation (operating Makati Medical Center and Cardinal Santos Medical Center, respectively), Davao Doctors Inc., Riverside Medical Center, Inc. in Bacolod City, Our Lady of Lourdes Hospital, Asian Hospital, Inc., Maynilad Water Services Corporation, Mediaquest, Inc., Associated Broadcasting Corporation (TV5), Philex Mining Corporation*, Manila North Tollways Corporation and Meralco Powergen Corporation. He is the Chief Executive Officer and Managing Director of First Pacific Company Limited, a publicly-listed company in Hong Kong and Co-Chairman of the newly-organized US-Philippines Business Society. He is the Chairman of the Board of Trustees of San Beda College, Hongkong Bayanihan Trust, Disaster Recovery Foundation, Inc., Philippine Business for Social Progress; and Vice-Chairman of the Foundation for Crime Prevention. He was a member of the Board of Overseers of The Wharton School, University of Pennsylvania and a former Governor of the Philippine Stock Exchange.

Mr. Pangilinan holds a Bachelor of Arts degree, cum laude, in Economics from the Ateneo de Manila University and a Masters in Business Administration from Wharton School of Finance and Commerce, University of Pennsylvania, where he was a Procter & Gamble Fellow.



RAMON S. ANG, 59

Director and Vice Chairman
(since February 1, 2009 – 4 years)

Mr. Ang is the Vice Chairman, President and Chief Operating Officer of San Miguel Corporation*. He is the Chairman and Chief Executive Officer of Petron Corporation*, Petron Marketing Corporation and SMC Global Power Holdings Corporation. Mr. Ang also holds the following positions: President and Chief Operating Officer of PAL Holdings, Inc.* and Philippine Airlines, Inc.; Vice Chairman of Ginebra San Miguel, Inc.*, San Miguel Pure Foods Company, Inc.* and San Miguel Yamamura Haiphong Glass Co. Limited (Vietnam); Director of Air Philippines Corporation; Chairman of San Miguel Brewery Inc.*, San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Eastern Telecommunications Philippines, Inc., Liberty Telecoms Holdings, Inc.*, Sea Refinery Corporation and Philippine Diamond Hotel and Resort Inc.; Chairman and President of San Miguel Properties, Inc., San Miguel Consolidated Power Corporation, San Miguel Electric Corporation, San Miguel Energy Corporation, SMC Consolidated Power Corporation, SMC Power Generation Corporation and SMC PowerGen, Inc. Mr. Ang is a Director of other subsidiaries and affiliates of the San Miguel Group of Companies in the Philippines and Southeast Asia. He holds a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.



OSCAR S. REYES, 67

Director, (since July 1, 2010 – 3 years)
Chief Operating Officer (July 1, 2010 to May 28, 2012)
President and CEO (since May 29, 2012)

Mr. Reyes is the Chairman and Independent Director of Pepsi Cola Products Philippines, Inc.* ; Independent Director of Bank of the Philippine Islands*, Manila Water Company, Inc.*, Ayala Land, Inc.*, Basic Energy Corporation* and Coco Capital Inc.; President and Director of Meralco PowerGen Corporation; Chairman and Director of Redondo Peninsula Energy, Inc., Meralco Industrial Engineering Services, Inc., Meralco Energy, Inc., CIS Bayad Center, Inc., PacificLight Power Pte, Ltd., and Link Edge Inc.; Director of Republic Surety & Insurance Company Inc., Sun Life Financial Phils, Inc., Sunlife Prosperity Funds, Grepalife Asset Mangement Corp., Petrolift Corp. and Asian Eye Institute; and a member of the Advisory Board of Philippine Long Distance Telephone Company*. He served as Country Chairman of the Shell Companies in the Philippines and concurrently President of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B.V. He is a member of the Vice-Chairman and member of the Board of Trustees of One Meralco Foundation, Inc.; and member of the Board of Trustee of Pilipinas Shell Foundation, Inc., SGV Foundation, Inc. and El Nido Foundation, Inc.

He holds a Bachelor of Arts degree, cum laude, in Economics from the Ateneo de Manila University and finished post-graduate studies at the Ateneo Graduate School of Business Administration, Waterloo Lutheran University and the Harvard Business School.



RAY C. ESPINOSA, 57

Director (since May 26, 2009 – 4 years)

Atty. Espinosa is the Chairman and Director of Studio5 Inc., Excel Pacific Holdings Corp., Kalilayan Power, Inc., Med Vision Resources, Inc., Telemedia Business Ventures, Inc.; President and Director of Pilipinas Pacific Enterprise Holdings, Inc. He is a member of the Board of Directors of Philippine Long Distance Telephone Company*, Metro Pacific Investments Corporation*, Lepanto Consolidated Mining Corporation*, Meralco PowerGen Corporation, Beacon Electric Asset Holdings, Inc.*, Mediaquest Holdings, Inc., ABC Development Corporation (TV5), Business World Publishing Corp., Digitel Telecommunication Philippines, Inc., Cignal TV, Inc. Media5 Marketing Corp., Metro Pacific Assets Holdings, Inc. Metro Pacific Resources, Inc., Pacific Global One Aviation Company, Inc., Philstar Daily, Inc., Philippine Telecommunications Investment Corp., Pilipino Star Ngayon Inc., The Philippines Home Cable Holdings Inc., and other firms.

Atty. Espinosa holds a Bachelor of Laws degree, salutatorian, from the Ateneo de Manila University and a Master of Laws degree from the University of Michigan Law School as a Clyde Alton Dewitt Fellow. He placed first in the Philippine Bar examinations in 1982.



JAMES L. GO, 74

Director (since Dec. 16, 2013 – 15 days)
Replaced Vicente L. Panlilio on December 16, 2013

James L. Go, is the Chairman and Chief Executive Officer of JG Summit Holdings, Inc. (JGSHI)* and Oriental Petroleum and Minerals Corporation*; Chairman of Robinsons Land Corporation*, Universal Robina Corporation*, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation; Vice-Chairman and Deputy Chief Executive Officer of Robinsons Retail Holdings, Inc.; and a member of the Board of Directors of Cebu Air, Inc., Singapore Land, Ltd.*, Marina Center Holdings, Inc., United Industrial Corporation Limited, Hotel Marian City Private Limited and the Philippine Long Distance Telephone Company*. He is also the President and Trustee of Gokongwei Brothers Foundation, Inc.

He received a Bachelor of Science degree and a Master of Science degree in Chemical Engineering from the Massachusetts Institute of Technology.



LANCE Y. GOKONGWEI, 47

Director (since Dec. 16, 2013)
Replaced Eric O. Recto on December 16, 2013

Lance Y. Gokongwei is the President and Chief Operating Officer of JG Summit Holdings, Inc.*; President and Chief Executive Officer of Universal Robina Corporation*, Cebu Air, Inc.* and JG Summit Petrochemicals Corporation, Vice-Chairman and Chief Executive Officer of Robinsons Land Corporation*; Vice-Chairman of Robinsons Retail Holdings, Inc.*; Chairman of Robinsons Bank Corporation; and member of the Board of Directors of Oriental Petroleum and Minerals Corporation*, United Industrial Corporation Limited*, Singapore Land Limited*, and Gokongwei Brothers Foundation, Inc.

He holds a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science.
Mr. Gokongwei graduated as Summa Cum Laude from the University of Pennsylvania.

*Publicly-listed company

Guiding Leadership



JOSE MA. K. LIM, 61

Director (since May 29, 2012 – 1 year)

Mr. Lim is the President and Chief Executive Officer of Metro Pacific Investments Corporation*. He is the Chairman of Davao Doctors Hospital, Asian Hospital Inc. and Riverside Medical Center in Bacolod City; President and Trustee of Metro Pacific Investments Foundation Inc.; President and Director of Beacon Electric Asset Holdings and Metro Strategic Infrastructure Holdings; member of the Board of Directors of Meralco PowerGen Corporation, Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Tollways Management Corporation, DMCI-MPIC Water Company, Inc., Maynilad Water Services, Inc., Medical Doctors, Inc., Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Central Luzon Doctors Hospital, Pacific Global Aviation Inc., Indra Philippines*, and Neptune Stroika Holdings Inc. He is a Trustee of Davao Doctors Collage, Riverside Collage and Ideaspace Foundation, Inc. He is a Founding Member and Treasurer of the Shareholders Association of the Philippines.

Mr. Lim holds a Bachelor of Arts degree in Philosophy from the Ateneo de Manila University and a Masters in Business Administration from the Asian Institute of Management.



MANUEL M. LOPEZ, 71

Director (since April 14, 1986 – 27 years)
Chairman and CEO (from July 1, 2001 to June 30, 2010)
Chairman (from July 1, 2010 to May 28, 2012)

Mr. Lopez is the Philippine Ambassador to Japan since December 2010. He is concurrently the Chairman and CEO of Lopez Holdings Corporation* and is the Chairman of Indra Philippines, Inc., Bayan Telecommunications, Inc., Bayan Telecommunications Holdings Corporation, Rockwell Land Corporation* and Rockwell Leisure Club. He is the Vice Chairman of First Philippine Holdings Corporation* and Lopez Inc. He is a member of the Board of Directors of ABS-CBN Corporation*, ABS-CBN Holdings Corporation*, Sky Cable Corporation and Lopez Group Foundation Inc. He is also the President of Eugenio Lopez Foundation, Inc.

Mr. Lopez holds a Bachelor of Science in Business Administration and Advanced Studies in Financial and Management Development from the Harvard Business School.



ESTELITO P. MENDOZA, 84

Director (since February 1, 2009 – 4 years)

Atty. Mendoza heads the law firm Estelito P. Mendoza and Associates. He is a Director of San Miguel Corporation*, Petron Corporation*, Philippine National Bank* and Philippine Airlines, Inc. A practicing lawyer for more than 60 years, he was consistently listed as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Pacific Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks for several years. He has also been a Professorial Lecturer of law at the University of the Philippines and served as Solicitor General, Minister of Justice, Member of the National Assembly and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He holds a Bachelor of Laws degree from the University of the Philippines and Master of Laws degree from Harvard Law School.



ARTEMIO V. PANGANIBAN, 77

Independent Director (since May 27, 2009 – 4 years)

Justice Panganiban was a former Chief Justice of the Supreme Court of the Philippines. He was a Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. He is an Independent Director of Petron Corporation2, Bank of the Philippine Islands*, First Philippine Holdings Corporation*, Philippine Long Distance Telephone Company*, Metro Pacific Investments Corporation*; Metro Pacific Tollways Corporation, Robinsons Land Corporation*, GMA Network, Inc.*, GMA Holdings, Inc.* and Asian Terminals, Inc.*; Director of Jollibee Foods Corporation* and a Senior Adviser of Metropolitan Bank and Trust Company. He is a columnist for the Philippine Daily Inquirer.

He holds a Bachelor of Laws degree, cum laude, from the Far Eastern University and was awarded the degree of Doctor of Laws (Honoris Causa) by the University of Iloilo, Far Eastern University, University of Cebu, Angeles University and Bulacan State University. He placed sixth in the Philippine Bar Examinations in 1960.



ERIC O. RECTO, 50

Director (June 28, 2010 – December 11, 2013)

Mr. Recto is the Chairman of Philippine Bank of Communications*; Vice Chairman of Petron Corporation*; Vice Chairman of Alphaland Corporation* Atok-Big Wedge Co., Inc.* and Philweb Corporation*. He is a member of the Board of Directors of San Miguel Corporation*; and President and Director of Top Frontier Investment Holdings, Inc., ISM Communications Corporation* and Q-Tech Alliance Holdings, Inc. Mr. Recto holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines and a Masters in Business Administration from Cornell University, Johnson Graduate School of Management, Ithaca, New York, USA.



PEDRO E. ROXAS, 57

Independent Director (since May 25, 2010 – 3 years)

Mr. Roxas is the Chairman, President and Chief Executive Officer of Roxas and Company, Inc.*; Chairman and President of Roxaco Land Corporation; Chairman of Roxas Holdings, Inc.* and Club Punta Fuego, Inc. He is an Independent Director of Philippine Long Distance Telephone Company* and BDO Private Bank and a Director of Brightnote Assets Corporation.

Mr. Roxas holds a Bachelor of Science degree in Business Administration from the University of Notre Dame in Indiana, USA.



VICENTE L. PANLILIO, 67

Independent Director (from May 27, 2008 to May 25, 2010)
Director (from June 28, 2010 – December 11, 2013)

Mr. Panlilio is a member of the Board of Directors of San Fernando Electric Light and Power Company and Bank of Commerce. He was a Director of the Philippine Stock Exchange, the Philippine Dealing Exchange Corporation, Equitable PCI Bank and the Philippine National Bank. He was also Chief Operating Officer and a member of the Advisory Board of Far East Bank and Trust Company. Mr. Panlilio holds a Bachelor of Arts degree in Economics from the University of the Philippines and attended the Advanced Bank Management Program of the Asian Institute of Management.

*Publicly-listed company

Corporate Officers and Advisor

Guiding Leadership



RAFAEL L. ANDRADA, 53

First Vice President and Meralco Group Treasurer

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



ROBERTO R. ALMAZORA, 53

Senior Vice President
Head of MPower

Mr. Almazora heads MPower, the Local Retail Electricity Supplier business segment of Meralco. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management. Prior to his current assignment, he held various executive positions during his 26 years with Meralco. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of UP Diliman. And in 2011, was granted the Professional Degree Awardee for Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as resource speaker in various power and energy conferences.



RICARDO V. BUENCAMINO, 69

Senior Executive Vice President and
Head, Networks

Mr. Buencamino is the Vice Chairman of General Electric Philippines Meter & Instrument Company, Inc. and a member of the Board of Directors of Clark Electric Distribution Corporation, Meralco Energy, Inc., Calamba Aero Power Corporation and Atimonan Land Ventures Development Corporation, Meralco Industrial Engineering Services Corporation, Asian Hospital, Inc.; and Trustee of One Meralco Foundation. Mr. Buencamino holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and a Professional Electrical Engineer. He completed his Masters in Management at the Asian Institute of Management and attended the General Management of Electric Utilities training program at the International Management Development Center in Texas, USA.



RUBEN B. BENOSA, 57

First Vice President and
Head, Corporate Logistics Office

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



MARTHYN S. CUAN, 34

Vice President
Chief Information Officer

Mr. Cuan is a Board Member of Radius Telecoms, Inc. and Indra Philippines, and a member of Intel's Enterprise Board of Advisors. He is also the Vice President and a founding member of IdeaSpace Foundation, a non-profit organization that offers business incubation and acceleration program for technology entrepreneurs. Mr. Cuan holds a Bachelor of Science degree in Management Information Systems from the Ateneo de Manila University with a Minor in Chinese Studies.

ALFREDO S. PANLILIO, 50

Senior Vice President and
Head, Customer Retail Services and
Corporate Communications

Mr. Panlilio is a Board Member of CIS Bayad Center, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., Miescorrail, Inc., Indra Philippines, Inc., General Electric Phils Meter and Instrument Co., Inc., and Mabuhay Satellite Corporation; Chairman of Radius Telecoms, Inc., e-Meralco Ventures Inc., Paragon Vertical Corporation, and Manila Electric Futbol Club, Inc. (formerly known as Loyola Meralco Sparks FC); Trustee of One Meralco Foundation, Inc. and Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI); President of MVP Sports Foundation; First Vice President for the Samahang Basketbol ng Pilipinas (SBP) and Treasurer, National Golf Association of the Philippines (NGAP). He is also an Alternate Governor for the Meralco Bolts of the Philippine a Basketball Association. Mr. Panlilio holds a Bachelor of Science degree in Business Administration (Computer Information Systems) from the California State University – San Francisco State University and obtained his Masters in Business Administration at J. L. Kellogg School of Management of Northwestern University and The Hong Kong University of Science and Technology. He has 25 years of experience with telecommunications and information systems. Prior to joining Meralco, he was the President and CEO of PLDT Global based in Hong Kong.



IVANNA G. DE LA PENA, 59

First Vice President and
Head, Regulatory Management Office

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





SIMEON KEN R. FERRER, 57

Corporate Secretary (since May 26, 2009)

Atty. Ferrer is a board member and Corporate Secretary of Habibi Cove Realty Corporation, Marbelene Realty Corporation and Park Lane Assets, Inc., among others. He is a Senior Partner of SyCip Salazar Hernandez & Gatmaitan, the largest law firm in the Philippines. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow at the Institute of Corporate Directors. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association.
Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines. He holds a Master of Laws degree from the University of Michigan, USA as a DeWitt Fellow.



RAYMOND B. RAVELO, 35

Vice President
Head, Strategy and Corporate Development Office

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

RAMON B. SEGISMUNDO, 56

Senior Vice President and
Head, Human Resources and Corporate Services

Mr. Segismundo is the Chief Human Resources Officer of Meralco. He is the Chairman of the Philippine Basketball Association, PBA Governor representing Meralco Bolts, Chairman of Customer Frontline Solutions, Inc., and President and Trustee of Meralco Power Academy. He is a Board Trustee of One Meralco Foundation, Inc., Meralco Pension Fund, Loyola Meralco Sparks FC and the Samahang Basketbol ng Pilipinas (SBP). He is also a member of the Board of Directors of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Inc., Miescorrail, Inc. and General Electric Philippines Meter & Instrument Company, Inc.

Mr. Segismundo holds a Bachelor of Science degree in Industrial Engineering and completed his Master in Business Administration, both at the University of the Philippines. While in the U.S., he was a member of the Society of Human Resources Management and acquired Senior Professional in HR (SPHR) AND Global Professional in HR (GPHR) certifications.

He has over 30 years of experience as Asia Pacific/International human resources executive and business consulting in Singapore, United Kingdom, United States and the Philippines for major global companies such as GlaxoSmithKline, Arthur Andersen/Sycip Gorres Velayo & Co., Wyeth Pharmaceuticals, SmithKline Beecham and Sterling Winthrop. Since returning to his home country in 2010, he has helped Meralco achieve PMAP Employer of the Year (2012-2013), Asia CEO Top Employer (2012) and the Singapore-based Asian Human Capital Awards (2013) honors.



WILLIAM S. PAMINTUAN, 52

First Vice President & Deputy General Counsel
Assistant Corporate Secretary, and Compliance Officer

Atty. Pamintuan is the Corporate Secretary of Meralco PowerGen Corporation, Meralco Industrial Engineering Services Corporation, Redondo Peninsula Energy, Inc., Kalilayan Power, Inc., MPG Mauban LP Corporation, Luzon Natural Gas Energy Corporation, Miescorrail Inc., MPG Holdings Phils., Inc., Atimonan Land Ventures Development Corporation, Calamba Aero Power Corporation and First Pacific Leadership Academy. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.





BETTY C. SIY-YAP, 52

Senior Vice President
Chief Finance Officer

Ms. Siy-Yap is a member of the Board of Directors of Republic Surety and Insurance Company, Inc., Meralco Industrial Engineering Services Corporation, Clark Electric Distribution Corporation, General Electric Philippines Meter and Instrument Company, Inc., CIS Bayad Center, Inc., Miescorrail Inc., Radius Telecoms, Inc., Indra Philippines, Inc., Philippine Commercial Capital, Inc., MERALCO PowerGen Corporation, Calamba Aero Power Corporation, Redondo Peninsula Energy, Inc., Atimonan Land Ventures Corporation, Luzon Natural Gas Energy Corporation, MPG Holdings Phils., Inc. and MPG Asia Limited. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., Loyola Meralco Sparks Football Club, Inc. and Loyola Agila Futbol Club, Inc. She is the Treasurer of the MVP Sports Foundation, Inc. and First Pacific Learning Academy, Inc. She is also an alternate Governor of the Philippine Basketball Association. She was a Partner at SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) before joining Meralco. She holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Master in Business Administration at J.L.Kellogg School of Management at Northwestern University/Hong Kong University of Science and Technology. She also attended the Special Executive Program in Corporate Restructuring and Finance at the Arthur D. Little Management Institute in Cambridge, Massachusetts, U.S.A. and a management program at INSEAD in Singapore.



BARTOSZ WOJSZCZYK, 39

Chief Innovation Advisor

Mr. Wojszczyk is an accomplished industry leader in the areas of technology innovation and commercialization. He is a technical expert in the areas of utility design & engineering (T&D), smart grid, renewable and distributed generation, advanced protection and automation, energy storage and e-transportation. He served as energy advisor for strategy development and modern energy infrastructures and advanced technologies roadmaps to governments and stakeholders based in the Americas, APAC and Europe. He was an Advisor to the International Energy Agency (IEA); a member of IEEE Power and Energy Society (PES) including IEEE USA Energy Policy Committee, Technical Chair of IEEE Energy Development & Power Generation Committee, Chair of IEEE International Practices Subcommittee and Secretary of IEEE Distributed Generation & Energy Storage Subcommittee. He holds degrees in electrical engineering (MS, PhD) from Wroclaw University of Technology in Poland. Adjunct Professor at North Carolina State University in Charlotte, USA and a Visiting Professor at AGH University of Science and Technology in Krakow, Poland.

Subsidiaries

MERALCO PowerGen Corporation (MGen)

Meralco PowerGen Corporation (MGen), a wholly-owned subsidiary of Meralco, aims to develop, build, own and operate a diversified power portfolio of up to 3,000MW by 2020. Its mission is to pursue the development and construction of highly cost-competitive and reliable power plants to ensure the provision of adequate, reliable and affordable power to customers in the Meralco franchise area and other areas.

MGen's vision is to be a leading player by 2020 not only in the Meralco franchise area but in the country's power industry as a whole. In October 2013, MGen signed a Share Sale and Purchase Agreement (SSPA) with First Metro Investment Corporation (First Metro) for the acquisition of a 20% share in Global Business Power Corporation (GBPC) worth PhP7.15B. The transaction was completed in the same month with the signing of a Shareholders' Agreement (SHA) with First Metro, GT Capital Holdings, Inc., ORIX Corporation of Japan and GBPC.

In the latter part of 2013, MGen signed a Joint Development Agreement and Shareholders' Agreement with New Growth BV, a wholly-owned subsidiary of EGCo of Thailand, paving the way for the start of development activities for a 460MW coal-fired power generation facility in Mauban, Quezon Province. The facility will be the country's first power plant to use supercritical technology.

MGen is also pursuing a US$1.2-billion 600MW power plant inside the Subic Bay Freeport Zone. The facility is being built by Redondo Peninsula Energy Inc. (RP Energy) which is co-owned by Aboitiz Power Corp. and Taiwan Cogeneration International Corp. with MGen having majority control. The power plant will employ state-of-the-art circulating-fluidized-bed (CFB) technology.

MANUEL V. PANGILINAN, Chairman
OSCAR S. REYES, President and Director
AARON A. DOMINGO, Director

CLARK ELECTRIC DISTRIBUTION CORPORATION (CEDC)

Clark Electric is 65%-owned by Meralco and 35%-owned by J-Ten Equities, Inc., the holding company of Angeles Electric Corporation. It is the exclusive franchised distribution company in the Clark Economic Zone (CEZ).

CEDC distributes power within CEZ through its three substations with a total capacity of 131 MVA. Its present distribution network consists of 1,370 distribution transformers, 130.75 circuit- km linear length of primary lines and 56.17 circuit-km linear length of secondary lines. Its system loss has continuously improved from 7.01% in 2002 to 4.33% in 2013. CEDC's supply rates are one of the lowest in Luzon.

Clark Electric is now on its Third Regulatory Year of the Second Regulatory Period of the ERC-approved Annual Revenue Requirement under the PBR for the Regulatory Period October 1, 2011 to September 30, 2015. CEDC aspires to be a world-class electric distribution facility and CEZ's partner towards the nation's progress.

PETER G. NEPOMUCENO, Chairman
JESUS P. FRANCISCO, President and Director

CORPORATE INFORMATION SOLUTIONS, INC. (CIS)

CIS, Inc. is a wholly-owned subsidiary of Meralco. In 1997, CIS engaged in the business of bills payment collection, which spun off as CIS Bayad Center, Inc. (CBCI), and was formally incorporated in 2006. Today, CBCI offers the largest multi-biller payment collection service in the country, covering more than 3,000 strategically located sites nationwide, with the Bayad Center being the foremost brand in bills payment.

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

To complement its bills payment business, CBCI formed its subsidiary Outsourced Telleserve Corp., now Customer Frontline Solutions (CFS), in 2008. CFS provides outsourced tellering and cashiering services initially for its parent company Meralco and CBCI. In 2013, it expanded to service PLDT and Smart Philippines, Inc., which generated rapid growth for CBCI outside its core business of bills payment.

Strengthening its value proposition, CBCI also offers remittance cash pick-up, electronic cash management services (i.e. vehicle CTPL insurance processing), prepaid loading, and service applications acceptance. Bayad Center continues to trailblaze the payment collection industry in the country by providing a suite of services to the paying public.

OSCAR S. REYES, Chairman
MANUEL LORENZO L. TUASON, President and CEO, and Director

MERALCO ENERGY, INC. (MEI)

MEI, operating as MServ, is a wholly-owned subsidiary of Meralco established in June 2000 to provide the highest quality beyond-the-meter energy services to Meralco's key accounts. MServ aims to be the country's premier energy services company (ESCO) through its two flagship services: strategic loadside outsourcing (SLO), and energy efficiency (EE) solutions.

SLO offers customers the opportunity to outsource their load side electricity requirements. This allows customers to focus on their respective core businesses knowing that all their electrical concerns are being handled by nothing less than a Meralco company. Under MServ's SLO services are the 1) Design, Procurement, and Installation of Right-Sized Electrical Facilities; 2) Meralco Managed Services; and 3) Power Quality and Power Factor Services. The company provides "Best in Class" service levels such as guaranteed continuous power, 24-hours replacement of critical equipment, and 24/7 technical support.

MServ's EE solutions provide customers with energy-saving alternatives. MServ can diagnose a customer's energy usage habits, and recommend different solutions that can help optimize their consumption. These solutions include 1) Lighting Efficiency Services; 2) Heating, Ventilation, and Air Conditioning (HVAC) Efficiency Services; and 3) E-Vehicle Service Leasing.

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

OSCAR S. REYES, Chairman
JESUS P. FRANCISCO, Vice Chairman (since December 4, 2012)
President and CEO (until December 4, 2012)
DEXTER C. LEE, President and CEO (since December 4, 2012)

Meralco

Subsidiaries

MERALCO FINANCIAL SERVICES CORPORATION (FINSERVE)

Finserve is a wholly-owned subsidiary of Meralco which aims to enhance Meralco's shareholder value creation and expand customer service through innovative consumer and customer-based products and services that support Meralco's core business. In 2007, Finserve embarked on investing and managing commercial center operations with The Strip along Ortigas Avenue as its flagship project. At present, this two-storey building with a leasable space of 1030 square meters houses several retail establishments.

RUBEN B. BENOSA, Chairman
MANOLO C. FERNANDO, President

MERALCO INDUSTRIAL ENGINEERING SERVICES CORPORATION (MIESCOR)

Miescor is 99% owned by Meralco with the remaining 1% by the Miescor Provident Fund.

In 2013, Miescor bagged major projects for Supreme Court of the Philippines and Minergy Coal Corporation. Also during the year it completed major projects for Metro Manila Development Authority, Maibarara Geothermal Inc. and the Department of Science and Technology. In between, Miescor achieved three Perfect Safety Records and received various awards from the Safety Organization of the Philippines, the Department of Energy and the Department of Labor and Employment.

2013 was the start of the Transformation Program of Miescor to become future-proof and be prepared for the international market, with a vision of being a global brand. Parent and subsidiary relationships were re-aligned, an equipment re-fleeting program was put in place and new systems for Enterprise Planning, Project Management, Quality Systems and Safety consciousness were initiated. Although there was impact on the financials, the initiatives will ensure a sustainable growth for the Company.

Miescor and its wholly-owned subsidiaries (MIESCOR Builders, Inc. and MIESCOR Logistics, Inc.) have a workforce of over 5,000 specialist engineers, project management professionals and skilled workers, guided by the company's values and the spirit of professionalism and engineering excellence.

OSCAR S. REYES, Chairman
JESUS P. FRANCISCO, Vice-Chairman
ANGELITO D. BERMUDO, President and Director

RADIUS TELECOMS, INC.

Radius is the operating telecommunications company of e-Meralco Ventures, Inc. (e-MVI), a wholly owned subsidiary of Meralco. Radius is the only Philippine carrier that delivers connectivity services on a pure fiber optic infrastructure within the Mega Manila area.

With this distinctive value proposition, Radius is recognized as a preferred last-mile data transport partner of major telecommunications and ICT companies in the country. It is also known as a premium connectivity provider by leading companies in the banking, business process management, and retail and distribution sectors.

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

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

ALFREDO S. PANLILIO, Chairman
RAYMOND B. RAVELO, President and CEO, and Director

REPUBLIC SURETY AND INSURANCE COMPANY, INC. (RSIC)

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

RSIC, together with the Society of Risk Management Professionals (SRMP), co-organized the 2nd Risk Management Summit in the Philippines on Oct. 8, 2013, with the theme, "From Risk to Reward: Risk Management Linking what's Best for all Stakeholders". Also in 2013, RSIC initiated the implementation of the General Insurance Information System (GENIISYS) parallel to its existing business operation. GENIISYS, a software solution customized for non-life insurance companies, is designed to support operations and greatly improve workflow efficiency by integrating different functions such as underwriting, accounting, reinsurance and claims.

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

MONICO V. JACOB, Chairman
PEDRO P. BENEDICTO, JR., President and Director

LIGHTHOUSE OVERSEAS INSURANCE LIMITED (LOIL)

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

OSCAR S. REYES, Chairman
BETTY C. SIY-YAP, President and Director

Management's Discussion and Analysis of Operations

REVENUES

Consolidated revenues, of which electricity accounts for 99% or ₱294.8 billion, rose to ₱298.6 billion, 5% increase over 2012. The higher revenues are largely attributable to the 4% increase in volume and a higher share of residential and commercial customers in the overall sales mix.

Electricity Revenues

Electricity revenues consist of generation, transmission, distribution charges and subsidies. Generation charge represents the single largest component of electricity revenues, which accounts for 65% of total revenues in 2013. Average generation charge to captive customers was at ₱5.39 per kWh in 2013 versus ₱5.61 per kWh in 2012. Transmission charge represents 10% of total electricity revenues or an equivalent ₱0.86 per kWh in 2013 compared with ₱0.98 per kWh in 2012. Overall, transmission charge was lower by 9%. Average system loss charge in 2013 was at ₱0.46 per kWh, ₱0.52 per kWh lower than 2012 mainly due to the continuous improvement in system loss management. Meralco's 12-month moving average system loss rate as at December 31, 2013 was at 6.92%, 0.12 percentage point lower compared with the 7.04% system loss rate as at December 31, 2012, outperforming the Energy Regulatory Commission (ERC)-imposed 8.50% cap by 1.58 percentage points as a result of its institutionalized system loss management programs. Clark Electric Distribution Corporation's (CEDC) 12-month moving average system loss rate as at December 31, 2013 was at 4.33%.

In December 2013, total revenues include ₱8,963 million or an equivalent ₱3.44 per kWh representing the amount subject of a Temporary Restraining Order (TRO), issued by the Supreme Court of the Philippines (Supreme Court) in respect of the implementation of the generation charge increase for the November 2013 supply month. The increase in generation charge was the result of (i) use of more expensive liquid condensate by the Sta. Rita and San Lorenzo gas-fired plants and bio-diesel by the Ilijan gas plant during the 30-day maintenance shutdown of the Malampaya natural gas production facility; (ii) scheduled and extended outages of several baseload plants; and (iii) unscheduled, forced and overlapping outages of several power plants. The ultimate recovery of the generation and related charges is pending the decision of the Supreme Court.

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

The first phase of Retail Competition and Open Access (RCOA) began on June 26, 2013. Qualified contestable customers in the Luzon and Visayas grids whose connected load is at least one (1) MW over the past 12 months, who opted for contestability began sourcing their power supply from ERC-registered Retail Electricity Suppliers (RESs). Out of 782 qualified contestable customers within the Meralco franchise area, 287 customers have opted for contestability and switched their supply to eight (8) RESs, including Meralco's local RES, MPower. MPower accounted for 167 of the 287 customers.

Non-electric Revenues

Non-electric revenues were generated mainly from the services business of the operating subsidiaries. Revenues generated from other services increased to ₱5,258 million in 2013 from ₱3,829 million in 2012. The 37% increase in revenues from other services is mainly attributable to the increase in third party payment service volume, business expansion of outsourced services of Bayad Center in terms of coverage and volume. Meralco Industrial Engineering Services Corporation (MIESCOR) Group's contract revenues also increased in 2013, which include projects regarding rehabilitation of electrical and installation of fire alarm, and maintenance and renovation work. The e-MERALCO Ventures, Inc. (e-MVI) Group expanded its reach to other international carriers, local retail and distribution industry, as well as banks.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2013 amounted to ₱274,486 million, 3% higher compared with ₱266,162 million for the same period in 2012.

Purchased power accounted for 87% of the total costs and expenses. In 2013, Meralco's power segment purchased all of the electricity distributed from (i) contracted capacities under the Power Sales Agreements (PSAs), with Successor Generating Companies (SGCs) (up to December 25, 2012), National Power Corporation (NPC) (up to June 25, 2013), (ii) long-term Power Purchase Agreements (PPAs), contracted with Independent Power Producers (IPPs) and (iii) the Wholesale Electricity Spot Market (WESM). Higher purchased power costs was attributable to the 30-day shutdown of the Malampaya natural gas production facility, scheduled and extended as well as unscheduled or forced-outages of major baseload gas-fired and coal-fired power plants, which resulted in a higher average purchased power cost at ₱6.71 per kWh in 2013 compared with ₱6.60 per kWh in 2012. Total purchased power volume increased from 35,176 GWh in 2012 to 35,503 GWh in 2013, while the average cost of power purchased from WESM was higher at ₱19.93 per kWh in 2013 compared with ₱12.58 per kWh in 2012.

The volume of energy purchased under long-term PPAs with IPPs namely, First Gas Corporation (Sta. Rita Power Plant), FGP Corp. (San Lorenzo Power Plant) and Quezon Power (Philippines) Limited Co. (QPPL), represents 36% of Meralco's Net Systems Input. Purchases from SGCs and NPC and other special programs account for 59%, while the balance of 5% was sourced from the WESM. Electricity distributed by CEDC is sourced solely from the Sual Coal-fired Plant of San Miguel Energy Corporation.

Salaries, wages and employee benefits decreased by 3% from ₱11,605 million for the year ended December 31, 2012 to ₱11,258 million for the same period in 2013. In 2012, the Company recognized and paid fringe benefit tax expense related to the issued Employee Share Purchase Plan (ESPP) shares. The decrease was partially offset by the merit adjustment of employees.

Contracted services increased by 37% from ₱2,702 million in 2012 to ₱3,719 million in 2013. Customer-related services, which include meter reading, electric bill/disconnection notice delivery increased with higher customer count, and meter and service connection/disconnection increased due to intensified delinquency management programs. Contracted services were higher due to network maintenance services, legal fees and consultants' fees related to Meralco's implementation of an enterprise resource planning software.

Depreciation and amortization increased by 10% to ₱6,118 million in 2013 from ₱5,576 million in 2012. This is mainly due to additional depreciation from completed construction projects and newly installed capital assets and amortization of software application related to Meralco's software upgrade.
Other expenses consist of business taxes and permits, provision for probable charges and expenses from claims, provisions for doubtful accounts, costs of materials, transportation, and other corporate expenses.

OTHER INCOME, NET OF EXPENSES

Other income, net of expenses, is lower by 94% from ₱2,914 million in 2012 to ₱177 million in 2013 due to decrease in interest and other financial income and other income as a result of lower interest rate. Also, in 2012, Interest and other financial income included the ₱730 million carrying charges approved for the local franchise tax (LFT), recovery, and other income included the LFT recovery of ₱1,571 million approved in April 2012. Included in other income in 2013 is a gain of ₱136.8 million (US$3.3 million) representing Meralco's fee arising from the successful bid for the privatization of two distribution utilities in Nigeria, namely Ibadan Electricity Distribution Company and Yola Electricity Distribution Company.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Net income attributable to equity holders of the parent for the year ended December 31, 2013 amounted to ₱17,211 million, less than 1% higher compared with 2012. These results reflect the favorable impact of historic consolidated electricity sales volume of 34,084 GWh, up 4% over 2012, driven by (i) sustained growth of over 3% in the number of customers to nearly 5.4 million, (ii) improved contributions from major subsidiaries and the recently acquired minority interest in Global Business Power Corporation (Global Power), and (iii) containment of costs and operating expenses. All-time best performance in distribution system and customer services operations, in terms of network reliability and availability, power quality and system loss, and time-to-energize new customers supported the growth in sales volume.

BALANCE SHEET HIGHLIGHTS

Total noncurrent assets, of which utility, plant and others account for 72% or ₱112,586 million, increased by 26% from ₱124,648 million as at December 31, 2012 to ₱156,518 million in 2013.

Utility plant and others increased primarily due to additional capital expenditures in 2013, net of depreciation and amortization, as Meralco continued to implement its committed capital expenditure program approved by the ERC for the Third RP. Total capital expenditures spent was ₱10.2 billion in 2013.

Investments in subsidiaries and joint ventures increased by ₱11,607 million mainly due to acquisitions of equity interests in FPM Power Holdings Limited (FPM Power), and Global Power in 2013.

FPM Power is 40%-owned by Meralco through MPG Asia Limited, a subsidiary of MERALCO PowerGen Corporation (MGen), and 60% owned by First Pacific Company Limited. In March 2013, MGen acquired an effective 28% interest in PacificLight Power Co. Ltd. (PacificLight Power), which owns and currently operates a new advanced technology 2x400 MW Liquefied Natural Gas (LNG) plant in Jurong Island, Singapore. The construction of the facilities was completed in December 2013 and both units have been in commercial operations since January 31, 2014. PacificLight Power provides the opportunity for LNG power generation technology and knowledge acquisition and transfer as well as early income and cash flow accretion.

MGen also acquired a 20% investment in Global Power. Global Power is the largest independent power producer in the Visayas, and currently owns and operates nine (9) power plants with total installed capacity of 627 MW (gross). Additionally, Global Power is constructing an 82 MW (gross) coal-fired plant in Toledo City, Cebu and a 150 MW expansion plant in Panay. The Toledo Plant is expected to be in commercial operations by late 2014 and the Panay Plant by 2016.

Other noncurrent assets increased by ₱14,766 million mainly due to higher unbilled receivables representing generation and other pass-through costs incurred by Meralco and CEDC, which are yet to be billed and covered through the approved recovery mechanism of the ERC. Portions of such unbilled generation and pass-through charges are covered by various applications for recovery and approval by the ERC. As at December 31, 2013, the unbilled receivables include unbilled pass-through generation, transmission and other charge components in excess of ₱5.67 per kWh for November subject of a TRO issued by the Supreme Court in respect of the implementation of the generation charge increase for the November 2013 supply month and December 2013 supply month subject of a recalculation Order on the Philippine Electricity Market Corporation (PEMC) by the ERC .

Total current assets as at December 31, 2013 amounted to ₱107,486 million, 17% higher than last year. This was mainly due to higher trade and other receivables and advances made to FPM Power of ₱4,884 million in 2013. Cash and cash equivalents as at December 31, 2013 amounted to ₱59,851 million.
Total liabilities as at December 31, 2013 amounted to ₱188,669 million, 27% higher than last year. This was mainly due to higher trade payables resulting from the unpaid generation costs for the supply months of November and December 2013.

In 2013, Meralco issued its first-ever peso bond of ₱18.5 billion to refinance existing debts on more favorable terms and rates. This consisted of ₱11.0 billion 7-Year Putable Bonds issued at a fixed rate of 4.375% and ₱7.5 billion of 12-Year Putable and Callable Bonds with interest of 4.875%.

Consolidated gross debt balance as of the end of 2013 amounted to ₱33.6 billion, of which current maturities are at ₱12.8 billion. The Company's debts are principally denominated in Philippine peso, with major maturities in 2020 and 2025 related to the bonds recently issued. Average financing rate for 2013 stood at 5.6%.

Audit and Risk Management Committee Report

The Audit and Risk Management Committee ("Committee") is appointed by the Board of Directors with an independent director as the Chairman. It is composed of five (5) directors and one non-director, all of whom are non-executive while two (2) are independent directors. All members of the Committee have professional qualifications and have adequate background in business, finance, law, management and accounting.

According to its charter, the primary purpose of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the risk management process, and the company's process of monitoring compliance with laws and regulations. Specifically, the charter requires the Committee to oversee the following:

i. The adequacy and effectiveness of the Company's internal control system;
ii. The completeness, accuracy and fairness of the financial statements;
iii. The adequacy of the scope and independence of external and internal auditors;
iv. The effectiveness of risk management activities and monitor performance; and
v. The adherence of the Company to all applicable laws and regulations.

Activities for the calendar year 2013

To fulfill its responsibilities, the Committee had nine (9) meetings with an average attendance of 91 percent. The Committee confirms the following accomplishments for the year.

Internal Control

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

Financial Reporting

- Reviewed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Company including management's significant judgments and estimates in respect of the Company's financial statements and the management's representation to the external auditors.
- Commissioned the external auditors to review the interim consolidated financial statements as of June 30, 2013 and September 30, 2013 in relation to the local bond offering of the Company.
- Evaluated the updated Related Party Transaction Policy of the Company, which mandates the Committee to review material/significant related party transactions, subject to the approval of the Board.
- Recommended to the Board of Directors the approval of the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2013 and their consequent filing with the Securities and Exchange Commission (SEC) and other regulatory bodies.

Audit Process

- Assessed the independence, performance and effectiveness of the External Auditors, SGV & Co. CPAs (SGV) taking into consideration their credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board of Directors as the External Auditors of the Company with the assurance that the lead audit partner complies with Rule 68 of the Securities Regulation Code on rotation of External Auditors.
- Held executive sessions with the External Auditors without the presence of management.
- Reviewed and approved the audit plan, scope of work and proposed fees of SGV for audit and other related services.
- Reviewed and approved the annual Internal Audit Plan.
- Discussed and dissected the results of audits reported by the chief audit executive in her quarterly reports to the Committee.
- Monitored the audit recommendations of Internal Audit and discussed management's appropriate corrective actions.
- Assessed Internal Audit's performance for the preceding year.
- Discussed the progress of the whistleblowing program of the Company called "e-Report Mo", which is administered by the Corporate Governance Office.

Risk Management

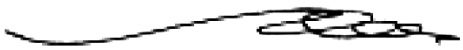
- Reviewed management's top business risks and discussed on-going risk treatments.
- Noted Management's short-to-medium term plans to streamline enterprise risk management integration in the annual strategic planning activities, to institutionalize risk management functions at the subsidiaries, and to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

Compliance

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

March 17, 2014

On behalf of the Audit and Risk Management Committee:



Retired Chief Justice ARTEMIO V. PANGANIBAN
Chairman, Audit and Risk Management Committee

Manila Electric Company and Subsidiaries

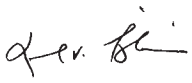
Statement of Management's Responsibility

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2013 and 2012 and January 1, 2012, and for each of the three years in the period ended December 31, 2013, including the following components: a) Reconciliation of Retained Earnings Available for Dividend Declaration; b) Tabular Schedule of all the Effective Standards and Interpretations; c) Map showing the Relationships among the Companies within the Group; and d) Supplementary Schedules Required by Annex 68-E, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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



MANUEL V.PANGILINAN
Chairman of the Board



OSCAR S. REYES
President and Chief Executive Officer



BETTY C. SIY-YAP
Chief Finance Officer

Independent Auditors' Report

The Stockholders and the Board of Directors
Manila Electric Company

We have audited the accompanying consolidated financial statements of Manila Electric Company and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Electric Company and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225178, January 2, 2014, Makati City

March 17, 2014

A member firm of Ernst & Young Global Limited

Consolidated Statements of Financial Position

	Note	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - see Note 4)
			(Amounts in millions)	
ASSETS				
Noncurrent Assets				
Utility plant and others	*8 and 16*	**₱112,586**	₱109,312	₱105,510
Investments in associates and joint ventures	*9*	**13,422**	1,815	844
Investment properties	*10 and 16*	**1,526**	1,634	1,642
Deferred tax assets - net	*29*	**5,381**	3,050	725
Other noncurrent assets - net	*8, 11, 13, 28, 30 and 31*	**23,603**	8,837	6,594
Total Noncurrent Assets		**156,518**	124,648	115,315
Current Assets				
Cash and cash equivalents	*12 and 28*	**59,851**	60,500	44,141
Trade and other receivables	*11, 13, 19, 24 and 28*	**32,718**	28,077	29,108
Inventories	*14*	**2,750**	1,371	1,675
Other current assets	*15 and 28*	**12,167**	2,295	2,500
		107,486	92,243	77,424
Assets of discontinued operations	*6*	**–**	–	18,349
Total Current Assets		**107,486**	92,243	95,773
Total Assets		**₱264,004**	₱216,891	₱211,088
EQUITY AND LIABILITIES				
Equity Attributable to Equity Holders of the Parent				
Common stock	*16*	**₱11,273**	₱11,273	₱11,273
Subscriptions receivable		**(69)**	(211)	(521)
Additional paid-in capital		**4,111**	4,111	4,111
Excess of acquisition cost over carrying value of non-controlling interest acquired		**(328)**	(328)	(328)
Employee stock purchase plan	*17*	**1,049**	1,049	915
Unrealized fair value gains on available-for-sale, or *AFS*, financial assets	*11*	**105**	120	85
Unrealized fair value gains on *AFS* financial assets of discontinued operations	*6*	**–**	–	14
Share in cumulative translation adjustments of a subsidiary and associates	*9*	**389**	3	12
Cumulative actuarial gains (losses)	*4*	**1,446**	289	(1,665)
Treasury shares	*16*	**(11)**	(11)	(9)
Retained earnings:	*6 and 16*			
Appropriated		**11,000**	6,000	6,000
Unappropriated		**46,197**	45,607	42,269
Equity Attributable to Equity Holders of the Parent		**75,162**	67,902	62,156
Non-controlling Interests		**173**	248	4,713
Total Equity		**75,335**	68,150	66,869
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	*18, 26 and 28*	**20,756**	20,466	19,816
Customers' deposits - net of current portion	*19, 23 and 28*	**21,600**	23,313	24,080
Long-term employee benefits	*27*	**4,183**	8,833	10,558
Provisions	*20 and 30*	**24,729**	19,411	16,919
Refundable service extension costs - net of current portion	*23 and 28*	**5,782**	4,357	3,794
Deferred tax liabilities - net	*29*	**1**	–	595
Other noncurrent liabilities	*25 and 28*	**16,992**	12,843	6,302
Total Noncurrent Liabilities		**94,043**	89,223	82,064
Current Liabilities				
Notes payable	*22, 26 and 28*	**1,814**	1,787	67
Trade payables and other current liabilities	*16, 18, 19, 23, 24 and 28*	**73,892**	47,576	40,011
Customers' refund	*2, 21 and 28*	**6,013**	6,127	6,250
Income tax payable		**1,886**	1,668	2,154
Current portion of interest-bearing long-term financial liabilities	*18, 26 and 28*	**11,021**	2,360	4,560
		94,626	59,518	53,042
Liabilities of discontinued operations	*6*	**–**	–	9,113
Total Current Liabilities		**94,626**	59,518	62,155
Total Liabilities		**188,669**	148,741	144,219
Total Liabilities and Equity		**₱264,004**	₱216,891	₱211,088

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Note	Years Ended December 31 2013	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
			(Amounts in millions, except per share data)	
REVENUES				
Sale of electricity	*24, 25 and 33*	**₱294,849**	₱282,991	₱253,989
Sale of other services	*10 and 24*	**3,787**	2,279	2,819
		298,636	285,270	256,808
COSTS AND EXPENSES				
Purchased power	*25 and 31*	**238,198**	232,068	205,674
Salaries, wages and employee benefits	*17, 26 and 27*	**11,258**	11,605	10,864
Provision for probable charges and expenses from claims	*20*	**10,749**	9,226	8,065
Depreciation and amortization	*8, 10 and 11*	**6,118**	5,576	5,504
Contracted services		**3,719**	2,702	3,333
Provision for doubtful accounts	*13*	**504**	832	2,243
Taxes, fees and permits		**492**	403	399
Other expenses	*24 and 26*	**3,448**	3,750	2,887
		274,486	266,162	238,969
OTHER EXPENSES (INCOME)				
Interest and other financial income	*26*	**(1,172)**	(2,569)	(2,264)
Interest and other financial charges	*8, 18, 19, 22 and 26*	**1,479**	1,528	1,445
Equity in net losses (earnings) of associates and joint ventures	*9*	**259**	15	(67)
Derivative mark-to-market loss (gain)		**24**	(40)	16
Foreign exchange loss (gain)		**(353)**	4	7
Others	*2*	**(414)**	(1,852)	(44)
		(177)	(2,914)	(907)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		**24,327**	22,022	18,746
PROVISION FOR (BENEFIT FROM) INCOME TAX	*29*			
Current		**9,889**	9,490	8,454
Deferred		**(2,835)**	(3,749)	(2,501)
		7,054	5,741	5,953
NET INCOME FROM CONTINUING OPERATIONS		**17,273**	16,281	12,793
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX	*6*	**–**	978	966
NET INCOME		**₱17,273**	₱17,259	₱13,759
Attributable To				
Equity holders of the Parent	*32*	**₱17,211**	₱17,117	₱13,260
Non-controlling interests		**62**	142	499
		₱17,273	₱17,259	₱13,759
Earnings Per Share Attributable to Equity Holders of the Parent	*32*			
Basic		**₱15.27**	₱15.19	₱11.76
Diluted		**15.27**	15.19	11.76
Earnings Per Share Attributable to Equity Holders of the Parent of Continuing Operations	*32*			
Basic		**₱15.27**	₱14.40	₱11.31
Diluted		**15.27**	14.40	11.31

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Note	Years Ended December 31 2013	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
			(Amounts in millions)	
NET INCOME FOR THE YEAR		**₱17,273**	₱17,259	₱13,759
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent periods:				
Unrealized fair value gain (loss) on available-for-sale financial assets	*6 and 11*	**(21)**	39	4
Income tax effect		**6**	(4)	(1)
		(15)	35	3
Share in cumulative translation adjustment of a subsidiary and associates	*9*	**386**	(9)	–
Items that will not be reclassified to profit or loss in subsequent periods:				
Actuarial gain		**1,653**	2,791	694
Income tax effect		**(496)**	(837)	(208)
		1,157	1,954	486
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**1,528**	1,980	489
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**₱18,801**	₱19,239	₱14,248
Total Comprehensive Income Attributable To				
Equity holders of the Parent		**₱18,739**	₱19,097	₱13,749
Non-controlling interests		**62**	142	499
		₱18,801	₱19,239	₱14,248

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Equity Attributable to Equity Holders of the Parent														
	Common Stock (Note 16)	Subscriptions Receivable	Additional Paid-in Capital	Excess of Acquisition Cost Over Carrying Value of Non-controlling Interest Acquired	Employee Stock Purchase Plan (Note 17)	Unrealized Fair Value Gains on AFS Financial Assets (Note 11)	Unrealized Fair Value Gains on AFS Financial Assets of Discontinued Operations (Note 6)	Share in Cumulative Translation Adjustments of a Subsidiary and Associates (Note 9)	Cumulative Actuarial Gains (Losses) (Note 4)	Treasury Shares (Note 16)	Appropriated Retained Earnings (Note 16)	Unappropriated Retained Earnings (Notes 6 and 16)	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests (Note 6)	Total Equity
	(Amounts in millions)														
At January 1, 2013, as previously reported	**₱11,273**	**(₱211)**	**₱4,111**	**(₱328)**	**₱1,049**	**₱120**	**₱–**	**₱3**	**₱–**	**(₱11)**	**₱6,000**	**₱45,473**	**₱67,479**	**₱248**	**₱67,727**
Effect of adoption of *PAS* 19R	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**289**	**–**	**–**	**134**	**423**	**–**	**423**
At January 1, 2013, as restated	**11,273**	**(211)**	**4,111**	**(328)**	**1,049**	**120**	**–**	**3**	**289**	**(11)**	**6,000**	**45,607**	**67,902**	**248**	**68,150**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17,211**	**17,211**	**62**	**17,273**
Other comprehensive income (loss)	**–**	**–**	**–**	**–**	**–**	**(15)**	**–**	**386**	**1,157**	**–**	**–**	**–**	**1,528**	**–**	**1,528**
Total comprehensive income (loss)	**–**	**–**	**–**	**–**	**–**	**(15)**	**–**	**386**	**1,157**	**–**	**–**	**17,211**	**18,739**	**62**	**18,801**
Collection of subscriptions receivable	**–**	**142**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**142**	**–**	**142**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,621)**	**(11,621)**	**(137)**	**(11,758)**
Appropriation of unrestricted retained earnings	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**(5,000)**	**–**	**–**	**–**
	–	**142**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**(16,621)**	**(11,479)**	**(137)**	**(11,616)**
At December 31, 2013	**₱11,273**	**(₱69)**	**₱4,111**	**(₱328)**	**₱1,049**	**₱105**	**₱–**	**₱389**	**₱1,446**	**(₱11)**	**₱11,000**	**₱46,197**	**₱75,162**	**₱173**	**₱75,335**
At January 1, 2012, as previously reported	₱11,273	(₱521)	₱4,111	(₱328)	₱915	₱85	₱14	₱12	₱–	(₱9)	₱6,000	₱42,236	₱63,788	₱4,713	₱68,501
Effect of adoption of *PAS* 19R	–	–	–	–	–	–	–	–	(1,665)	–	–	33	(1,632)	–	(1,632)
As January 1, 2012, as restated	11,273	(521)	4,111	(328)	915	85	14	12	(1,665)	(9)	6,000	42,269	62,156	4,713	66,869
Net income	–	–	–	–	–	–	–	–	–	–	–	17,117	17,117	142	17,259
Other comprehensive income (loss)	–	–	–	–	–	35	–	(9)	1,954	–	–	–	1,980	–	1,980
Total comprehensive income (loss)	–	–	–	–	–	35	–	(9)	1,954	–	–	17,117	19,097	142	19,239
Collection of subscriptions receivable	–	310	–	–	–	–	–	–	–	–	–	–	310	–	310
Share-based payments	–	–	–	–	134	–	–	–	–	–	–	–	134	–	134
Purchase of treasury shares	–	–	–	–	–	–	–	–	–	(2)	–	–	(2)	–	(2)
Dividends	–	–	–	–	–	–	–	–	–	–	–	(9,129)	(9,129)	(15)	(9,144)
Deconsolidation of subsidiary through property dividend	–	–	–	–	–	–	(14)	–	–	–	–	(4,650)	(4,664)	(4,592)	(9,256)
	–	310	–	–	134	–	(14)	–	–	(2)	–	(13,779)	(13,351)	(4,607)	(17,958)
At December 31, 2012	₱11,273	(₱211)	₱4,111	(₱328)	₱1,049	₱120	₱–	₱3	₱289	(₱11)	₱6,000	₱45,607	₱67,902	₱248	₱68,150
At January 1, 2011, as previously reported	₱11,273	(₱738)	₱4,111	(₱328)	₱743	₱96	₱–	₱12	₱–	₱–	₱6,000	₱37,800	₱58,969	₱4,227	₱63,196
Effect of adoption of *PAS* 19R	–	–	–	–	–	–	–	–	(2,151)	–	–	–	(2,151)	–	(2,151)
At January 1, 2011, as restated	11,273	(738)	4,111	(328)	743	96	–	12	(2,151)	–	6,000	37,800	56,818	4,227	61,045
Net income	–	–	–	–	–	–	–	–	–	–	–	13,260	13,260	499	13,759
Other comprehensive income	–	–	–	–	–	3	–	–	486	–	–	–	489	–	489
Total comprehensive income	–	–	–	–	–	3	–	–	486	–	–	13,260	13,749	499	14,248
Collection of subscriptions receivable	–	217	–	–	–	–	–	–	–	–	–	–	217	–	217
Share-based payments	–	–	–	–	172	–	–	–	–	–	–	–	172	–	172
Purchase of treasury shares	–	–	–	–	–	–	–	–	–	(9)	–	–	(9)	–	(9)
Dividends	–	–	–	–	–	–	–	–	–	–	–	(8,791)	(8,791)	(13)	(8,804)
Discontinued operations	–	–	–	–	–	(14)	14	–	–	–	–	–	–	–	–
	–	217	–	–	172	(14)	14	–	–	(9)	–	(8,791)	(8,411)	(13)	(8,424)
At December 31, 2011	₱11,273	(₱521)	₱4,111	(₱328)	₱915	₱85	₱14	₱12	(₱1,665)	(₱9)	₱6,000	₱42,269	₱62,156	₱4,713	₱66,869

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Note	Years Ended December 31 2013	2012	2011
			(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax of continuing operations		**₱24,327**	₱22,022	₱18,746
Income before income tax of discontinued operations	*6*	**–**	1,061	1,288
Income before income tax		**24,327**	23,083	20,034
Adjustments for:				
Provision for probable charges and expenses from claims - net	*20*	**10,736**	8,948	7,869
Depreciation and amortization	*8, 10 and 11*	**6,118**	5,731	5,637
Interest and other financial charges	*26*	**1,479**	1,528	1,445
Interest and other financial income	*26*	**(1,172)**	(2,569)	(2,264)
Provision for doubtful accounts	*13*	**504**	832	2,243
Unrealized foreign exchange gain		**(392)**	–	–
Equity in net losses (earnings) of associates and joint ventures	*9*	**259**	15	(67)
Loss (gain) on disposal of utility plant and others - net		**69**	(12)	461
Gain on disposal of investment		**–**	(780)	(24)
Others		**–**	178	732
Operating income before working capital changes		**41,928**	36,954	36,066
Decrease (increase) in:				
Trade and other receivables		**(20,985)**	(2,248)	(5,484)
Inventories		**(1,379)**	357	323
Land development cost		**–**	–	(3,331)
Deferred pass-through fuel cost		**–**	–	1,222
Other current assets		**(147)**	285	(2,180)
Increase (decrease) in:				
Trade payables and other current liabilities		**25,060**	4,693	11,346
Customers' refund		**(114)**	(123)	(881)
Customers' deposits		**2,983**	2,487	1,967
Long-term employee benefits		**(2,997)**	1,067	(1,348)
Deposits of pre-selling of condominium units		**–**	**–**	(457)
Cash generated from operations		**44,349**	43,472	37,243
Income tax paid		**(7,205)**	(7,228)	(5,309)
Net cash flows from operating activities		**37,144**	36,244	31,934
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investments in associates and a joint venture	*9 and 15*	**(16,383)**	(198)	(517)
Utility plant and others	*8*	**(9,311)**	(9,353)	(8,343)
Short-term investments	*15*	**(4,841)**	–	–
Intangible assets	*11*	**(876)**	(315)	(209)
Investment properties		**–**	–	(42)
Interest and other financial income received		**1,106**	2,174	1,450
Dividends received		**411**	33	20
Proceeds from disposal of utility plant and others		**127**	155	107
Proceeds from disposal of investment properties		**91**	30	65
Decrease (increase) in other noncurrent assets		**(716)**	(2,075)	653
Net cash used in investing activities		**(30,392)**	(9,549)	(6,816)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Issuances of bonds, net of issue costs	*18*	**18,314**	–	–
Availment of notes payable		**4,705**	1,720	2,150
Collection of subscriptions receivable		**142**	310	217
Availment of interest-bearing long-term financial liabilities, net of issue costs		–	3,000	11,720
Payments of:				
Dividends		**(12,553)**	(8,890)	(9,866)
Interest-bearing long-term financial liabilities		**(9,424)**	(4,565)	(5,620)
Notes payable		**(4,678)**	–	(2,082)
Interest and other financial charges		**(4,036)**	(2,882)	(1,960)
Acquisition of non-controlling interest		**(27)**	–	–
Acquisition of treasury shares		**–**	(2)	(9)
Decrease in other noncurrent liabilities		**156**	973	872
Net cash used in financing activities		**(7,401)**	(10,336)	(4,578)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(649)**	16,359	20,540
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**60,500**	44,141	24,370
CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS AT END OF YEAR		**–**	–	(769)
CASH AND CASH EQUIVALENTS AT END OF YEAR	*12*	**₱59,851**	₱60,500	₱44,141

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

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

The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, Clark Electric Distribution Corporation or *CEDC*. *CEDC* is registered with Clark Development Corporation or *CDC*, under *RA* No. 9400, the *Bases Conversion Development Act of 1992*, as a Clark Special Economic Zone or *CSEZ,* enterprise, primarily engaged in the operation, and maintenance of a power distribution system within *CSEZ*.

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

MERALCO's investment in common equity shares of Rockwell Land Corporation or *Rockwell Land*, was declared as property dividends on February 27, 2012 to stockholders of record as at March 23, 2012. On April 25, 2012, the Securities and Exchange Commission or *SEC,* approved the property dividend declaration. Consequently, *MERALCO* distributed the *Rockwell Land* shares on May 11, 2012. The details of the declaration are in *Note 6 – Discontinued Operations*. *MERALCO* and its subsidiaries are collectively referred to as the *MERALCO Group*.

The single largest shareholder of *MERALCO* as at December 31, 2013 is Beacon Electric Asset Holdings, Inc. or *Beacon Electric,* which owns 49.96% of the common shares. *Beacon Electric* is jointly owned by Metro Pacific Investments Corporation or *Metro Pacific,* and PLDT Communications and Energy Ventures, Inc., or *PCEV,* both of which are domestic corporations and are affiliates of First Pacific Company Limited or *First Pacific*, a Hong Kong-based investment and management company. In December 2013, JG Summit Holdings, Inc. or *JG Summit*, completed the purchase of the remaining 27.12% equity interest of San Miguel Corporation or *SMC*, San Miguel Pure Foods Company, Inc. and San Miguel Global Power Holdings Corp. in *MERALCO*. In July 2013, *SMC* sold its 5.71%-interest in *MERALCO* through the market. First Philippine Holdings Corporation or *First Holdings*, and First Philippine Utilities Corporation, collectively own 3.95%. The balance of *MERALCO*'s common shares is held by the public.

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

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

The accompanying consolidated financial statements as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, were reviewed and recommended for approval by the Audit and Risk Management Committee to the Board of Directors or *BOD* on March 17, 2014. On the same date, these consolidated financial statements were approved and authorized for issue by the *BOD*.

2. Rate Regulations

As distribution utilities or *DUs*, *MERALCO* and *CEDC* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* and *CEDC* to customers are itemized or "unbundled" into a number of bill components that reflect the various activities and costs incurred in providing electric service. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities", which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss or *SL*, charge, (d) lifeline subsidy, and (e) local franchise tax or *LFT*, and (f) business tax; and [ii] the "Rules for the Setting of Distribution Wheeling Rates" or *RDWR*, as modified by *ERC* Resolution No. 20, Series of 2008, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

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

Rate Application

CEDC Rate Unbundling

On August 19, 2011, *CEDC* received an *ERC* Order to implement certain revisions of its schedule of rates effective on its August 2010 billing cycle, after the *ERC* approved *CEDC*'s unbundling application pursuant to Section 36 of *RA* No. 9136, *Electric Power Industry Reform Act of 2001* or *EPIRA*.

Thereafter, on June 21, 2012, *CEDC* received an Order from the *ERC* (docketed on May 28, 2012) directing *CEDC* to refund to its customers the amount of ₱0.8 million (the difference between its then existing rates and the rates approved by the *ERC*) at a rate

equivalent to ₱0.0067 per kilowatt hour or *kWh*, for a period of five (5) months or until the said amount shall have been fully refunded. The refund process was completed by *CEDC* in October 2012.

Performance-Based Regulations or PBR

MERALCO

MERALCO was among the Group A entrants to the *PBR*, together with two other private *DU*s.

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

Rate filings and settings are done on an *RP* basis. One (1) *RP* consists of four (4) Regulatory Years or *RY*s. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. As at December 31, 2013, *MERALCO* is operating in the first half of the third *RY* of the third *RP*. The third *RP* is from July 1, 2011 to June 30, 2015.

Maximum Average Price or MAP for RY 2008 and RY 2009

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

In April 2009, the *ERC* approved the implementation of *MERALCO*'s average distribution rate of ₱1.2227 per kilowatt-hour or *kWh* effective billing period of May 2009. This rate is inclusive of the under-recoveries for calendar year 2007 of ₱0.1285 per *kWh*.

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals, or *CA*, questioning the decision and Order of the *ERC* on *MERALCO*'s rate translation application for *RY* 2008 and *RY* 2009. In a decision dated January 27, 2010, the *CA* denied the Petition. Consequently, the consumer groups brought the case to the Supreme Court of the Philippines or *SC*. Comments and responses were filed by both parties with a Manifestation filed by *MERALCO* on January 26, 2011. As at March 17, 2014, the *SC* has yet to render its decision on this case.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed an application for the approval of its *MAP* for *RY* 2012 and translation into rate tariffs by customer category. On October 6, 2011, the *ERC* provisionally approved the *MAP* for *RY* 2012 of ₱1.6012 per *kWh* and the rate translation per customer class was reflected commencing with the October 2011 customer bills. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda. As at March 17, 2014, the application is pending final approval by the *ERC*.

MAP for RY 2013

On June 11, 2012, the *ERC* provisionally approved the *MAP* for *RY* 2013 of ₱1.6303 per *kWh* which was reflected starting with the July 2012 customer bills. Hearings on this case have been completed and *MERALCO* is awaiting the final decision of the *ERC*.

MAP for RY 2014

On April 1, 2013, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2014 of ₱1.6510 per *kWh* and the translation thereof into rate tariffs by customer category. Hearing was completed on May 9, 2013. *MERALCO* filed its Formal Offer of Evidence or *FOE* on May 10, 2013. On June 10, 2013, the *ERC* provisionally approved the *MAP* for *RY* 2014 of ₱1.6474 per *kWh* and the rate translation per customer class. As at March 17, 2014, the application is pending final approval by the *ERC*.

CEDC

CEDC was among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. The *RP* of *CEDC* began on October 1, 2011 and ends on September 30, 2015.

Reset Application and MAP for RY 2012

In compliance with the *ERC*'s *PBR* rate setting mechanism, *CEDC* filed a reset application for the approval of its *ARR* and *PIS* with the *ERC*. *CEDC* filed its revised application on November 3, 2010, which underwent a series of hearings and public consultations in 2011. The *ERC* issued *CEDC*'s Final Determination on August 5, 2011. Subsequently, *CEDC* filed with the *ERC* its application for *RY* 2012 Rate Translation into the different customer classes.

On April 10, 2012, the *ERC* approved with modification, *CEDC*'s application for the approval of the translation into distribution rates of different customer classes for the first *RY* of the approved *ARR* under the *PBR* for the *RP* October 1, 2011 to September 30, 2015. *CEDC* implemented the approved distribution, supply and metering charges of ₱0.8527 per *kWh* and the new customer segments in its June 2012 billing.

MAP for RY 2013

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

SC Decision on Unbundling Rate Case

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

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility's rates. However, while the *SC* affirmed *ERC*'s authority in rate-fixing, the *SC* directed the *ERC* to request *COA* to undertake a complete audit of the books, records and accounts of *MERALCO*. On January 15, 2007, in compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed in August 2009.

On February 17, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA*'s "Report No. 2009-01 Rate Audit Unbundled Charges."

On July 1, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Order dated March 20, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a motion for reconsideration of the said Order. On September 5, 2011, *MERALCO* filed its comment to the intervenor's motion for reconsideration. On February 4, 2013, the *ERC* denied the intervenor's motion for reconsideration. The intervenor filed a petition for review before the *CA*. *MERALCO* is awaiting further action of the *CA* on this matter.

Applications for the Recovery of Generation Costs and SL Charges

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

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

As at December 31, 2013, the remaining balance of ₱137 million of such unrecovered generation costs will be billed subsequent to December 2013 at the rate of ₱0.0314 per *kWh* until fully recovered. The amount is recoverable within 12 months and included in the "Trade and other receivables" account.

With respect to the ₱1,295 million *SL* charge under-recoveries, the *ERC* ordered *MERALCO* to file a separate application for the recovery of *SL* adjustments after the *ERC* confirms the transmission rate to be used in the calculation of the *SL* rate in accordance with the *SL* rate formula of the Automatic Generation Rate Adjustments Guidelines or *AGRA*. *MERALCO* has filed the application for recovery of the ₱1,295 million *SL* charge under-recoveries with the *ERC*. This was included in the Consolidated Application of over- or under- recoveries in generation, transmission, *SL* and lifeline subsidies filed on March 31, 2011 with the *ERC*. Hearings were completed on October 25, 2011. On December 12, 2011, *MERALCO* filed for the admission of its Supplemental Application. An expository hearing was conducted on February 1, 2012. As at March 17, 2014, *MERALCO* has already filed its *FOE* and is awaiting the final resolution by the *ERC*.

Inter-Class Cross Subsidies and Lifeline Subsidies

MERALCO filed separate applications to recover inter-class cross subsidies (on November 14, 2007) and lifeline subsidies (on February 19, 2008).

In a decision dated November 16, 2009, the *ERC* authorized *MERALCO* to recover the inter-class cross subsidy under-recoveries covering the period June 2003 to October 2006 amounting to ₱1,049 million and total lifeline subsidy under-recoveries covering the period June 2003 to December 2007 amounting to ₱856 million.

In December 2009, *MERALCO* implemented the decisions of the *ERC* on the inter-class cross and lifeline subsidies. The balances of inter-class cross subsidies and lifeline subsidies were fully recovered in April 2013 and December 2013, respectively.

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

On August 12, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities." These rules govern the recovery of pass-through costs, including over- or under-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and interclass rate subsidies, *LFT* and business tax. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending certain formula contained in *ERC* Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to

December 2013) as the new deadlines for *DU*s in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter.

On March 31, 2011, *MERALCO* filed a consolidated application with the *ERC* to confirm its under- or over-recoveries accumulated from June 2003 to December 2010 in compliance with Resolution No. 16, Series of 2009, as subsequently amended by Resolution No. 21, Series of 2010. Hearings were completed on October 25, 2011. On December 8, 2011, *MERALCO* filed an Omnibus Motion praying for, among other things, the admission of the Supplemental Application. In an Order dated December 12, 2011, the *ERC* granted *MERALCO*'s Omnibus Motion and admitted its Supplemental Application. Accordingly, hearings for the Supplemental Application were conducted where *MERALCO* presented additional evidence. *MERALCO* filed its *FOE* on September 13, 2012. The consolidated filing includes net generation charge under-recoveries of ₱1,000 million, net transmission charge over-recoveries of ₱111 million, net lifeline subsidy under-recoveries of ₱9 million and net *SL* over-recoveries of ₱425 million, excluding any applicable carrying charges.

On July 6, 2012, *MERALCO* filed a consolidated application with the *ERC* to confirm its under- or over-recoveries for the calendar year 2011. The consolidated filing includes net generation charge under-recoveries of ₱1,826 million, transmission charge under-recoveries of ₱253 million, net lifeline subsidy under-recoveries of ₱39 million and *SL* over-recoveries of ₱445 million, excluding any applicable carrying charges. Hearings on the application have been completed and *MERALCO* has submitted its *FOE* on January 25, 2013. As at March 17, 2014, the application is pending approval by the *ERC*.

Deferred PPA

On October 14, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries in 2004. *ERC* directed *MERALCO* to refund ₱268 million of deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company or *QPPL* and deferred accounting adjustments or *DAA* incurred to customers, along with ₱184 million in carrying charges, or an equivalent of ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred *PPA* under-recoveries of ₱106 million, which does not represent the transmission line fee. As at March 17, 2014, *MERALCO* has filed a Motion for Reconsideration, which is pending decision by the *ERC*.

Application for Recovery of LFT

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

In a Decision dated February 27, 2012, the *ERC* released its Order approving with modifications *MERALCO*'s application. The *ERC* approved recovery of *LFT* amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the *ERC*, the recovery was reflected as a separate item in the *MERALCO* billing statement to its customers beginning April 2012. As at December 31, 2013, a total of ₱856 million *LFT* and carrying charges have been billed to affected customers. The amount recoverable within 12 months is included in the "Trade and other receivables" account while the long-term portion is included in the "Other noncurrent assets" account.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four phases. The refund is still ongoing.

See *Note 21 – Customers' Refund*.

3. Basis of Preparation and Statement of Compliance

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

The consolidated financial statements provide comparative information in respect of the previous year. In addition, the *MERALCO Group* presents an additional consolidated statement of financial position at the beginning of the earliest year presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies.

See *Note 4 – Significant Accounting Policies, Changes and Improvements*.

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

Statement of Compliance

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

Basis of Consolidation

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

			2013		2012	
			Percentage of Ownership			
Subsidiaries	Place of Incorporation	Principal Business Activity	Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc., or *CIS*	Philippines	e-Transactions	**100**	**–**	100	–
CIS Bayad Center, Inc., or *Bayad Center*	Philippines	Bills payment collection	**–**	**100**	–	100
Customer Frontline Solutions, Inc. or CFSI	Philippines	Tellering services	**–**	**100**	–	100
Meralco Energy, Inc., or *MEI*	Philippines	Energy systems management	**100**	**–**	100	–
eMERALCO Ventures, Inc., or *e-MVI*	Philippines	e-Business development	**100**	**–**	100	–
Paragon Vertical Corporation	Philippines	Information technology and multi-media services	**–**	**100**	–	100
MGen	Philippines	Development of power generation plants	**100**	**–**	100	–
Calamba Aero Power Corporation[1]	Philippines	Power generation	**–**	**100**	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	**–**	**100**	–	100
Luzon Natural Gas Energy Corporation[2]	Philippines	Power generation	**–**	**100**	–	–
MPG Asia Limited	British Virgin Island	Holding company	**–**	**100**	–	–
Meralco Financial Services Corporation or *Finserve*	Philippines	Financial services provider	**100**	**–**	100	–
Republic Surety and Insurance Company, Inc. or *RSIC*	Philippines	Insurance	**100**	**–**	100	–
Lighthouse Overseas Insurance Limited or *LOIL*	Bermuda	Insurance	**100**	**–**	100	–
MIESCOR	Philippines	Engineering, construction and consulting services	**99**	**–**	99	–
MIESCOR Builders Inc. or MBI	Philippines	Electric transmission and distribution operation and maintenance services	**–**	**100**	–	100
MIESCOR Logistics Inc. or MLI	Philippines	General services, manpower/maintenance	**–**	**100**	–	100
Miescorrail, Inc. or Miescorrail[3]	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	–	100
CEDC	Philippines	Power distribution	**65**	**–**	65	–

[1] *Incorporated February 15, 2011 and has not started commercial operations as at December 31, 2013.*
[2] *Incorporated January 11, 2013 and has not started commercial operations as at December 31, 2013.*
[3] *On December 26, 2013, MIESCOR assigned its entire shareholdings in Miescorrail to MERALCO.*

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

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

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

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

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

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

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

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

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to existing standards, which were effective beginning January 1, 2013.

PAS 1, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income or OCI

The amendments to *PAS 1* change the grouping of items presented in *OCI*. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments are applicable to the *MERALCO Group*. However, the adoption did not have significant effect on the consolidated financial statements. The amendments affected the presentation in the consolidated statement of comprehensive income only and had no impact on the *MERALCO Group*'s financial position or performance.

PAS 19, Employee Benefits (Amendments)

For defined benefit plans, the Revised *PAS 19* requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised *PAS 19*, the *MERALCO Group* recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets, and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised *PAS 19*, the *MERALCO Group* changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised *PAS 19* replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset, which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised *PAS 19* also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised *PAS 19* modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The *MERALCO Group* reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The *MERALCO Group* obtained the services of an independent actuary to compute the impact on the consolidated financial statements. The effects are detailed below:

	As at December 31, 2013	As at December 31, 2012	As at January 1, 2012
		(Amounts in millions)	
Consolidated statements of financial position			
Increase (decrease) in:			
Net defined benefit liability	(₱2,294)	(₱605)	₱2,332
Deferred tax assets	(688)	(182)	700
Other comprehensive income	1,446	289	(1,665)
Retained earnings	160	134	33

	Years ended December 31		
	2013	2012	2011
	(Amounts in millions, except per share data)		
Consolidated statements of income			
Increase (decrease) in:			
Net benefit cost	(₱37)	(₱145)	(₱47)
Provision for income tax	11	44	14
Profit for the year attributable to:			
Equity holders of the Parent	26	101	33
Non-controlling interests	–	–	–
Earnings per share - basic and diluted	₱0.02	₱0.09	₱0.03
Consolidated statements of comprehensive income			
Increase in other comprehensive income	₱1,157	₱1,954	₱486

The adoption of the Revised *PAS 19* had no impact on the consolidated statements of cash flows.

Philippine Interpretation *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not applicable to the *MERALCO Group*.

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with *PAS 32, Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with *PAS 32*. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. These are presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in *PAS 32* when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in *PAS 32*; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments are applicable to the *MERALCO Group* and based on the evaluation, the amendments have no impact on its financial position or performance.

PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of *PAS 27*, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee or *SIC 12, Consolidation - Special Purpose Entities*. *PFRS 10* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by *PFRS 10* will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in *PAS 27*. A reassessment of control was performed by *MERALCO* on all its subsidiaries and associates in accordance with the provisions of *PFRS 10*. Based on the reassessment made, *MERALCO* has not determined any change in the control or significant influence in any of its subsidiaries and associates.

PFRS 11, Joint Arrangements

PFRS 11 replaces *PAS 31, Interests in Joint Ventures*, and *SIC 13*, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. *PFRS 11* removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard is applicable to the *MERALCO Group* and based on its evaluation, the application of this new standard has no impact on its consolidated financial statements.

PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in *PAS 27*, as well as all the disclosures that were previously included in *PAS 31* and *PAS 28*, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard is applicable to the *MERALCO Group* and based on the evaluation, the standard has no impact on its financial position or performance but affects disclosures only.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under *PFRS* for all fair value measurements. *PFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under *PFRS* when fair value is required or permitted. The standard is applicable to the *MERALCO Group* and based on its evaluation, the standard has no impact on the *MERALCO Group*'s financial position or performance but affects disclosures only.

PAS 27, Separate Financial Statements (as revised in 2011)

As a consequence of the issuance of the new *PFRS 10* and *PFRS 12*, what remains of *PAS 27* is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The standard is applicable to the *MERALCO Group* and based on its evaluation, the application of this new standard has no impact on its consolidated financial statements.

PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the issuance of the new *PFRS 11* and *PFRS 12*, *PAS 28* has been renamed *PAS 28*, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The standard is applicable to the *MERALCO Group* and based on its evaluation, the application of this new standard has no impact on its consolidated financial statements.

Annual Improvements to PFRS (2009–2011 cycle)

The *Annual Improvements to PFRS (2009–2011 cycle)* contain non-urgent but necessary amendments to *PFRS*. The amendments are effective for annual periods beginning on or after January 1, 2013 and to be applied retrospectively.

PFRS 1, First-time Adoption of PFRS – Borrowing Costs

The amendment clarifies that, upon adoption of *PFRS*, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of *PFRS*, borrowing costs are recognized in accordance with *PAS 23, Borrowing Costs*. The amendment does not apply to the *MERALCO Group* as it is not a first-time adopter of *PFRS*.

PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information

The amendment clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the *MERALCO Group*'s financial position or performance.

PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment has no impact on the *MERALCO Group*'s financial position or performance.

PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with *PAS 12, Income Taxes*. The amendment has no impact on the *MERALCO Group*'s financial position or performance.

PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment has no impact on the *MERALCO Group*'s financial position or performance.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

The *MERALCO Group* will adopt the following new standards, interpretations and amendments to existing standards enumerated below when these become effective. Except as otherwise indicated, the *MERALCO Group* does not expect the adoption of these revised standards and amendments to *PFRS* to have a significant impact on the *MERALCO Group's* consolidated financial statements.

Effective 2014

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

These amendments remove the unintended consequences of *PFRS 13* on the disclosures required under *PAS 36*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided *PFRS 13* is also applied. The amendments affect disclosures only and will have no impact on the *MERALCO Group's* financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

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

Philippine Interpretation IFRIC 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The *MERALCO Group* does not expect that *IFRIC 21* will have material financial impact in future financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The *MERALCO Group* has not novated its derivatives during the current period. However, these amendments would be considered for future any novations.

PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the *PAS 32* offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the *MERALCO Group*'s financial position or performance. The amendments to *PAS 32* are to be applied retrospectively for annual periods beginning on or after January 1, 2014.

Effective 2015

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

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to *PAS 19* are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)

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

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

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the *MERALCO Group* as it has no share-based payments.

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

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with *PAS 32*. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of *PFRS 9* (or *PAS 39*, if *PFRS 9* is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The *MERALCO Group* shall consider this amendment for future business combinations.

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

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the *MERALCO Group*'s financial position or performance.

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

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

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

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

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

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

PAS 24, Related Party Disclosures – Key Management Personnel

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

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

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

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

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

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

Annual Improvements to PFRSs (2011–2013 cycle)

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

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first *PFRS* financial statements. This amendment is not applicable to the *MERALCO Group*'s as it is not a first-time adopter of *PFRS*.

PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements

The amendment clarifies that *PFRS 3* does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, Fair Value Measurement – Portfolio Exception

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

PAS 40, Investment Property

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

Deferred Effectivity

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

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under *PAS 11* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The *SEC* and the Financial Reporting Standards Council or *FRSC* have deferred the effectivity of this interpretation until the final "Revenue" standard is issued by the International Accounting Standards Board or *IASB* and an evaluation of the requirements of the final "Revenue" standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of *MERALCO*.

PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9, as issued, reflects the first and third phases of the project to replace *PAS 39* and applies to the classification and measurement of financial assets and financial liabilities and hedge accounting, respectively. Work on second phase, which relates impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace *PAS 39* in its entirety. *PFRS 9* requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option *or FVO*, is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through *OCI* or profit or loss. All equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at *FVPL* using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in *OCI*. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in *OCI* would create or enlarge an accounting mismatch in profit or loss. All other *PAS 39* classification and measurement requirements for financial liabilities have been carried forward into *PFRS 9*, including the embedded derivative separation rules and the criteria for using the *FVO*. The *MERALCO Group* conducted an evaluation of the early adoption of *PFRS* 9 and has assessed that the first phase of *PFRS 9* will have an effect on the classification and measurement of financial assets. The *MERALCO Group* will quantify the effect on the consolidated financial statements in conjunction with the other phases, when issued, to present a comprehensive picture.

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

PFRS 9 currently has no mandatory effective date. *PFRS 9* may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The *MERALCO Group* will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Significant Accounting Policies

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

Business Combinations and Goodwill

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

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the provisional amounts of the items for which the accounting is incomplete are reported in the consolidated financial statements. During the measurement period which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the

operation. Goodwill disposed of in such circumstance is measured based on relative values of the operation disposed and the portion of the cash-generating unit retained.

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

Utility Plant and Others

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

Land is stated at cost less any impairment in value.

MERALCO's utility plant and others are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transitional provisions of *PFRS 1*. The balance of revaluation increment was closed to retained earnings. See *Note 16 – Equity* for the related discussion.

Depreciation and amortization of utility plant and others are computed using the straight-line method (except for certain subtransmission and distribution assets, which use straight-line functional group method) over the following estimated useful lives:

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10–50 years, depending on the life of the significant parts
Buildings and improvements	15–40 years
Communication equipment	10 years
Office furniture, fixtures and other equipment	5–15 years
Transportation equipment	5–10 years
Others	5–20 years

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Investment Properties

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

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

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

MERALCO's investment properties acquired before January 1, 2004 are stated at deemed cost. See *Note 16 – Equity* for the related discussions.

Investment properties, except land, are being depreciated on a straight-line basis over the useful life of 5 to 35 years.

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

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

Asset Retirement Obligations

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

Intangible Assets

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

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

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

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

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

Investments in Associates and Joint Ventures

An associate is an entity over which *MERALCO* has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

Inventories

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

Financial Assets

Initial Recognition

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

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

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

The *MERALCO Group*'s financial assets include cash and cash equivalents, trade and non-trade receivables, advance payments to a supplier, quoted and unquoted equity securities and embedded derivatives that are not accounted for as effective accounting hedges.

Subsequent Measurement

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

Financial Assets at FVPL

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

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

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

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains or losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as when these are amortized. Interest earned or incurred is recorded in "Interest and other financial income" or "Interest and other

financial charges" account, respectively, in the consolidated statement of income. Assets in this category are included under current assets except for assets with maturities beyond 12 months from the reporting date, which are classified as noncurrent assets.

HTM Investments

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

AFS Financial Assets

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

Financial Liabilities

Initial Recognition

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

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

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

Subsequent Measurement

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

Financial Liabilities at FVPL

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

Financial liabilities may be designated at initial recognition as at *FVPL*, if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the financial liabilities are part of a group which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain one or more embedded derivatives that would need to be recorded separately. The *MERALCO Group* does not have financial liabilities designated as at *FVPL* as at December 31, 2013 and 2012.

Other Financial Liabilities

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

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

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

MERALCO has separated embedded foreign currency forwards which are derivative financial instruments used to hedge risks associated with foreign currency fluctuations.

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

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

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

See *Note 28 – Financial Assets and Financial Liabilities.*

Offsetting of Financial Instruments

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

Amortized Cost of Financial Instruments

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

'Day 1' Profit or Loss

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan is subject to variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on

the original effective interest rate of the asset. The financial asset together with associated allowance is written off when there is no realistic prospect of future recovery and all collateral or deposits has been realized or has been transferred to the *MERALCO Group*.

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

AFS Financial Assets

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

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

Assets Carried at Cost

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

Derecognition of Financial Instruments

Financial Assets

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

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

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

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

Financial Liabilities

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

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

Redeemable Preferred Stock

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

Provisions

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

Retirement Benefits

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

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

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset

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

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

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

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

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

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

Termination Benefits

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

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

Employee Leave Entitlements

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

Long-term Incentive Plan

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

Employee Stock Purchase Plan or ESPP

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

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

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

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

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

Revenue Recognition

Revenues are stated at amounts invoiced to customers, inclusive of pass-through components, net of discounts, rebates, *VAT* and other taxes, where applicable. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the *MERALCO Group* and the revenue can be reliably measured. In addition, collectability is reasonably assured and the delivery of the goods or rendering of the service has occurred. The *MERALCO Group* assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The *MERALCO Group* concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Electricity

Revenues are recognized upon supply of power to the customers. The Uniform Filing Requirements or *UFR,* on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment or *CERA* I and II, where applicable and (h) interclass and lifeline subsidies. *VAT*, *LFT*, the Power Act Reduction (for residential customers) adjustment and universal charges are also separately presented in the customer's billing statement. *VAT, LFT* and universal charges are billed and collected on behalf of the national and local governments and do not form part of *MERALCO* and *CEDC*'s revenues.

Sale of Services

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

Contract costs principally include subcontracted costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising after final contract settlements and after gross margins are recognized in the period in which the changes are determined.

Service and consulting fees are recognized when the services are rendered.

Interest Income

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

Dividends

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

Lease Income

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

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

Expense Recognition

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

Leases

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

Company as Lessee

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

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is also *MERALCO*'s functional and presentation currency. The Philippine peso is the currency of the primary economic environment in which *MERALCO Group* operates, except for *LOIL* and *MPG Asia*. This is also the currency that mainly influences the revenue from and cost of rendering services. Each entity in *MERALCO Group* determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of *LOIL* and *MPG Asia* is the United States or *U.S.* dollar.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting period. All differences are recognized in the consolidated statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transactions.

As at the reporting date, the monetary assets and liabilities of associates, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of an associate are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of the associate, the amount of cumulative translation adjustments recognized in other comprehensive income is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Earnings per Share

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

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

Contingencies

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

Events After the Reporting Date

Post reporting date events that provide additional information about the *MERALCO Group*'s financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post reporting date events that are not adjusting events are disclosed in the notes to consolidated financial statements, when material.

Equity

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

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model. The 14th and last *ESPP*, which was awarded in 2009 fully vested in October 2012. Since 2009, there have been no *ESPP*s implemented.

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

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

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

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

5. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the *MERALCO Group*'s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

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

Determination of Functional Currency

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

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

Operating Lease Commitments

As Lessor

As a lessor, the *MERALCO Group* has several lease arrangements. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by the *MERALCO Group*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

As Lessee

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

Arrangement that Contains a Lease

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

Components of purchased power expense, which have been accounted for similar to a lease, amounted to ₱46,170 million, ₱18,946 million and ₱20,135 million in 2013, 2012 and 2011 respectively. These are recognized as "Purchased Power" in the consolidated statements of income.

See *Note 25 – Revenues and Purchased Power*.

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

MERALCO has 51% equity in San Buenaventura Power Ltd. Co. or *SBPL*. While *MERALCO* owns majority of the voting rights in *SBPL,* it does not have sole control over *SBPL*. *MERALCO's* investment in *SBPL* is accounted for as a joint venture since key operating and financial decisions of *SBPL* require the unanimous vote and consent of the parties sharing control.

Contingencies

The *MERALCO Group* has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See *Note 30 – Contingencies and Legal Proceedings*.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed in the following:

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

The *MERALCO Group* estimates the useful lives of utility plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱5,941 million, ₱5,474 million and ₱5,466 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱112,586 million and ₱109,312 million as at December 31, 2013 and 2012, respectively.

Total depreciation of investment properties amounted to ₱8 million, ₱8 million and ₱138 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total carrying value of investment properties, net of accumulated depreciation, amounted to ₱1,526 million and ₱1,634 million as at December 31, 2013 and 2012, respectively.

Total amortization of intangible assets with finite lives amounted to ₱169 million, ₱94 million and ₱33 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total carrying value of intangible assets with finite lives, net of accumulated amortization, amounted to ₱1,728 million and ₱1,021 million as at December 31, 2013 and 2012, respectively.

See *Note 8 – Utility Plant and Others, Note 10 – Investment Properties* and *Note 11 – Other Noncurrent Assets*.

Impairment of Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant and others, investment properties, investments in and advances to associates and joint ventures, goodwill and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude that utility plant and others, construction in progress, investment properties, investments in and advances to associates and joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the *MERALCO Group*'s consolidated financial position and results of operations.

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

The carrying values of nonfinancial assets as at December 31, 2013 and 2012 subject to impairment review are as follows:

Account	**2013**	2012
	(Amounts in millions)	
Utility plant and others	**₱112,586**	₱109,312
Investments in associates and joint ventures	**13,422**	1,815
Investment properties	**1,526**	1,634
Intangible assets	**1,728**	1,021
Receivable from the *BIR*	**577**	577
Goodwill	**36**	36

See Note 8 – Utility Plant and Others, Note 9 – Investments in Associates and Joint Ventures, Note 10 – Investment Properties and Note 11 – Other Noncurrent Assets.

Goodwill

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

Realizability of Deferred Tax Assets

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

Assessment on the recognition of deferred tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting periods. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized. The amounts of the deferred tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred tax assets:

	2013	2012
	(Amounts in millions)	
Recognized deferred tax assets	**₱15,391**	₱13,338
Unrecognized deferred tax assets	**215**	154

See *Note 29 – Income Taxes and Local Franchise Taxes*.

Determination of Fair Values of Financial Assets and Financial Liabilities

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

See *Note 28 – Financial Assets and Financial Liabilities*.

Estimating Allowance for Doubtful Accounts

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

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

Total asset impairment provision for trade and other receivables and other current assets recognized in the consolidated statements of income amounted to ₱504 million, ₱832 million and ₱2,243 million for the years ended December 31, 2013, 2012 and 2011, respectively. Trade and other receivables, net of asset impairment, amounted to ₱32,718 million and ₱28,077 million as at December 31, 2013 and 2012, respectively.

See *Note 13 – Trade and Other Receivables* and *Note 15 – Other Current Assets*.

Estimating Net Realizable Value of Inventories

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

The carrying values of inventories amounted to ₱2,750 million and ₱1,371 million as at December 31, 2013 and 2012, respectively.

See *Note 14 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The pension benefit liability and other post-employment benefit as at December 31, 2013 and 2012 amounted to ₱2,978 million and ₱6,241 million, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

See *Note 26 – Expenses and Income* and *Note 27 – Long-term Employee Benefits*.

Insurance Liabilities Arising from Insurance Contracts

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

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

As at December 31, 2013 and 2012, gross carrying values of insurance liabilities arising from insurance contracts, included in "Other noncurrent liabilities" account, amounted to ₱725 million and ₱625 million, respectively.

Provision for Asset Retirement Obligations

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

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

Provisions

MERALCO Group is involved in various legal proceedings as discussed in Note 30 – *Contingencies and Legal Proceedings*. *MERALCO Group*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

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

MERALCO recognized provisions amounting to ₱10,749 million, ₱9,226 million and ₱8,065 million for the years ended December 31, 2013, 2012 and 2011, respectively.

See *Note 20 – Provisions*.

Revenue Recognition

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

Revenues from sale of electricity by *MERALCO* and *CEDC* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost in the accounts is based on calendar month as provided in the terms of the *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates.

The difference between the amount initially recognized based on provisional invoices and the settlement of the actual billings by the generators is taken up in the subsequent period. Management believes that such use of estimates will not result in material adjustments in future periods.

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

6. Discontinued Operations

In 2011, upon approval by the *BOD* of *MERALCO* of the divestment plan by *MERALCO* of its investment in common shares of *Rockwell Land* through the declaration of property dividends, *MERALCO* reclassified the related assets, liabilities and cumulative other comprehensive income of *Rockwell Land* as "Assets of discontinued operations", "Liabilities of discontinued operations" and "Unrealized fair value gains on *AFS* investments of discontinued operations", respectively, in the consolidated statement of financial position as at January 1, 2012.

On April 25, 2012, the *SEC* approved the property dividend declaration by the *BOD* of *MERALCO* (on February 27, 2012) of *MERALCO*'s investment in common shares of *Rockwell Land* in favor of all Filipino common stockholders as at March 23, 2012. Foreign common stockholders were paid the cash equivalent of the property dividends at the time of declaration. Such property dividends were paid on May 14, 2012, within five (5) trading days after approval of the property dividend by the *SEC* and registration of the *Rockwell Land* shares under the Securities Regulation Code and the listing thereof with the *PSE* on May 11, 2012. As at the date of declaration, *MERALCO* owned 3,176,474,995 common shares at ₱1.46 per share with a total cost of ₱4,638 million.

The assets and liabilities of *Rockwell Land* classified as "Assets of discontinued operations" and "Liabilities of discontinued operations", respectively, in the consolidated statement of financial position as at January 1, 2012 are as follows:

	Amount
	(In millions)
Noncurrent Assets:	
Property and equipment	₱465
Investment properties	6,297
Other noncurrent assets	362
Current Assets:	
Cash and cash equivalents	769
Trade and other receivables	2,782
Land and development costs	5,950
Other current assets	1,724
	₱18,349
Noncurrent Liabilities:	
Interest-bearing long-term financial liabilities	₱2,867
Deposits from pre-selling condominium units	284
Deferred tax liabilities - net	146
Other noncurrent liabilities	470
Current Liabilities:	
Trade and other payables	5,258
Income tax payable	88
	₱9,113

The financial performance of *Rockwell Land* for the four months ended April 30, 2012 and the year ended December 31, 2011 are presented as "Income from discontinued operations, net of income tax" in the consolidated statements of income. The details are presented as follows:

	2012	2011
	(Amounts in millions)	
Revenues	₱1,501	₱5,834
Cost and expenses	1,288	4,887
Gross profit	213	947
Interest and other financial income	114	520
Interest and other financial expenses	(71)	(183)
Others	805	4
Income before income tax	1,061	1,288
Provision for income tax	(83)	(322)
Net income from discontinued operations	₱978	₱966

The net cash flows for the four months ended April 30, 2012 and the year ended December 31, 2011 are as follows:

	2012	2011
	(Amounts in millions)	
Operating activities	₱104	₱398
Investing activities	(5)	(214)
Financing activities	1,085	(58)
Net cash flows	₱1,184	₱126

Included in accumulated other comprehensive income as at January 1, 2012 are unrealized fair value gains on *AFS* financial assets amounting to ₱14 million.

7. Segment Information

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

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

- Power

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

  Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* franchise area and the *CEDC* franchise area in the Luzon Grid. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country. *CEDC*'s service area covers the *CSEZ*.

  Power generation – The *MERALCO Group*'s re-entry in the power generation business is through investment in operating companies or participation in the development of power generation projects. *MGen*, the power generation arm of the *MERALCO Group* acquired a 20% equity interest in *GBPC*. *GBPC* operates a total of 627 *MW* gross capacity of coal and diesel-fired power plants. In addition, it has 232 *MW* of coal-fired power plants under construction in the Visayas.

  In March 2013, *MGen* acquired an effective 28% equity in PacificLight Power Pte Ltd. or *PacificLight Power*, in Jurong Island, Singapore.

  MGen is currently developing a 500 *MW* gross capacity of supercritical coal-fired power plant in Mauban, Quezon. On the other hand, land development for its 2 x 300 *MW* Circulating Fluidized Bed or *CFB,* coal-fired power generation plant in the Subic Freeport Zone under Redondo Peninsula Energy, Inc. or *RP Energy* is ongoing.

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

  See *Note 9 – Investments in Associates and Joint Ventures.*

  RES – This covers the sourcing and supply of electricity to qualified contestable customers. The *MERALCO Group* serves as a local *RES* within its franchise area only under the brand, *MPower*. Starting June 26, 2013, certain qualified contestable customers sourced their electricity supply from *MPower*.

- Other Services

  The other services segment is involved principally in electricity-related services such as electro-mechanical engineering, construction, consulting and related manpower as well as light rail- related maintenance services, e-transaction and bills collection, insurance and e-business development and distribution and energy systems management. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as "*MIESCOR Group*"), *CIS*, *Bayad Center and CFSI* (collectively referred to as "*CIS Group*"), *Miescorrail*, *RSIC*, *LOIL, Finserve*, *e-MVI* and *MEI*.

MERALCO's real estate segment, which was provided by *Rockwell Land*, is involved in luxury residential and commercial real estate development and leasing. In 2012, the accounts of *Rockwell Land* were deconsolidated from those of *MERALCO* as discussed in Note 6 – *Discontinued Operations*.

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

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

CCNI for the year is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

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

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

	Note	Power			Other Services			Inter-segment Transactions			Total		
		2013	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*
							(Amounts in millions)						
Revenues		**₱294,849**	₱282,991	₱253,989	**₱5,258**	₱3,829	₱3,923	**(₱1,471)**	(₱1,550)	(₱1,104)	**₱298,636**	₱285,270	₱256,808
Segment results		**₱29,730**	₱25,405	₱22,085	**₱1,305**	₱1,127	₱1,330	**₱–**	₱–	(₱35)	**₱31,035**	₱26,532	₱23,380
Depreciation and amortization		**(5,911)**	(5,400)	(5,360)	**(207)**	(176)	(144)	**–**	–	–	**(6,118)**	(5,576)	(5,504)
Interest and other financial income	*26*	**1,161**	2,519	2,186	**11**	50	78	**–**	–	–	**1,172**	2,569	2,264
Equity in net earnings (losses) of associates and joint ventures	*9*	**(168)**	247	914	**–**	–	–	**(91)**	(262)	(847)	**(259)**	(15)	67
Interest and other financial charges	*26*	**(1,475)**	(1,518)	(1,435)	**(4)**	(10)	(10)	**–**	–	–	**(1,479)**	(1,528)	(1,445)
Derivative mark-to-market gain (loss)		**(24)**	40	(16)	**–**	–	–	**–**	–	–	**(24)**	40	(16)
Provision for income tax - net		**(6,710)**	(5,454)	(5,589)	**(344)**	(287)	(364)	**–**	–	–	**(7,054)**	(5,741)	(5,953)
Net income attributable to non-controlling interests		**–**	–	–	**–**	–	–	**(62)**	(142)	(499)	**(62)**	(142)	(499)
Income from discontinued operations, net of income tax		**–**	–	–	–	978	1,016	**–**	–	(50)	**–**	978	966
Net income attributable to equity holders of the Parent		**₱16,603**	₱15,839	₱12,785	**₱761**	₱1,682	₱1,906	**(₱153)**	(₱404)	(₱1,431)	**₱17,211**	₱17,117	₱13,260

** As restated - see Note 4.*

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

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

	2013	2012	2011
		(Amounts in millions)	
Consolidated *EBITDA*	**₱30,682**	₱27,690	₱24,649
EBITDA of discontinued operations	**–**	(1,154)	(1,262)
EBITDA of continuing operations	**30,682**	26,536	23,387
Depreciation and amortization	**(6,118)**	(5,576)	(5,504)
Interest and other financial income	**1,172**	2,569	2,264
Interest and other financial charges	**(1,479)**	(1,528)	(1,445)
Equity in net earnings (losses) of associates and joint ventures	**(259)**	(15)	67
Derivative mark-to-market gain (loss)	**(24)**	40	(16)
Foreign exchange gain (loss)	**353**	(4)	(7)
Consolidated income before income tax	**24,327**	22,022	18,746
Provision for income tax	**(7,054)**	(5,741)	(5,953)
Net income from continuing operations	**17,273**	16,281	12,793
Income from discontinued operations, net of income tax	**–**	978	966
Net income	**₱17,273**	₱17,259	₱13,759

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

	2013	2012	2011
		(Amounts in millions)	
CCNI	**₱17,023**	₱16,265	₱14,887
Add (deduct) non-core items, net of tax:			
Foreign exchange gain (loss)	**366**	(1)	(2)
Investment acquisition transaction costs	**(156)**	–	–
Mark-to-market gain (loss)	**(17)**	28	(12)
Gain (loss) on sale of investment properties	**(5)**	–	17
Gain on divestment from *Rockwell Land*	**–**	780	–
Non-core expense	**–**	(56)	(1,568)
Effect of revised *PAS 19*	**–**	101	33
Day "1" loss of advance payments to a supplier	**–**	–	(95)
Net income for the year attributable to equity holders of the Parent	**17,211**	17,117	13,260
Net income for the year attributable to non-controlling interests	**62**	142	499
Net income	**₱17,273**	₱17,259	₱13,759

8. Utility Plant and Others

The movements in utility plant and others are as follows:

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

		2012							
	Note	Sub-transmission and Distribution	Land	Buildings and Improve-ments	Commu-nication Equipment	Office Furniture, Fixtures and Other Equipment	Trans-portation Equipment	Others	Cons-truction in Progress	Total
					(Amounts in millions)					
Cost:										
Balance at beginning of year		₱126,338	₱14,849	₱4,866	₱6,248	₱3,658	₱2,442	₱2,730	₱2,471	₱163,602
Transfers from construction in progress		5,621	–	222	240	–	–	–	(6,083)	–
Additions		1,563	410	2	61	383	242	292	6,577	9,530
Disposals/retirements		(1,170)	–	–	(11)	(14)	(23)	(3)	–	(1,221)
Reclassification and others	*11*	74	–	42	52	(535)	28	(17)	(120)	(476)
Balance at end of year		132,426	15,259	5,132	6,590	3,492	2,689	3,002	2,845	171,435
Less accumulated depreciation and amortization:										
Balance at beginning of year		45,968	–	1,887	4,379	2,928	1,509	1,421	–	58,092
Depreciation and amortization		4,225	–	122	414	282	187	244	–	5,474
Disposals/retirements		(1,033)	–	–	(8)	(13)	(22)	(2)	–	(1,078)
Reclassification and others	*11*	32	–	21	23	(446)	20	(15)	–	(365)
Balance at end of year		49,192	–	2,030	4,808	2,751	1,694	1,648	–	62,123
Net book values		₱83,234	₱15,259	₱3,102	₱1,782	₱741	₱995	₱1,354	₱2,845	₱109,312

A significant portion of *MERALCO*'s and *CEDC*'s utility plant and others are purchased from foreign suppliers. Such transactions are concluded in currencies other than the Philippine peso, principally, the *U.S.* dollar. *MERALCO* and *CEDC* record the assets and liabilities in Philippine peso using the exchange rate at the date of the transaction. The outstanding amount of foreign currency-denominated liabilities is restated at each reporting date.

Construction in progress mainly pertains to on-going electric capital projects or *ECP*s and non-electric capital projects or *NEP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱122 million, ₱127 million and ₱82 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The average annual interest rates used for capitalization in 2013, 2012 and 2011 ranged from 4.6% to 5.9%, 5.5% to 6.2% and 5.3% to 6.2%, respectively.

9. Investments in Associates and Joint Ventures

This account consists of the following as at December 31, 2013 and 2012:

			Percentage of Ownership	
	Place of Incorporation	Principal Activity	**2013**	2012
Associates				
RP Energy	Philippines	Power generation	**47**	47
FPM Power Holdings Limited or *FPM Power*	British Virgin Islands	Power generation	**40**	–
Bauang Private Power Corporation or *BPPC*	Philippines	Power generation	**38**	38
General Electric Philippines Meter and Instrument Company, Inc. or *GEPMICI*	Philippines	Sale of metering products and services	**35**	35
GBPC	Philippines	Power generation	**20**	–
Joint Ventures				
SBPL	Philippines	Power generation	**51**	–
Indra Philippines	Philippines	Management and information technology, or *IT*, consultancy	**50**	50
Rockwell Business *Center*	Philippines	Real estate	**30**	30

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

	2013	2012
		(Amounts in millions)
Acquisition costs:		
Balance at beginning of year	**₱1,563**	₱538
Additions	**11,898**	1,025
Balance at end of year	**13,461**	1,563
Accumulated equity in net earnings (losses):		
Balance at beginning of year	**249**	294
Equity in net losses	**(259)**	(15)
Dividends	**(411)**	(30)
Balance at end of year	**(421)**	249
Share in cumulative translation adjustments of associates:		
Balance at beginning of year	**3**	12
Translation adjustments	**379**	(9)
Balance at end of year	**382**	3
	₱13,422	₱1,815

The additions of ₱1,025 million in 2012 include ₱827 million investment in Rockwell Business Center.

FPM Power

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

RP Energy

On July 22, 2011, *MGen* signed a Shareholders' Agreement with Therma Power, Inc. or *TPI*, and Taiwan Cogeneration International Corporation – Philippine Branch or *TCIC*, for the construction and operation of a 2 x 300 *MW CFB* independent, coal-fired power plant to be located in the Subic Bay Freeport Zone. *RP Energy* is a partnership among *TPI*, *MGen* and *TCIC*.

As at March 17, 2014, site preparation work is almost complete and *RP Energy* has commissioned its contractor to conduct preliminary engineering works on the power plant in order to reduce the overall construction period. The Department of Environment and Natural Resources or *DENR,* has issued the Environmental Compliance Certificate or *ECC* for the 2 x 300 *MW* coal-fired power plant following a rigorous review and public consultation process.

A Writ of Kalikasan was filed with the *SC* by certain parties opposing the *RP Energy* project. The case was remanded by the *SC* to the *CA* for hearing on the merits thereof. A decision has been issued by the *CA* denying the Writ of Kalikasan, but noting certain deficiencies in the process of the *DENR* in its issuance of the original *ECC* for the 300 *MW* coal-fired power plant and in the process of the Subic Bay Metropolitan Authority or *SBMA* in the conclusion of the original Lease and Development Agreement or *LDA* with *RP Energy*, and declaring these invalid. *DENR*, *SBMA* and *RP Energy* have filed their respective Motions to the *SC* for review the *CA* decision. On December 19, 2013, *RP Energy* filed a manifestation and Motion requesting that the *SC* deem the petitioners to have waived their rights to file their comments and requested that *RP Energy*'s Petition for Review of Certiorari which was filed with the *SC* on July 17, 2013, be submitted for resolution without the need for further submissions. As at March 17, 2014, no resolution has been issued by the *SC*. Meanwhile, *RP Energy* is proceeding with certain development activities that are not hampered by the *SC* proceedings.

While the original *LDA* was declared invalid by the *CA*, the *SMBA* is also set to ratify an Amended and Restated *LDA* to reflect additional terms.

SBPL

On August 29, 2013, *MGen* signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand or *EGCO*, for the development of a new 460 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon. *MGen*'s equity in the joint venture company, *SBPL*, is 51%, with the option to assign or transfer 2% thereof to a party or investor of its preference. *SBPL,* together with their consultants are evaluating the Engineering, Procurement and Construction or *EPC,* tenders and is expected to award the same by the second quarter of 2014. Simultaneously with its financial advisors, *SBPL* is in discussions with several banks for the financing of the project. A *PSA* is currently being negotiated between the representatives of *EGCO* and *MERALCO*, with the intent of submitting the same to the *ERC* for approval.

GBPC

On October 7, 2013, *MGen* executed a Share Sale and Purchase Agreement with First Metro Investment Corporation or *FMIC*, and signed a Shareholders Agreement on October 22, 2013, for the sale by *FMIC* of a 20% equity interest in *GBPC* to *MGen*. *GBPC* owns an aggregate of 627 *MW* (gross) capacity of combined coal and diesel power plants in operation in the Visayas region. An 82 *MW* (gross) coal power plant in Cebu and a 150 *MW* (gross) coal power plant in Panay are under construction and are expected to be in commercial operation by late 2014.

BPPC

BPPC was organized in October 1992 to engage in the power generation business.

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

The *Bauang Plant* has since been turned over to the National Power Corporation or *NPC,* without any compensation and free of any liens. Thereafter, *FPPC* and *BPPC* were legally merged, with *BPPC* as the surviving entity. *BPPC* is in the process of winding down operations.

GEPMICI

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

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* supports *MERALCO*'s information technology requirements in the area of system development, outsourcing of *IS* and *IT* operations and management consulting.

Rockwell Business Center

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

MERALCO and *Rockwell Land* share in earnings before depreciation and amortization at 80% and 20%, respectively until 2014 or until certain operational indicators are reached, whichever comes first. Sharing of depreciation and amortization is proportionate to their contribution.

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

	2013	2012
	(Amounts in millions)	
GBPC	**₱6,820**	₱–
FPM Power	**4,522**	–
Rockwell Business Center	**917**	847
RP Energy	**660**	648
Indra Philippines	**291**	253
SBPL	**140**	–
GEPMICI	**62**	58
BPPC	**10**	9
	₱13,422	₱1,815

The condensed statements of financial position of material associates follow:

	2013			2012
	GBPC	***FPM Power***	***RP Energy***	*RP Energy*
		(Amounts in millions)		
Current assets	**₱17,276**	**₱4,901**	**₱323**	₱612
Noncurrent assets	**42,599**	**48,052**	**1,055**	723
Current liabilities	**(10,763)**	**(14,245)**	**(80)**	(63)
Noncurrent liabilities	**(25,369)**	**(26,070)**	**(1)**	–
Non-controlling interests	**(4,002)**	**(1,333)**	**–**	–
Total net assets	**₱19,741**	**₱11,305**	**₱1,297**	₱1,272

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

	2013			2012	2011
	GBPC	***FPM Power***	***RP Energy***	*RP Energy*	*RP Energy*
			(Amounts in millions)		
Revenues	**₱2,824**	**₱262**	**₱11**	₱8	₱–
Costs and expenses	**(2,329)**	**(1,212)**	**(191)**	(149)	(39)
Net income (loss)	**495**	**(950)**	**(180)**	(141)	(39)
Non-controlling interests	**(172)**	**82**	**–**	**–**	**–**
Net income attributable to equity holders of the parent	**323**	**(868)**	**(180)**	(141)	(39)
Other comprehensive income	**–**	**378**	**–**	–	–
Total comprehensive income (loss)	**₱323**	**(₱490)**	**(₱180)**	(₱141)	(₱39)
Dividends received	**₱400**	**₱–**	**₱–**	₱–	₱–

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

	2013			2012
	GBPC	***FPM Power***	***RP Energy***	*RP Energy*
	(Amounts in millions)			
Net assets of associates	**₱19,741**	**₱11,305**	**₱1,297**	₱1,272
Proportionate ownership in associates in %	**20**	**40**	**47**	47
	3,948	**4,522**	**610**	598
Goodwill	**2,872**	**–**	**50**	50
	₱6,820	**₱4,522**	**₱660**	₱648

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

	2013	2012	2011
		(Amounts in millions)	
Share in net income (loss)	**₱4**	₱1	(₱41)
Share in other comprehensive income	**1**	–	–
Share in total comprehensive income (loss)	**₱5**	₱1	(₱41)

Joint Ventures

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

	2013	2012
		(Amounts in millions)
Current assets	**₱613**	₱465
Noncurrent assets	**2,566**	2,586
Current liabilities	**(166)**	(139)
Noncurrent liabilities	**(7)**	(8)
Net assets	**₱3,006**	₱2,904

Current assets include cash and cash equivalents of ₱594 million and ₱372 million as at December 31, 2013 and 2012, respectively. Noncurrent assets represent substantially the two (2) *BPO* towers for lease and the costs of ongoing construction of the third building of Rockwell Business Center. Current liabilities represent trade payables.

The condensed statements of comprehensive income of Rockwell Business Center for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
		(Amounts in millions)	
Revenues	**₱301**	₱226	₱224
Costs and expenses	**(142)**	(98)	(104)
Provision for income tax	**(57)**	(44)	(44)
Net income	**102**	84	76
Other comprehensive income	**–**	–	–
Total comprehensive income	**₱102**	₱84	₱76

The foregoing condensed statements of comprehensive income include the following:

	2013	2012	2011
		(Amounts in millions)	
Depreciation	**₱136**	₱96	₱101
Interest income	**(6)**	(6)	(7)

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

	2013	2012
		(Amounts in millions)
Net assets	**₱3,006**	₱2,904
Proportionate ownership in %	**30**	30
	902	871
Effect of the difference between *MERALCO's* percentage share in net income and proportionate ownership	**15**	(24)
	₱917	₱847

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

	2013	2012	2011
		(Amounts in millions)	
Share in net income	**₱125**	₱34	₱14
Share in other comprehensive income	**–**	–	–
Share in total comprehensive income	**₱125**	₱34	₱14
Dividends received	**₱11**	₱–	₱–

10. Investment Properties

The movements in investment properties are as follows:

	2013		
	Land	**Buildings and Improvements**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of year	**₱1,535**	**₱206**	**₱1,741**
Disposals	**(89)**	**(25)**	**(114)**
Balance at end of year	**1,446**	**181**	**1,627**
Less accumulated depreciation:			
Balance at beginning of year	**–**	**107**	**107**
Depreciation	**–**	**8**	**8**
Disposals	**–**	**(14)**	**(14)**
Balance at end of year	**–**	**101**	**101**
	₱1,446	**₱80**	**₱1,526**

	2012		
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
Cost	₱1,535	₱206	₱1,741
Less accumulated depreciation:			
Balance at beginning of year	–	99	99
Depreciation	–	8	8
Balance at end of year	–	107	107
	₱1,535	₱99	₱1,634

Investment properties are stated at cost. These consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties, some of which are being leased out.

The aggregate fair values of the investment properties as at December 31, 2013 and 2012 are as follows:

	2013	2012
		(Amounts in millions)
Land	**₱1,863**	₱1,853
Buildings and improvements	**131**	173

Land pertains primarily to properties where the *BPO* building and "Strip" mall are located and other non-regulated asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱500 to ₱94,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used any of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of

the same building, whichever is most appropriate to the property being valued. Comparison was premised on the factors of location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

11. Other Noncurrent Assets

This account consists of:

	Note	**2013**	2012
			(Amounts in millions)
Unbilled receivables	*13*	**₱18,394**	₱4,954
Intangible assets	*8*	**1,728**	1,021
Deferred input *VAT*		**1,702**	1,148
Receivable from the *BIR*	*30*	**577**	577
Advance payments to a supplier	*31*	**474**	325
Deferred reinsurance premium		**231**	209
AFS financial assets	*28*	**161**	331
HTM investments		**129**	123
Goodwill		**36**	36
Others		**171**	113
		₱23,603	₱8,837

Unbilled Receivables

This account represents generation and other pass-through costs incurred by *MERALCO* and *CEDC* as *DU*s, which are still to be billed and which are covered by the approved recovery mechanism of the *ERC*. The balance also includes other unbilled generation and pass-through charges of current and prior periods, which are the subject of various applications for recovery and approval by the *ERC*.

Intangible Assets

The movements of intangible assets are as follows:

	2013		
	Software	**Franchise**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of year	**₱1,525**	**₱49**	**₱1,574**
Additions	**876**	**–**	**876**
Balance at end of year	**2,401**	**49**	**2,450**
Less accumulated amortization:			
Balance at beginning of year	**553**	**–**	**553**
Amortization	**169**	**–**	**169**
Balance at end of year	**722**	**–**	**722**
	₱1,679	**₱49**	**₱1,728**

		2012		
	Note	Software	Franchise	Total
			(Amounts in millions)	
Cost:				
Balance at beginning of year		₱734	₱49	₱783
Additions		315	–	315
Reclassification	*8*	476	–	476
Balance at end of year		1,525	49	1,574
Less accumulated amortization:				
Balance at beginning of year		94	–	94
Amortization		94	–	94
Reclassification	*8*	365	–	365
Balance at end of year		553	–	553
		₱972	₱49	₱1,021

12. Cash and Cash Equivalents

This account consists of:

	2013	2012
	(Amounts in millions)	
Cash on hand and in banks	**₱5,129**	₱3,256
Cash equivalents	**54,722**	57,244
	₱59,851	₱60,500

Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up to three (3) months depending on the *MERALCO Group*'s immediate cash requirements, and earn interest at the prevailing short-term investment rates.

13. Trade and Other Receivables

This account consists of:

	Note	2013	2012
		(Amounts in millions)	
Trade:			
Electricity:			
Billed		**₱27,281**	₱23,338
Unbilled	*11*	**4,175**	4,630
Service contracts		**1,490**	816
Insurance receivable		**453**	383
Cost and estimated earnings in excess of billings on uncompleted contracts		**455**	258
Nontrade		**2,016**	1,358
		35,870	30,783
Less allowance for doubtful accounts		**3,152**	2,706
		₱32,718	₱28,077

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

	2013	2012
	(Amounts in millions)	
Commercial	**₱12,179**	₱10,688
Residential	**9,446**	6,184
Industrial	**5,128**	6,094
Flat streetlights	**528**	372
	27,281	23,338
Less allowance for doubtful accounts	**2,969**	2,559
	₱24,312	₱20,779

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

	2013			
	Balance at Beginning of Year	**Provisions (Reversals)**	**Write-offs**	**Balance at End of Year**
		(Amounts in millions)		
Billed trade receivables:				
Commercial	**₱1,028**	**₱175**	**(₱38)**	**₱1,165**
Residential	**556**	**743**	**(231)**	**1,068**
Industrial	**772**	**(201)**	**(38)**	**533**
Flat streetlights	**203**	**5**	**(5)**	**203**
	2,559	**722**	**(312)**	**2,969**
Nontrade receivables	**147**	**36**	**–**	**183**
	₱2,706	**₱758**	**(₱312)**	**₱3,152**

	2013					
	Commercial	**Residential**	**Industrial**	**Flat Streetlights**	**Nontrade Receivables**	**Total**
			(Amounts in millions)			
Individually impaired	**₱123**	**₱763**	**₱298**	**₱31**	**₱183**	**₱1,398**
Collectively impaired	**1,042**	**305**	**235**	**172**	**–**	**1,754**
	₱1,165	**₱1,068**	**₱533**	**₱203**	**₱183**	**₱3,152**

	2012			
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
	(Amounts in millions)			
Billed trade receivables:				
Commercial	₱911	₱159	(₱42)	₱1,028
Residential	528	272	(244)	556
Industrial	74	702	(4)	772
Flat streetlights	439	(139)	(97)	203
	1,952	994	(387)	2,559
Nontrade receivables	180	12	(45)	147
	₱2,132	₱1,006	(₱432)	₱2,706

	2012					
	Commercial	Residential	Industrial	Flat Streetlights	Nontrade Receivables	Total
	(Amounts in millions)					
Individually impaired	₱142	₱345	₱207	₱64	₱147	₱905
Collectively impaired	886	211	565	139	–	1,801
	₱1,028	₱556	₱772	₱203	₱147	₱2,706

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs consist largely of generation and transmission charges, which represent 57% and 9%, respectively, of the total billed amount in 2013 and 58% and 10%, respectively, of the total billed amount in 2012. Billed receivables are due 10 days after bill date.

Unbilled receivables represent electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period. This also includes the current portion of pass-through cost under-recoveries, net of over-recoveries, which are billed to the customers over the period approved by the *ERC*. *MERALCO*'s and *CEDC*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits.

See *Note 19 – Customers' Deposits* and *Note 28 – Financial Assets and Financial Liabilities.*

Trade Receivables – Service Contracts

Service contracts receivables arise from contracts entered into by *MIESCOR* and subsidiaries, *e-MVI* and subsidiary, *CIS, Bayad Center, Miescorrail* and *MEI* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development and energy management services to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 60-day terms.

14. Inventories

	2013	2012
		(Amounts in millions)
Materials and supplies:		
At net realizable value	**₱2,750**	₱1,371
At cost	**2,953**	1,578
Total inventories at the lower of cost or net realizable value	**₱2,750**	₱1,371

15. Other Current Assets

	Note	**2013**	2012
			(Amounts in millions)
Advances to an associate	*9 and 24*	**₱4,884**	₱–
Short-term investments	*19 and 28*	**4,841**	–
Pass-through *VAT* - net		**1,116**	1,389
Prepaid tax		**734**	475
Prepaid expenses		**290**	60
Creditable withholding tax		**99**	127
Input *VAT*		**77**	47
Derivative assets	*28*	**–**	24
Others		**126**	173
		₱12,167	₱2,295

Pass-through *VAT* pertains to *VAT* on generation and transmission costs, as *DU*. Remittance of such deferred *VAT* to the generation companies is based on collection of billed receivables from the customers.

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

16. Equity

Common Stock

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

	2013	2012
		(In millions, except par value)
Authorized - ₱10 par value a share	**1,250**	1,250
Issued and outstanding:		
Balance at beginning and end of year	**1,127**	1,127

The common shares of *MERALCO* were listed in the *PSE* on January 8, 1992. There are 46,409 and 47,892 shareholders of *MERALCO*'s common shares as at December 31, 2013 and 2012, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include undeclared accumulated earnings of subsidiaries, associates and joint ventures, and the balance of *MERALCO*'s revaluation increment in utility plant and others and investment properties carried at deemed cost, deferred tax assets and derivative assets amounting to ₱34,684 million and ₱33,019 million as at December 31, 2013 and 2012, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting periods.

The following are cash dividends declared on common shares in 2013 and 2012:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 29, 2013	August 27, 2013	September 20, 2013	₱4.10	₱4,621
February 25, 2013	March 26, 2013	April 24, 2013	6.10	6,875
July 30, 2012	August 29, 2012	September 24, 2012	4.00	4,508
February 27, 2012	March 23, 2012	April 23, 2012	4.10	4,621

MERALCO pays regular cash dividends equivalent to 50% of consolidated core net income for the year, which may be supplemented by a special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the *SEC*.

Appropriated Retained Earnings

On February 22, 2010, retained earnings of ₱6,000 million have been appropriated specifically for the *MERALCO Group*'s business expansion into power generation. The amount appropriated was increased by ₱5,000 million to cover the new development projects and investments in power generation initiatives. The additional appropriation was approved on March 22, 2013 by the *BOD*. As at March 17, 2014, the development of the first project, a 2 x 300 *MW CFB* coal-fired plant through *RP Energy*, is ongoing. *MERALCO* signed a Joint Development Agreement and Shareholders Agreement to develop a supercritical coal-fired power plant, which has a target completion by the end of 2017.

The commercial operations date of the 600 *MW* power plant of *RP Energy* is dependent on the *SC* decision on the appeal filed by *RP Energy* and other parties in connection with the decision reached by the *CA* on the Writ of Kalikasan case filed against the *RP Energy* project. On the other hand, the 2 x 400 *MW LNG* plant of *PacificLight Power* was fully synchronized to the Singapore power grid in January 2014.

See *Note 9 – Investments in Associates and Joint Ventures*.

Treasury Shares

Treasury shares represent subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased. For the years ended December 31, 2013 and 2012, a total of 559 shares and 25,830 shares, respectively, were acquired from employees who have opted to cancel their participation in the *ESPP*.

17. Employee Stock Purchase Plan

MERALCO has an *ESPP*, which entitles participants to purchase *MERALCO*'s common shares subject to certain terms and conditions during a nominated offer period. Movements in the number of common shares subscribed by employees under the *ESPP* are as follows:

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

	2012			
	13th	13th A	14th	Total
Balance at beginning of year	1,189,306	389,355	12,284,290	13,862,951
Fully paid	(1,185,997)	(251,747)	(4,507,093)	(5,944,837)
Cancelled	–	(1,905)	(23,925)	(25,830)
Balance at end of year	3,309	135,703	7,753,272	7,892,284

MERALCO allotted a total of 55 million common shares for *ESPP* awards. As at December 31, 2013, 12 million common shares are available for future offerings. There were no other *ESPP* awards since October 2009.

The fair value of the offerings was estimated at the dates of the grant using the Black-Scholes Option Pricing Model.

Total expense arising from the employee stock purchase plan is nil, ₱134 million and ₱172 million for the years ended December 31, 2013, 2012 and 2011, respectively.

See *Note 26 – Expenses and Income*.

18. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2013	2012
		(Amounts in millions)
Long-term portion of interest-bearing financial liabilities -		
Long-term debt	**₱20,756**	₱20,466
Current portion of interest-bearing financial liabilities:		
Long-term debt	**9,459**	766
Redeemable preferred stock	**1,562**	1,594
	11,021	2,360
	₱31,777	₱22,826

All of the redeemable preferred shares have been called for redemption as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million and ₱256 million as at December 31, 2013 and December 31, 2012, respectively. Interest is no longer accrued when the preferred shares have been called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	**2013**	2012
		(Amounts in millions)
Bonds		
₱11.5 Billion 7-year Bonds	**₱11,500**	₱–
₱7.0 Billion 12-year Bonds	**7,000**	–
Fixed Rate Loans		
₱5.0 Billion Note Facility Agreement	**4,900**	4,950
₱4.8 Billion Note Facility Agreement	**3,417**	4,776
₱3.0 Billion Note Facility Agreement	**530**	3,000
₱5.0 Billion Note Facility Agreement	**–**	4,900
Floating Rate Loans		
₱2.5 Billion Term Loan Facility	**2,475**	2,488
₱3.0 Billion Term Loan Facility	**600**	1,200
Total long-term debt	**30,422**	21,314
Less unamortized debt issuance costs	**207**	82
	30,215	21,232
Redeemable Preferred Stock	**1,562**	1,594
	31,777	22,826
Less current portion	**11,021**	2,360
Long-term portion of interest-bearing financial liabilities	**₱20,756**	₱20,466

All of *MERALCO*'s interest-bearing long-term financial liabilities as at December 31, 2013 and 2012 are denominated in Philippine pesos. The scheduled maturities of *MERALCO*'s outstanding long-term debt at nominal values as at December 31, 2013 are as follows:

	Amount
	(In millions)
December 31, 2014	₱9,459
December 31, 2015	13
December 31, 2016	12
December 31, 2017	12
After December 31, 2017	20,926
	₱30,422

Bonds

₱18.5 Billion Fixed Rate Putable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, putable in 5 and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, where *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, thus, were not recognized separately.

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

The net proceeds of the bonds will be utilized for refinancing certain loans including principal payments, accrued interest, prepayment penalties and other financing costs.

Fixed Rate Loans

₱5.0 Billion Note Facility Agreement

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

₱4.8 Billion Note Facility Agreement

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

₱3.0 Billion Note Facility Agreement

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

₱5.0 Billion Note Facility Agreement

In December 2010, *MERALCO* entered into a Fixed Rate Note Facility Agreement for the issuance of ₱23 million, 5-year fixed rate notes maturing in December 2015 and ₱4,977 million, 5.5-year fixed rate notes due in June 2016. The 5-year fixed rate notes are payable in full at maturity date while the 5.5-year fixed rate notes are payable in nominal annual amortizations with a balloon payment on maturity date. In December 2013, *MERALCO* pre-terminated and settled the entire principal amount of ₱4,900 million.

Floating Rate Loans

₱2.5 Billion Term Loan Facility

The ₱2,500 million, 7-year Floating Rate Term Loan Facility, was drawn in January 2011 from a local bank. Interest rate is repriced every six months based on 6-month *PDST-F* plus a spread. The principal is payable in nominal annual amortizations with a balloon payment on final maturity in January 2018.

₱3.0 Billion Term Loan Facility

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

Long-term debt totaling ₱3,947 million, pre-terminated between January to March 17, 2014 and ₱4,850 million to be pre-terminated in June 2014, were classified as part of the current portion of the long-term interest-bearing financial liabilities as at December 31, 2013.

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

	2013	2012
Bonds	**4.38% to 4.88%**	–
Fixed Rate Loans	**5.23% to 6.89%**	5.23% to 7.47%
Floating Rate Loans	**0.80% to 1.74%**	2.63% to 2.99%

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.2 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2013 and 2012, *MERALCO* is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs amounted to ₱207 million and ₱82 million as at December 31, 2013 and 2012, respectively.

The following presents the changes to the unamortized debt issuance costs:

	Note	**2013**	2012
		(Amounts in millions)	
Balance at beginning of year		**₱82**	₱97
Additions		**186**	22
Amortization charged to interest and other financial charges	*26*	**(61)**	(37)
Balance at end of year		**₱207**	₱82

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2013	2012
Balance at beginning of year	**159,356,939**	165,129,647
Redemptions	**(3,167,771)**	(5,772,708)
Balance at end of year	**156,189,168**	159,356,939

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new distribution facilities, have been amended by the *Magna Carta* and the Distribution Services and Open Access Rule, or *DSOAR,* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

19. Customers' Deposits

This account consists of:

	2013			2012		
	Current Portion (*see Note 23*)	**Noncurrent Portion**	**Total**	Current Portion (*see Note 23*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱6,130**	**₱21,600**	**₱27,730**	₱4,064	₱23,313	₱27,377
Meter deposits	**2,119**	**–**	**2,119**	2,188	–	2,188
	₱8,249	**₱21,600**	**₱29,849**	₱6,252	₱23,313	₱29,565

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer in accordance with existing regulations.

As provided for under the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU* an amount equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be adjusted after one year based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three consecutive years may now apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one month from the termination of service, provided all bills have been paid.

On February 22, 2010, the amended *DSOAR,* which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR,* interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines or *Land Bank,* or other government banks, on the first working day of the year, subject to the confirmation of the *ERC.* Interest rate for bill deposits is 0.5% per annum from January 1, 2011 until December 31, 2012 and 0.375% per annum starting January 1, 2013.

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

The following are the movements of the bill deposits account:

	2013	2012
	(Amounts in millions)	
Balance at beginning of year	**₱27,377**	₱26,429
Additions	**5,068**	3,211
Refunds	**(4,715)**	(2,263)
Balance at end of year	**27,730**	27,377
Less portion maturing within one year	**6,130**	4,064
Noncurrent portion of bill deposits and related interests	**₱21,600**	₱23,313

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective June 17, 2004) and *DSOAR* (effective January 18, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers," or *Rules,* which required the refund of meter deposits from the effectivity of the said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

As at December 31, 2013 and 2012, total meter deposits refunded by *MERALCO* amounted to ₱977 million (inclusive of ₱503 million interest) and ₱908 million (inclusive of ₱466 million interest), respectively.

20. Provisions

Provisions consist of amounts recognized for probable costs, charges and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

	2013	2012
	(Amounts in millions)	
Balance at beginning of year	**₱19,411**	₱16,919
Provisions	**5,331**	2,770
Settlements	**(13)**	(278)
Balance at end of year	**₱24,729**	₱19,411

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in Note 30, consistent with the limited disclosure as allowed in *PFRS*.

See *Note 30 – Contingencies and Legal Proceedings*.

21. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which has not yet been claimed by the customers.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 7, 2011, the *ERC* approved *MERALCO*'s proposal for the extension of the *SC* refund process for five (5) years up to December 31, 2015, in view of difficulties encountered by the customers in meeting the necessary documentation requirements to claim a refund and by *MERALCO* in contacting or locating terminated customers entitled to the refund.

22. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from various local banks. Annual interest rates ranged from 1.5% to 3.9% in 2013 and 3.9% to 6.5% in 2012 on peso-denominated loans.

Interest expense on notes payable amounted to ₱73 million, ₱5 million and ₱6 million in 2013, 2012 and 2011, respectively.

See *Note 26 – Expenses and Income*.

23. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2013	2012
		(Amounts in millions)	
Trade accounts payable	*24 and 26*	**₱43,893**	₱23,991
Output *VAT* - net		**5,508**	4,580
Accrued expenses:			
Employee benefits		**3,659**	2,629
Taxes		**1,795**	2,590
Interest		**269**	308
Others		**876**	741
Current portions of:			
Bill deposits and related interests	*19*	**6,130**	4,064
Meter deposits and related interests	*19*	**2,119**	2,188
Deferred lease income		**726**	761
Refundable service extension costs		**1,615**	1,512
Dividends payable on:			
Redeemable preferred stock	*18*	**250**	256
Common stock	*16*	**91**	1,023
Universal charges payable		**1,547**	320
Refundable transmission charges		**779**	180
Reinsurance liability		**215**	213
Regulatory fees payable		**205**	204
Other current liabilities		**4,215**	2,016
		₱73,892	₱47,576

Trade Accounts Payable

Trade accounts payable mainly represent obligations to *NPC*/Power Sector Assets and Liabilities Management Corporation or *PSALM,* power generating companies, National Grid Corporation of the Philippines or *NGCP,* and Philippine Electricity Market Corporation or *PEMC*, for cost of power purchased and for cost of transmission. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which consist of transformers, poles, materials and supplies and, contracted services.

Trade payables are noninterest-bearing and are generally settled within the 15- to 60-day trade term. Other payables are noninterest-bearing and are due within six (6) months from incurrence.

See *Note 24 – Related Party Transactions* and *Note 31 - Significant Contracts and Commitments*.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities," requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010 requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset forms part of the rate base only at the time a refund has been paid out. Customer advances are noninterest-bearing.

As at December 31, 2013 and 2012, the noncurrent portion of refundable service extension costs of ₱5,782 million and ₱4,357 million, respectively, is presented as "Refundable Service Extension Costs - net of current portion" account in the consolidated statements of financial position.

24. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant financial year. The outstanding balances are unsecured, non-interest bearing and settled in cash.

Pole Attachment Contracts with Philippine Long Distance Telephone Company or *PLDT*

MERALCO has a Pole Attachment Contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the Pole Attachment Contract, *PLDT* shall use the contacted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups such as *PLDT*, *Metro Pacific, JG Summit* and *SMC* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s primary telecommunications carriers are *PLDT* for its wireline and *SMART* and Digitel Mobile Philippines, Inc., for its wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power to such affiliates.

Following is the summary of related party transactions for the years ended December 31, 2013, 2012 and 2011 and the outstanding balances as at December 31, 2013 and 2012:

	Amount of Transactions			Outstanding Receivable (Liability) as at December 31			
Category	**2013**	2012	2011	**2013**	2012	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
PLDT Group	**₱2,599**	₱2,936	₱2,669	**₱160**	₱268	10-day; noninterest-bearing	Unsecured, no impairment
SMC Group	**851**	1,040	945	**59**	83	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**352**	1,172	594	**15**	54	10-day; noninterest-bearing	Unsecured, no impairment
*JG Summit Group**	**348**	–	–	**293**	–	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**658**	423	451	**(2)**	–	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - *GEPMICI*	**251**	248	314	**–**	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**212**	206	197	**–**	–	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	**50**	47	43	**–**	–	30-day; noninterest-bearing	Unsecured
Purchases of power:							
South Premiere Power Corporation or *SPPC*	**34,885**	–	–	**(2,893)**	–	30-day; noninterest-bearing	Unsecured
San Miguel Energy Corporation or *SMEC*	**13,648**	–	–	**(951)**	–	30-day; noninterest-bearing	Unsecured

**Represents sale of electricity for the month of December 2013.*

Advances to FPM Power

On March 22, 2013, *FPM Power* availed a loan from MPG Asia Limited amounting to US$110 million which is payable on demand. The loan is outstanding as at December 31, 2013.

Transaction with MERALCO Pension Fund

MERALCO Pension Fund holds 6,000 common shares of *RP Energy* at ₱100 par value per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2013, the fair value of the total assets being managed by *MERALCO* Pension Fund amounted to ₱34.0 billion.

See Note 27 – Long-Term Employee Benefits.

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	2013	2012	2011
		(Amounts in millions)	
Short-term employee benefits	**₱517**	₱432	₱413
Long-term employee and retirement benefits	**283**	256	299
Share-based payments	**–**	31	16
Total compensation to key management personnel	**₱800**	₱719	₱728

Each of the directors is entitled to a per diem of ₱120,000 for every *BOD* meeting attended. Each member of the Audit and Risk Management, Remuneration and Leadership Development (formerly Compensation and Benefits), Finance, Governance and Nomination Committees is entitled to a fee of ₱20,000 for every committee meeting attended.

On March 22, 2013, the *BOD* approved the amendment of *MERALCO*'s By-Laws which entitles all directors to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation provided, the total value of such additional compensation, in whatever form so given, shall not exceed one percent of the net income before tax of *MERALCO* during the preceding year.

Consistent with the foregoing, the *BOD* approved the increase in the compensation of all members of the *BOD* up to a maximum of pre-agreed amount per annum. The increase in compensation shall be through a stock grant based on a pre-approved number of shares for each director. The implementation of such plan was approved by the stockholders in the annual general meeting of stockholders on May 28, 2013.

There are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under the pension and provident plans. The Pension Plan covers employees hired up to December 31, 2003 only. The Provident Plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

25. Revenues and Purchased Power

Sale of Electricity

Electricity revenues account for 99% of the total revenues in 2013, 2012 and 2011. Following is the breakdown of electricity revenues:

	2013	2012	2011
		(Amounts in millions)	
Generation charge	**₱192,558**	₱183,708	₱157,850
Transmission charge	**29,191**	31,971	32,340
System loss charge	**17,138**	16,411	15,500
Power Act Reduction adjustment	**(9)**	(25)	(106)
Interclass, lifeline subsidies and others	**(134)**	34	(201)
Distribution service charges	**56,105**	50,892	48,606
	₱294,849	₱282,991	₱253,989

Distribution service revenue accounted for 19%, 18% and 19% of total electricity revenues in 2013, 2012 and 2011 respectively. *VAT*, *LFT* and universal charges, which are also pass-through charges are billed and collected on behalf of the national and local governments and do not form part of total electricity revenues.

See *Note 7 – Segment Information.*

Purchased Power

The details of purchased power are as follows:

	2013	2012	2011
		(Amounts in millions)	
Generation charge	**₱206,507**	₱198,648	₱170,445
Transmission charge	**31,691**	33,420	35,229
	₱238,198	₱232,068	₱205,674

Purchased power costs are pass-through costs and are revenue-neutral to *MERALCO* and *CEDC,* as *DUs*.

Generation charge is inclusive of line rentals, market fees and must-run unit charges billed by *PEMC*.

Purchased power includes capacity fees, fixed operating fees and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a lease"*. The total amounts billed by the suppliers presented as part of "Purchased power" account in the consolidated statements of income are ₱46,170 million, ₱18,946 million and ₱20,135 million in 2013, 2012 and 2011, respectively. This also includes the actual *SL* incurred but no more than 8.5%. *MERALCO*'s actual *SL* rates are 6.92%, 7.04% and 7.30% in 2013, 2012 and 2011, respectively.

The details of purchased power follow:

	2013	2012	2011
		(Amounts in millions)	
First Gas Power Corporation or *FGPC* and FGP Corp. or *FGP*	**₱55,360**	₱58,592	₱58,537
PEMC/ WESM	**40,600**	28,401	20,265
SPPC	**34,885**	–	–
TransCo/NGCP	**31,691**	33,420	35,229
QPPL	**14,251**	15,147	15,687
SMEC	**13,648**	–	–
Masinloc Power Partners Co. Ltd. or *MPPCL*	**12,905**	–	–
NPC/PSALM (including NPC Successor Generating Companies or SGCs/Independent Power Plant Administrators)	**11,531**	96,375	75,775
Sem-Calaca Power Corporation or *Sem-Calaca*	**10,673**	–	–
Therma Luzon, Inc. or *TLI*	**9,538**	–	–
Others	**3,116**	133	181
	₱238,198	₱232,068	₱205,674

Generation and transmission cost over/under-recoveries occur as a result of the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2013 and 2012, the total transmission cost over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱6,358 million and ₱5,288 million, respectively.

26. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**2013**	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
			(Amounts in millions)	
Salaries, wages and related employee benefits		**₱9,824**	₱9,843	₱9,017
Pension	*27*	**1,176**	1,367	1,465
Other long-term post-employment benefits	*27*	**258**	261	210
ESPP	*17*	**–**	134	172
		₱11,258	₱11,605	₱10,864

Other Expenses

	Note	**2013**	2012	2011
			(Amounts in millions)	
Inventories	*14*	**₱696**	₱527	₱735
Rent and utilities		**688**	574	412
Transportation and travel		**360**	386	475
Corporate expenses		**291**	249	258
Advertising		**245**	179	197
Insurance		**214**	208	259
Communication	*24*	**82**	68	62
Others		**872**	1,559	489
		₱3,448	₱3,750	₱2,887

Interest and Other Financial Charges

	Note	**2013**	2012	2011
			(Amounts in millions)	
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	*8 and 18*	**₱1,038**	₱1,202	₱1,163
Interest expense on bill deposits	*19*	**82**	91	83
Interest expense on notes payable	*22*	**73**	5	6
Amortization of debt issuance costs	*18*	**61**	37	23
Interest expense on meter deposits	*19*	**2**	1	3
Others		**223**	192	167
		₱1,479	₱1,528	₱1,445

Interest and Other Financial Income

	2013	2012	2011
		(Amounts in millions)	
Interest income on cash and cash equivalents	**₱1,088**	₱1,762	₱1,379
Carrying costs on *ERC*-approved under-recoveries	**32**	755	791
Gain on return of investment	**–**	–	24
Others	**52**	52	70
	₱1,172	₱2,569	₱2,264

27. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - see Note 4)
		(Amounts in millions)	
Long-term incentives	**₱1,205**	₱2,592	₱1,641
Pension liability	**1,186**	3,279	5,951
Other long-term post-employment benefits	**1,792**	2,962	2,966
	₱4,183	₱8,833	₱10,558

Retirement Plan

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Significant Accounting Policies.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account)

	2013	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
		(Amounts in millions)	
Current service costs	**₱1,041**	₱1,045	₱1,097
Net interest costs	**130**	319	364
Net pension expense	**₱1,171**	₱1,364	₱1,461
Actual return on plan assets	**₱2,214**	₱3,385	₱1,987

Pension Liability

	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - See Note 4)
		(Amounts in millions)	
Defined benefit obligation	**₱35,225**	₱33,811	₱33,234
Fair value of plan assets	**(34,039)**	(30,532)	(27,283)
Pension liability	**₱1,186**	₱3,279	₱5,951

Changes in the net pension liability are as follows:

	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - See Note 4)
		(Amounts in millions)	
Pension liability at beginning of year	**₱3,279**	₱5,951	₱9,743
Net pension costs	**1,171**	1,364	1,461
Amounts recognized in *OCI*	**(278)**	(2,599)	(1,054)
Contributions by employer	**(2,986)**	(1,437)	(4,199)
Pension liability	**₱1,186**	₱3,279	₱5,951

Changes in the present value of the defined benefit obligation are as follows:

	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - See Note 4)
		(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱33,811**	₱33,234	₱32,729
Interest costs	**1,999**	1,952	1,958
Current service costs	**1,041**	1,045	1,097
Benefits paid	**(1,693)**	(1,573)	(1,695)
Actuarial losses (gains) due to:			
Changes in financial assumptions	**671**	(850)	453
Experience adjustments	**(604)**	3	(1,140)
Defined benefit obligation of discontinued operations	**–**	–	(168)
Defined benefit obligation at end of year	**₱35,225**	₱33,811	₱33,234

Changes in the fair value of plan assets are as follows:

	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - see Note 4)
		(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱30,532**	₱27,283	₱22,986
Benefits paid	**(1,693)**	(1,573)	(1,695)
Interest income	**1,869**	1,633	1,594
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation	**345**	1,752	393
Contributions by employer	**2,986**	1,437	4,199
Fair value of plan assets of discontinued operations	**–**	–	(194)
Fair value of plan assets at end of year	**₱34,039**	₱30,532	₱27,283

The Board of Trustees or *BOT*, which manages the retirement benefit fund, is chaired by the chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BOT* are (i) an independent member of the *BOD*; (ii) a member of the *BOD* who represents the largest shareholder group; (iii) an executive member of the *BOD*; (iv) two (2) senior executives; and (v) a non-executive, non-*BOD* member who represents another shareholder group, all of whom are non-beneficiaries of the Plan.

The Fund follows a generally conservative investment approach where investments are diversified to minimize risks but ensures an increase in value of the Fund assets. Substantially all of the funds of the Plan are managed by four (4) trustee banks whose common objective is to maximize the long-term expected return of plan assets. As approved by the *BOT*, the funds are invested in a guided proportion of fixed income instruments, cash investments and equities.

Net carrying amount and fair value of the assets of the fund as at December 31, 2013 and 2012 amounted to ₱34,039 million and ₱30,532 million, respectively. The major categories of plan assets are as follows:

	2013	2012
		(Amounts in millions)
Cash and cash equivalents	**₱5,637**	₱3,100
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	**1,950**	2,247
Electricity, energy, power and water	**1,155**	1,480
Food, beverages and tobacco	**908**	884
Banks	**713**	839
Property	**608**	660
Telecommunication	**607**	295
Transportation services	**283**	230
Construction, infrastructure and allied services	**82**	158
Financial institution	**81**	102
Gaming	**75**	130
Mining	**66**	245
Retail	**44**	92
Media	**31**	43
Hotel and leisure	**15**	–
Others	**325**	385
Quoted debt investments		
Government securities	**11,385**	10,587
"AAA" rated securities	**7,399**	6,256
Unquoted investments		
Receivables	**1,721**	1,967
Property	**954**	832
Fair value of plan assets	**₱34,039**	₱30,532

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks. The Fund does not have any direct equity interests in *MERALCO*.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account)

	2013	2012 (As restated - see Note 4)	2011 (As restated - See Note 4)
		(Amounts in millions)	
Interest costs	**₱178**	₱176	₱156
Current service costs	**80**	85	54
	₱258	₱261	₱210

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	December 31, 2013	December 31, 2012 (As restated - see Note 4)	January 1, 2012 (As restated - See Note 4)
		(Amounts in millions)	
Balance at beginning of year	**₱2,962**	₱2,966	₱2,471
Interest costs	**178**	176	156
Current service costs	**80**	85	54
Benefits paid	**(53)**	(73)	(75)
Actuarial losses (gains) due to change in assumptions	**(1,375)**	(192)	360
Balance at end of year	**₱1,792**	₱2,962	₱2,966

Actuarial Assumptions

The principal assumptions used as at January 1, 2013, 2012 and 2011 in determining pension and other long-term post-employment benefits obligations are shown below:

	2013	2012	2011
Annual discount rate	**4.5%**	6.0%	6.0%
Future range of annual salary increases	**6.0%–10.0%**	6.0%–8.0%	6.0%–8.0%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2013**	2012
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱2,144)**	(₱1,107)
	-1.0%	**4,445**	1,107
Future range of annual salary increases	+1.0%	**1,072**	1,161

Funding

MERALCO contributes to the Fund from time to time such amounts of money required under accepted actuarial principles to maintain the Fund in a sound condition, subject to the provisions of the Plan.

The amount of the annual contributions to the Fund is determined through an annual valuation report performed by the actuary.

MERALCO expects to contribute ₱1,690 million to its defined benefit pension plan in 2014.

The following is the maturity profile of the undiscounted benefit obligation:

	Amount
	(In millions)
Less than one year	₱1,400
More than one year to five years	6,838
More than five years to 10 years	7,091
More than 10 years to 15 years	7,714
More than 15 years to 20 years	7,632
More than 20 years	19,312

Risk

The Fund is exposed to the following risks:

Credit Risk
The Fund's exposure to credit risk arises from its financial assets which comprise cash and cash equivalents, investments and rental receivable. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the Fund of the appointed fund managers.

Share Price Risk
The Pension Fund's exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event that market falls drastically, the Pension Fund may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BOT*. The *BOT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk
Liquidity risk is the risk that the Pension Fund is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the Fund. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is left in cash to manage liquidity and settle all currently maturing financial obligations.

MERALCO Defined Contribution Provident Plan

MERALCO has a contributory Provident Plan effective January 1, 2009, intended to be a Supplemental Retirement Benefit for employees hired after 2004, on a voluntary basis. Each qualified employee-member who opts to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to the first 10% of the member's base salary. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱5 million, ₱3 million and ₱4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Consolidated Pension Benefit Cost (included in "Salaries, wages and employee benefits" account)

	2013	2012 (As restated - see Note 4)	2011 (As restated - See Note 4)
		(Amounts in millions)	
Expense recognized for defined benefit plans	**₱1,171**	₱1,364	₱1,461
Expense recognized for defined contribution plan	**5**	3	4
Pension expense	**₱1,176**	₱1,367	₱1,465

Long-term Incentive Plan or LTIP

MERALCO's *LTIP* covers qualified executives and is based on *MERALCO Group*'s achievement of specified level of consolidated core net income approved by the *BOD* and determined on an aggregate basis for a three year period as well as executives' attainment of a minimum level of performance rating. Executives invited to the plan must serve a minimum uninterrupted period to be entitled to any pay-out.

28. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents and trade and nontrade receivables, which are generated directly from operations. The principal financial liabilities, other than derivatives, consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities as at December 31, 2013 and 2012:

	Loans and Receivables	**Held-to-maturity Investments**	**Fair Value through Profit or Loss**	**Held-for-trading**	**Available-for-sale Financial Assets**	**Liabilities Carried at Amortized Cost**	**Total Financial Assets and Liabilities**
			(Amounts in millions)				
Assets as at December 31, 2013							
Noncurrent							
Other noncurrent assets	**₱474**	**₱129**	**₱–**	**₱–**	**₱161**	**₱–**	**₱764**
Current							
Cash and cash equivalents	**59,851**	**–**	**–**	**–**	**–**	**–**	**59,851**
Trade and other receivables - net	**28,543**	**–**	**–**	**–**	**–**	**–**	**28,543**
Short-term investments	**4,841**	**–**	**–**	**–**	**–**	**–**	**4,841**
Advances to an associate	**4,884**	**–**	**–**	**–**	**–**	**–**	**4,884**
Total assets (Carried Forward)	**98,593**	**129**	**–**	**–**	**161**	**–**	**98,883**

	Loans and Receivables	Held-to-maturity Investments	Fair Value through Profit or Loss	Held-for-trading	Available-for-sale Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
				(Amounts in millions)			
Total assets (Carried Forward)	**₱98,593**	**₱129**	**₱–**	**₱–**	**₱161**	**₱–**	**₱98,883**
Liabilities as at December 31, 2013							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	**–**	**–**	**–**	**–**	**–**	**20,756**	**20,756**
Customers' deposits - net of current portion	**–**	**–**	**–**	**–**	**–**	**21,600**	**21,600**
Refundable service extension costs - net of current portion	**–**	**–**	**–**	**–**	**–**	**5,782**	**5,782**
Current							
Notes payable	**–**	**–**	**–**	**–**	**–**	**1,814**	**1,814**
Trade payables and other current liabilities	**–**	**–**	**–**	**–**	**–**	**57,113**	**57,113**
Customers' refund	**–**	**–**	**–**	**–**	**–**	**6,013**	**6,013**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**–**	**–**	**–**	**11,021**	**11,021**
Total liabilities	**–**	**–**	**–**	**–**	**–**	**124,099**	**124,099**
Net Assets (Liabilities)	**₱98,593**	**₱129**	**₱–**	**₱–**	**₱161**	**(₱124,099)**	**(₱25,216)**

	Loans and Receivables	Held-to-maturity Investments	Fair Value through Profit or Loss	Held-for-trading	Available-for-sale Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
				(Amounts in millions)			
Assets as at December 31, 2012							
Noncurrent							
Other noncurrent assets	₱325	₱123	₱–	₱–	₱331	₱–	₱779
Current							
Cash and cash equivalents	60,500	–	–	–	–	–	60,500
Trade and other receivables - net	23,447	–	–	–	–	–	23,447
Other current assets - derivative assets	–	–	24	–	–	–	24
Total assets	84,272	123	24	–	331	–	84,750
Liabilities as at December 31, 2012							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	–	–	–	–	–	20,466	20,466
Customers' deposits - net of current portion	–	–	–	–	–	23,313	23,313
Refundable service extension costs - net of current portion	–	–	–	–	–	4,357	4,357
Current							
Notes payable	–	–	–	–	–	1,787	1,787
Trade payables and other current liabilities	–	–	–	–	–	34,966	34,966
Customers' refund	–	–	–	–	–	6,127	6,127
Current portion of interest-bearing long-term financial liabilities	–	–	–	–	–	2,360	2,360
Total liabilities	–	–	–	–	–	93,376	93,376
Net Assets (Liabilities)	₱84,272	₱123	₱24	₱–	₱331	(₱93,376)	(₱8,626)

Fair Values

The fair values of the financial assets and financial liabilities are prices that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of *MERALCO Group*'s financial instruments as at December 31, 2013 and 2012.

	2013		2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Loans and receivables -				
Advances to a supplier	**₱474**	**₱522**	₱325	₱409
Fair value through profit or loss -				
Derivative asset	**–**	**–**	24	24
Available-for-sale financial assets	**161**	**161**	331	331
	₱635	**₱683**	₱680	₱764
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing long-term financial liabilities	**₱31,777**	**₱32,176**	₱22,826	₱24,787

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Advances to an Associate, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advances to a Supplier

The fair values of advances to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 3.76% as at December 31, 2013 and 4.16% as of December 31, 2012.

Bifurcated Foreign Currency Forward and Foreign Currency Forward

The fair values of embedded currency forwards and freestanding currency forwards were calculated by reference to forward exchange market rates.

AFS Investments

The fair values were determined by reference to market bid quotes as at reporting date. The unquoted equity securities were carried at cost.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.52% to 4.29% as at December 31, 2013 and 1.65% to 4.49% as of December 31, 2012.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

MERALCO uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques where all inputs have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques where inputs have a significant effect on the recorded fair value that are not based on observable market data

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	December 31, 2013				December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial Assets								
Advances to a supplier	**₱–**	**₱–**	**₱522**	**₱522**	₱–	₱–	₱409	₱409
AFS investments	**124**	**–**	**37**	**161**	128	–	203	331
Derivative assets	**–**	**–**	**–**	**–**	–	24	–	24
	₱124	**₱–**	**₱559**	**₱683**	₱128	₱24	₱612	₱764

	December 31, 2013				December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial Liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱–**	**₱32,176**	**₱32,176**	₱–	₱–	₱24,787	₱24,787

For the years ended December 31, 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate primarily to the long-term interest-bearing financial liabilities.

The *MERALCO Group*'s policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. Approximately 90% and 83% of the borrowings bear fixed rate of interest as at December 31, 2013 and 2012, respectively.

The following table sets out the maturity profile of the financial instruments that are exposed to interest rate risk (exclusive of debt issuance costs):

	Within 1 Year	**Over 1–2 Years**	**Over 2–3 Years**	**Over 3–4 Years**	**Over 4–5 Years**	**More than 5 Years**	**Total**
				(Amounts in millions)			
December 31, 2013	**₱612**	**₱13**	**₱13**	**₱12**	**₱2,425**	**₱–**	**₱3,075**
December 31, 2012	613	612	13	13	12	2,425	3,688

Floating interest rate of bank loans is repriced at intervals of less than one year. The other financial liabilities of *MERALCO Group* that are not included in the foregoing have fixed interest rate and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of *MERALCO*'s profit before tax as at December 31, 2013 and 2012 through the impact on floating rate borrowings. There is no other impact on *MERALCO*'s equity other than those already affecting the consolidated statement of income.

	2013		2012	
	Increase (Decrease) in Basis Points	**Effect on Profit before Tax**	Increase (Decrease) in Basis Points	Effect on Profit before Tax
		(Amounts in millions)		
Floating rate loans from various banks	**+100**	**(₱31)**	+100	(₱37)
	(100)	**31**	(100)	37

Interest expense of floating rate loans for the year is computed by taking into account actual principal movements, based on management's best estimate of a +/-100 basis points change in interest rates. There has been no change in the methods and assumptions used by the management in the above analysis.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial portion of the *MERALCO Group*'s capital expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2013 and 2012, translated to Philippine peso at ₱44.395 and ₱41.050 to $1, respectively.

	2013		2012	
	U.S.Dollar	**Peso Equivalent**	U.S.Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$65**	**₱2,864**	$47	₱1,913
Trade and other receivables	**3**	**148**	1	53
Advances to an associate	**110**	**4,884**	–	–
Advance payments to a supplier	**11**	**474**	8	325
	189	**8,370**	56	2,291
Financial liabilities -				
Trade payables and other liabilities	**(46)**	**(2,043)**	(139)	(5,724)
	$143	**₱6,327**	($83)	(₱3,433)

All of *MERALCO*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine Peso against the *U.S.* dollar will not have a significant impact on *MERALCO*'s obligations. Further, *PBR* assumes a forecast level of foreign currency movements in its calculation of the regulatory asset base and expenditures. *PBR* also allows for adjustment of the rates *MERALCO* charges should there be significant deviations in the foreign exchange forecast from what is actually realized.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the years ended December 31, 2013 and 2012 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on *MERALCO*'s equity other than those already affecting the profit and loss.

	2013		2012	
	Appreciation (Depreciation) of U.S. Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets	**+5**	**₱317**	+5	(₱170)
and financial liabilities	**–5**	**(317)**	–5	170

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the year-end balances of *U.S.* dollar-denominated cash and cash equivalents, receivables and liabilities. There has been no change in the methods and assumptions used by management in the foregoing analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in commodity prices. The exposure of *MERALCO* and *CEDC* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *CEDC*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that the *MERALCO Group* is exposed to as a result of its customers, clients or counterparties failing to discharge their contracted obligations. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one month's consumption to secure credit. Also, as a policy, disconnection notices are sent three days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

The *MERALCO* subsidiaries trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

Credit risk on other financial assets, which include cash and cash equivalents, trade and other receivables, short-term investments and certain derivative instruments, arises from the potential default of the counterparty.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position as at December 31, 2013 and 2012. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2013	2012
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱4,994**	₱3,250
Cash equivalents	**54,722**	57,244
Trade and other receivables:		
Billed electricity	**24,312**	20,779
Service contracts	**1,310**	671
Insurance receivable	**453**	383
Cost of estimated earnings in excess of billings on uncompleted contracts	**455**	258
Nontrade receivables	**2,013**	1,356
Other current assets:		
Short-term investments	**4,841**	–
Advances to an associate	**4,884**	–
Derivatives	**–**	24
Other noncurrent assets:		
Advance payments to suppliers	**474**	325
HTM investments	**129**	123
	₱98,587	₱84,413

The credit quality of financial assets is managed by *MERALCO* using "High Grade," "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due as internal credit ratings. The following tables show the credit quality by asset class:

	2013					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱59,716**	**₱–**	**₱–**	**₱–**	**₱–**	**₱59,716**
Trade and other receivables:						
Billed electricity	**6,048**	**3,583**	**9,064**	**5,616**	**2,970**	**27,281**
Service contracts	**1,118**	**–**	**–**	**192**	**180**	**1,490**
Insurance receivable	**33**	**–**	**304**	**116**	**–**	**453**
Cost of estimated earnings in excess of billings on uncompleted contracts	**455**	**–**	**–**	**–**	**–**	**455**
Nontrade receivables	**1,883**	**8**	**20**	**103**	**2**	**2,016**
Other current assets:						
Short-term investments	**4,841**	**–**	**–**	**–**	**–**	**4,841**
Advances to an associate	**–**	**4,884**	**–**	**–**	**–**	**4,884**
Other noncurrent assets	**–**	**–**	**603**	**–**	**–**	**603**
	₱74,094	**₱8,475**	**₱9,991**	**₱6,027**	**₱3,152**	**₱101,739**

	2012					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱60,494	₱–	₱–	₱–	₱–	₱60,494
Trade and other receivables:						
Billed electricity	5,946	3,313	8,513	3,007	2,559	23,338
Service contracts	671	–	–	–	145	816
Insurance receivable	313	–	–	70	–	383
Cost of estimated earnings in excess of billings on uncompleted contracts	258	–	–	–	–	258
Nontrade receivables	954	151	3	248	2	1,358
Derivative assets	24	–	–	–	–	24
Other noncurrent assets	–	–	448	–	–	448
	₱68,660	₱3,464	₱8,964	₱3,325	₱2,706	₱87,119

Credit ratings are determined as follows:

- "High Grade"

  'High' grade financial assets include "cash in banks and cash equivalents and derivative assets to counterparties with good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- "Standard Grade"

  'Standard' grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- "Sub-standard Grade"

  'Sub-standard' grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

The following table shows the aging analysis of financial assets as at December 31, 2013 and 2012:

	2013					
	Neither Past Due nor Impaired	**Past Due But Not Impaired**			**Impaired Financial Assets**	**Total**
		31–60 Days	**61–90 Days**	**Over 90 Days**		
		(Amounts in millions)				
Cash and cash equivalents:						
Cash equivalents	**₱54,722**	**₱–**	**₱–**	**₱–**	**₱–**	**₱54,722**
Cash in banks	**4,994**	**–**	**–**	**–**	**–**	**4,994**
Trade and other receivables:						
Trade:						
Billed electricity	**18,695**	**2,068**	**504**	**3,044**	**2,970**	**27,281**
Service contracts	**1,118**	**–**	**–**	**192**	**180**	**1,490**
Insurance receivable	**337**	**5**	**9**	**102**	**–**	**453**
Cost and estimated earnings in excess of billings on uncompleted contracts	**455**	**–**	**–**	**–**	**–**	**455**
Nontrade receivables	**1,911**	**22**	**5**	**76**	**2**	**2,016**
Other current assets:						
Short-term investments	**4,841**	**–**	**–**	**–**	**–**	**4,841**
Advances to associate	**4,884**	**–**	**–**	**–**	**–**	**4,884**
Other noncurrent assets:						
Advance payments to a supplier	**474**	**–**	**–**	**–**	**–**	**474**
HTM investments	**129**	**–**	**–**	**–**	**–**	**129**
	₱92,560	**₱2,095**	**₱518**	**₱3,414**	**₱3,152**	**₱101,739**

	2012					
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31–60 Days	61–90 Days	Over 90 Days		
		(Amounts in millions)				
Cash and cash equivalents:						
Cash in banks	₱3,250	₱–	₱–	₱–	₱–	₱3,250
Cash equivalents	57,244	–	–	–	–	57,244
Trade and other receivables:						
Trade:						
Billed electricity	17,772	1,896	628	483	2,559	23,338
Service contracts	671	–	–	–	145	816
Insurance receivable	313	11	12	47	–	383
Cost and estimated earnings in excess of billings on uncompleted contracts	258	–	–	–	–	258
Nontrade receivables	1,108	9	6	233	2	1,358
Other current assets -						
Derivative assets	24	–	–	–	–	24
Other noncurrent assets:						
Advance payments to a supplier	325	–	–	–	–	325
HTM investments	123	–	–	–	–	123
	₱81,088	₱1,916	₱646	₱763	₱2,706	₱87,119

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash and cash equivalents and government securities, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one institution.

The following table sets out the maturity profile of the financial liabilities based on contractual undiscounted payments plus future interest:

	2013				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
			(Amounts in millions)		
Notes payable	**₱1,816**	**₱–**	**₱–**	**₱–**	**₱1,816**
Trade payables and other current liabilities	**47,018**	**231**	**–**	**–**	**47,249**
Customers' refund	**6,013**	**–**	**–**	**–**	**6,013**
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	**14**	**601**	**2,592**	**–**	**3,207**
Fixed rate borrowings	**3,975**	**5,057**	**–**	**–**	**9,032**
Bonds payable	**211**	**645**	**3,427**	**21,716**	**25,999**
Redeemable preferred stock	**1,562**	**–**	**–**	**–**	**1,562**
Customers' deposits	**3,179**	**5,070**	**4,151**	**17,449**	**29,849**
Refundable service extension costs	**–**	**1,615**	**2,772**	**3,010**	**7,397**
Total undiscounted financial liabilities	**₱63,788**	**₱13,219**	**₱12,942**	**₱42,175**	**₱132,124**

	2012				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amounts in millions)		
Notes payable	₱283	₱2,224	₱–	₱–	₱2,507
Trade payables and other current liabilities	26,076	1,126	–	–	27,202
Customers' refund	6,127	–	–	–	6,127
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	35	684	847	2,447	4,013
Fixed rate borrowings	388	847	11,206	12,361	24,802
Redeemable preferred stock	1,594	–	–	–	1,594
Customers' deposits	640	5,612	169	23,144	29,565
Refundable service extension costs	1,512	–	4,357	–	5,869
Total undiscounted financial liabilities	₱36,655	₱10,493	₱16,579	₱37,952	₱101,679

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interest) of ₱6,130 million will be refunded within the year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2013.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2013	2012 (As restated - see Note 4)
		(Amounts in millions, except debt to equity ratio)
Long-term debt	**₱30,215**	₱21,232
Redeemable preferred stock	**1,562**	1,594
Notes payable	**1,814**	1,787
Debt (a)	**33,591**	24,613
Equity attributable to the holders of the parent (b)	**75,162**	67,902
Debt to equity ratio (a)/(b)	**0.45**	0.36

29. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2013 and 2012 are as follows:

	Note	2013	2012 (As restated - see Note 4)
			(Amounts in millions)
Deferred tax assets:			
Provisions for various claims	*20*	**₱12,682**	₱9,503
Accrued employee benefits		**899**	1,007
Unfunded pension cost and unamortized past service cost		**480**	1,577
Allowance for doubtful accounts	*13*	**945**	777
Allowance for excess of cost over net realizable value of inventories	*14*	**61**	62
Others		**324**	412
		15,391	13,338
Deferred tax liabilities:			
Revaluation increment in utility plant and others	*16*	**7,389**	7,645
Depreciation method differential		**1,082**	1,124
Capitalized interest		**744**	751
Capitalized duties and taxes deducted in advance		**651**	655
Net book value of capitalized/realized foreign exchange losses		**22**	37
Others		**123**	76
		10,011	10,288
		₱5,380	₱3,050

Provision for income tax consists of:

	2013	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
		(Amounts in millions)	
Current	**₱9,889**	₱9,490	₱8,454
Deferred	**(2,835)**	(3,749)	(2,501)
	₱7,054	₱5,741	₱5,953

A reconciliation between the provision for (benefit from) income tax computed at statutory income tax rate of 30% in 2013, 2012 and 2011, and provision for (benefit from) income tax as shown in the consolidated statements of income is as follows:

	2013	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
		(Amounts in millions)	
Income tax computed at statutory tax rate of:			
Continuing operations	**₱7,298**	₱6,607	₱5,624
Discontinued operations	**–**	318	386
	7,298	6,925	6,010
Income tax effects of:			
Interest income subjected to lower final tax rate	**(314)**	(521)	(590)
Nondeductible interest expense	**130**	213	236
Nontaxable income	**(113)**	(262)	(10)
Equity in net losses (earnings) of associates and joint ventures	**78**	45	(20)
Nondeductible expenses	**–**	40	593
Others	**(25)**	(616)	56
	7,054	5,824	6,275
Less provision for income tax of discontinued operations	**–**	83	322
	₱7,054	₱5,741	₱5,953

On December 18, 2009, the *BIR* issued Revenue Regulation, or *RR* No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions or *OSD*. Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. For the years ended December 31, 2013, 2012 and 2011, none of the entities in the *MERALCO Group* availed of the *OSD* in computing taxable income, except for *RSIC* and *CFS*.

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover amounting ₱717 million and ₱513 million as at December 31, 2013 and 2012, respectively.

NOLCO totaling to ₱717 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2011	December 31, 2014	₱106
December 31, 2012	December 31, 2015	194
December 31, 2013	December 31, 2016	417
		₱717

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related system loss charges.

The Implementing Rules and Regulations issued by the *ERC* provide that local franchise taxes shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

30. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to cover customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, *MERALCO* filed a claim on November 27, 2003 for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect of the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates or *TCC*s, proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCC*s amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005.

As at December 31, 2013 and 2012, the amount of unissued *TCC*s amounting to ₱577 million refund entitlement is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

See *Note 11 – Other Noncurrent Assets.*

MERALCO filed a Petition with the Court of Tax Appeals or *CTA,* assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001). In a decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue tax credit certificate in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On Motion for Reconsideration by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a Motion for Reconsideration of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC.*

Overpayment of Income Tax Related to Change in Tax Basis

On February 4, 2008, the *SC* denied with finality a motion for reconsideration filed by the Commissioner of Internal Revenue or *CIR*, against *MERALCO*, with respect to the issue on excess income tax paid by the latter. The *SC* affirmed a *CA* decision and ordered the *CIR* to refund or issue a *TCC* in favor of *MERALCO* for ₱107 million representing overpaid income taxes for taxable years 1987 and 1988. The overpayment is in accordance with the effectivity of Executive Order No. 72, which subjected *MERALCO* to regular corporate income tax instead of 2% franchise tax based on gross receipts it was previously liable for. On February 5, 2013, *MERALCO* filed a Motion for Issuance of a Writ of Execution with the *CTA* to enforce the judgment of the *SC*. On February 14, 2013, the CTA promulgated a

Resolution ordering the *CIR* and the *OSG* to comment on the Motion filed by *MERALCO*. On March 14, 2013, the *CTA* promulgated a Resolution granting the Motion of *MERALCO* and directed the issuance of corresponding Writ of Execution.

LFT Assessments of Municipalities

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

Real Property Tax or RPT Assessments

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

MERALCO also filed a case against the City of Manila before Regional Trial Court – Pasig branch or *RTC-Pasig*, to enjoin the collection of *RPT* on *MERALCO*'s *TWIP* and nullify *RPT* assessments made thereon based on the argument that these are not within the ambit of the definition of real property under the *LGC*. The case is set for mediation after the City of Manila filed its comments on *MERALCO*'s petition.

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

Mediation with NPC

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

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity or *CSE,* with *NPC* to commence on January 1, 1995. The *CSE* and the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago–Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement or *SA*, between the parties on July 15, 2003. The *SA* was approved by the respective *BOD*s of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of *ERC*.

Subsequently, the Office of the Solicitor General or *OSG* filed a "Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*." As a result, *MERALCO* sought judicial clarification with the *RTC-Pasig*. Pre-trials were set which *MERALCO* complied with and attended. However, the *OSG* refused to participate in the pre-trial and opted to seek a *TRO* from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a motion for reconsideration which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. In a Resolution dated July 25, 2012, the *SC r*equired *MERALCO* to file a Comment. *MERALCO*'s Comment was filed on October 29, 2012. The *SC* then issued a Resolution dated November 26, 2012 requiring the *OSG* to file a Reply. On February 19, 2013, the *OSG* filed a motion for extension to file a consolidated reply.

With the dismissal of the petition filed by the *OSG* with the *CA*, *MERALCO* filed a motion for the reception of its evidence ex-parte with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA*, independent of the pass-through for the settlement amount which is reserved for the *ERC*, valid and binding. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. Both parties have filed their respective appeal briefs. The case is deemed submitted for resolution by the *CA*.

On January 22, 2014, *MERALCO* received a Notice of Judgment from the *SC* stating that a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the decision promulgated by the *CA* on October 14, 2011.

Sucat-Araneta-Balintawak Transmission Line

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

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City or plaintiffs, filed a case against *NPC* with the *RTC-Makati,* enjoining *NPC* from further installing high voltage cables near the plaintiffs' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought for by the plaintiffs. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversing a decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the order of the *SC. MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230-kV line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors pay all damages, which the plaintiffs may incur as a result of the Writ of Preliminary Injunction.

Thereafter, the plaintiffs questioned the *RTC-Makati* order before the *CA*. As at March 17, 2014, this case remains pending for resolution in the *CA*.

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

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

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500kV Line 2 on June 22, 2008, and the 500kV 600 Mega volt-ampere Transformer Bank No. 2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC-TOU* rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the Transmission Line Costs billed to *MERALCO* by *NPC* for the *TSC* quantities to the extent of 2.98% loss factor, since the start of the *TSC* in November 2006. Thus, *NPC* was directed to refund/collect line rental adjustment to/from *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 directing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM. PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

On November 11, 2011, *MERALCO* filed its Motion to Implement the Decision dated March 10, 2010 by immediately effecting the refund/collection of line rental adjustments to consumers. On December 21, 2011, *PSALM* filed its comment on *MERALCO*'s said Motion. Then, in an Order dated January 24, 2012, the *ERC* directed *PEMC*, *Transco* and *NPC* to submit their respective comments on *MERALCO*'s motion within five days from receipt.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*, while the amount to be collected from the *SGC*s is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *MPPCL,* Aboitiz Power Renewables, Inc. or *APRI*, *TLI*, *SMEC* and *SCPC*, within thirty (30) days from receipt thereof, to recover the line loss collected by them. *MERALCO* filed a motion for clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGC*s against whom a petition for dispute resolution should be filed by *MERALCO*; 2) Amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates and Petition to be filed by *MERALCO* against the *SGC*s should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates. ; 3) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to

"SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; 4) Grant the "Motion for Extension" filed by *MERALCO* which was directed to file a petition against the following *SGC*s: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*, otherwise, it shall be the one liable to refund the subject amount to its customers; and 5) deny the respective "Motions for Reconsideration" filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱74 million against some of its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *ad cautelam* on *MERALCO*'s Manifestation and Motion. *MERALCO* is awaiting the resolution of the *ERC* on its Manifestation and Motion. On November 4, 2013, *MERALCO* filed its Reply. *MERALCO* is awaiting the resolution of the *ERC* on its Manifestation and Motion.

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

On February 2, 2014, *MERALCO* filed its Comment to said Petition. As at March 17, 2014, the *CA* has yet to rule on the Petition.

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

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC, MPPCL, APRI, TLI, SMEC* and *Sem-Calaca.* Said Petition seeks the following: a) Refund of the 2.98% transmission line losses in the amount of ₱5.4 billion from said *SGC*s; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGC*s, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGC*s' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion. On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion. On October 14, 2013, *MERALCO* filed its Opposition thereto. On October 24, 2013, *MERALCO* received the *SGC's* Reply to its Comment. On October 29, 2013, *MERALCO* filed its Rejoinder.

PSALM versus PEMC and MERALCO

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

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC*'s decision directing the *WESM* settlement price for the 3rd and 4th billing months to be *NPC-TOU* rates prompted *PSALM* to file a Motion for Reconsideration with the *CA*, which was denied on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*.

As at March 17, 2014, *PSALM*'s Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

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

SC Temporary Restraining Order on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge, which reflected a total increase of ₱4.15 per *kWh* for a 200-*kWh* residential consumer. The generation costs for the November 2013 supply month increased significantly because of the use of the more expensive liquid fuel by the natural gas-fired power plants that were affected by the Malampaya Gas Field or *Malampaya*, shutdown from November 11 to December 10, 2013. This was compounded by the aberrant spike in the *WESM*, charges on account of the scheduled and extended shutdowns, and the forced outages, of several base load power plants, as well as the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched.

The Department of Justice commenced an investigation while the House of Representatives and the Senate conducted separate hearings to determine the underlying reasons for the price increase, including any possible collusion among the power firms. In the meantime, *MERALCO* proceeded with billing its captive customers with the *ERC* approval.

On December 19, 2013, several interest groups filed a Petition against *MERALCO*, *ERC* and the *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the ₱4.15 per *kWh* price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of sixty (60) days, which effectively enjoined the *ERC* and *MERALCO* from implementing the ₱4.15 per *kWh* price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions and set the hearing for Oral Arguments on January 21, 2014. The *SC* further set two more Oral Arguments on February 4, 2014 and February 11, 2014. After the conclusion of the Oral Arguments, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another period of 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* last December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices given that the prices in *WESM* during the November and December 2013 supply months could not qualify as reasonable, rational and competitive. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned.

As at March 17, 2014, *MERALCO* is still awaiting decisions of the *SC* on the *TRO*.

Others

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect the *MERALCO Group's* financial position and results of operations.

31. Significant Contracts and Commitments

NPC

MERALCO and *NPC* entered into a Transition Supply Contract or *TSC*, effective the earlier of five years from November 16, 2006 up to December 25, 2011 or one year after the introduction of Open Access, should *RCOA* be in place within the five-year contract period. Two addenda for additional contracted volumes were signed, the most recent being in 2010. The adjusted contracted volume was for a total of more than 40,000 *GWh* up to 2011.

On December 26, 2011, the *TSC* with *NPC* was extended until December 25, 2012 or three months after the implementation of the *RCOA*, whichever comes first.

As a result of the extension of the *TSC*, the Customer Choice Program or *CCP*, which is a joint program of *NPC* and *MERALCO* aimed at providing *NPC* time-of-use or *TOU*, benefits to qualified customers, has also been extended to be co-terminus with the *TSC*. The *CCP* expired on December 25, 2012.

With respect to the *TSC*, *MERALCO*, *NPC* and *PSALM* then executed a Memorandum of Agreement or *MOA* which further extended the *TSC* until June 25, 2013.

On June 26, 2013, *MERALCO*'s *TSC* with *NPC* was terminated.

Assignment of TSC Volume to SGCs

From 2008 to 2009, *NPC* privatized a number of its generating assets and Independent Power Plants or *IPP* contracts in favor of the successful bidders. As a result, the contracted energy volume under the original *TSC* between *MERALCO* and *NPC* was assigned by *NPC* to the respective new owners and *IPPAs*. Following are the privatized plants and *IPP* contracts:

Year	Power Plant	Successor Owner/*IPPAs*	% of Total Volume
2008	Masinloc coal-fired power plant – 600 *MW*	*MPPCL*	21.3
2009	Tiwi-Makban geothermal power plants – 289 *MW*	*APRI*	8.1
	Pagbilao power plant –735 *MW*	*TLI*	25.0
	Sual coal-fired power plant – 1,000 *MW*	*SMEC*	8.6
	Coal-fired Calaca power plant – 600 *MW*	*Sem-Calaca*	10.4
2010	Combined cycle gas turbine, natural gas-fired Ilijan power plant – 1,200 *MW*	*SPPC*	15.2

NPC/PSALM remained the contracting party of record for the supply of power to *MERALCO*. Payments of the contracted volume are made based on the billing instructions from *NPC/PSALM* received by *MERALCO*.

PSAs with Privatized Plants and IPPAs

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, a *PSA* with *TLI* was executed on February 29, 2012. These *PSA*s are for a period of seven years, extendable for three years upon agreement of the parties.

In March 2012, the application for approval of the *PSA*s was filed with the *ERC*. On June 26, 2012, *MERALCO BOD* approved the grant of authority to *MERALCO* to enter into a *PSA* with *SMEC* for a period of seven years, extendable for three years upon agreement of the parties.

On March 16, 2012, *MPower* signed a separate *PSA* with *MPPCL* for 30*MW* of contracted capacity from the Masinloc coal-fired power plant in Zambales for seven years, extendable for three years upon agreement of the parties.

On April 26, 2012, the *BOD* approved the *PSA* with Pangea Green Energy Philippines, Inc., or *PGEP,* a biogas power plant located in Payatas, Quezon City using methane gas extracted from the Payatas Landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*.

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

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

On December 27, 2012, *MERALCO* executed the *PSA*s with *TLI* and *APRI* to cover the volume needed by *MERALCO* during the six-month transition period before the start of the commercial operations of *RCOA*. Under the *PSA*s with *TLI* and *APRI*, *MERALCO* will procure power from *TLI* and *APRI* from the expiration of the *TSC* until June 25, 2013 conditioned upon *ERC* approval. The said *PSA*s had been submitted to the *ERC* for approval on January 2, 2013. However, on September 26, 2013, *MERALCO* filed Motions to Withdraw the said *PSA*s, considering that the *TSC* was extended up to June 25, 2013. The *ERC* granted said Motions in separate Orders dated September 27, 2013.

Under the *PSA*s, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	(In Megawatt)	*(In million)*
2014	3,000	₱35,419
2015	3,084	37,775
2016	3,114	39,865
2017	3,114	39,574
2018	2,880	39,198
2019	2,460	33,864

FGPC and FGP

In compliance with the *DOE's* program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* was committed to contract 1,500-*MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPA*s with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electrical output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPA*s. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPA*s of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPA*s of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. Under the terms of the amended *PPA*, *MERALCO* is committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* make advances to *QPPL* of US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the *TLA* and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million in that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by *ERC*.

See Note 11 – Other Noncurrent Assets.

Committed Energy Volume to be Purchased

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

Year	Minimum Energy Quantity (MEQ)	Equivalent Amount
	(In Million Kilowatt-Hours)	*(In millions)*
2014	14,955	₱21,476
2015	14,955	21,577
2016	14,855	21,592
2017	14,855	21,817
2018	14,855	22,011
2019-2025	103,984	159,967

Montalban Methane Power Corporation or MMPC

MMPC operates an 8 *MW* (designed capacity of 11 *MW*) renewable energy generating facility, which utilizes landfill gas.

On May 13, 2009, *MERALCO* filed an application for the approval of the *CSE* with *MMPC* with the *ERC*. On June 9, 2009, *ERC* issued an order dated June 1, 2009 provisionally approving the *CSE* subject to the following conditions: (i) any amendments to the *CSE* shall be filed with the *ERC* for approval and the implementation shall be prospective; and (ii) in the event the rates approved are higher than the final rates, the amount corresponding to the excess shall be refunded by *MERALCO* to its customers by crediting the same in their electric bills.

On June 11, 2009, *MMPC* began delivering energy to *MERALCO* under a two year *CSE*. The *CSE* is a "take and pay" arrangement, without a minimum energy volume. Energy is billed to *MERALCO* on an hourly basis at the *ERC*- approved *NPC TOU* rate plus certain pre-agreed cost components. Being an embedded renewable energy generator, purchases from *MMPC* are *VAT* zero-rated and energy deliveries from *MMPC* are exempt from power delivery service charge.

After a series of negotiations, on May 23, 2011, *MERALCO* and *MMPC* signed a Letter Agreement extending the *CSE*. Said Agreement likewise contained minor amendments to the *CSE* that were intended to benefit the consumers. On June 3, 2011, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking the approval of the Letter Agreement, pursuant to the condition contained in the *ERC* Order dated June 1, 2009. On February 19, 2013, the *ERC* issued its Decision approving the application.

BEI

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a 4*MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna.

The terms of the *CSE* with *BEI* are similar to that signed with *MMPC.* Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application which extended the implementation indefinitely. The said case is pending decision by the *ERC*.

Therma Mobile, Inc. or TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with Therma Mobile Inc. or *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park - Malabon 115kV line. *TMO* is thus an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115kV line connecting its generating facility to *MERALCO*'s system.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fishport Complex in Navotas, Manila. On November 4, 2013, the application for approval of the *MERALCO-TMO PSA* was provisionally approved by the *ERC*.

Interconnection Agreement with Alternergy Philippine Holdings Corporation or Alternergy

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for their 90*MW* Wind Farm Renewable Energy plant in Pililla, Rizal, which is an interconnection at *MERALCO*'s Malaya-Teresa 115kV line, *Altenergy* is thus an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115kV line connecting its generating facility to *MERALCO*'s system.

Interconnection Agreement with Maibarara Geothermal, Inc. or MGI

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for their 20*MW* (with max capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which is an interconnection at *MERALCO*'s FPIP - Los Banos 115kV line. *MGI* is thus an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115kV line connecting its generating facility to *MERALCO*'s system.

32. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2013	2012 (As restated - see Note 4)	2011 (As restated - see Note 4)
		(In millions, except per share data)	
Net income attributable to equity holders of the Parent (a)	**₱17,211**	₱17,117	₱13,260
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱15.27**	₱15.19	₱11.76
Net income attributable to equity holders of the Parent of continuing operations (a)	**₱17,211**	₱16,236	₱12,748
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share of continuing operations (a/b)	**₱15.27**	₱14.40	₱11.31
Basic and diluted earnings per share of discontinued operations	**₱–**	₱0.86	₱0.86

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2013, 2012 and 2011.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

To calculate earnings per share amounts for the discontinued operations, the weighted average number of common shares for both basic and diluted amounts is as per the table above.

33. Other Matters

Revised SL Caps

On December 8, 2008, the *ERC* promulgated a resolution providing for a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, effective January 2010 billing. This is one percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the *PIS* under *PBR*.

On December 8, 2009, *MERALCO* filed a Petition to amend the said Resolution with an urgent prayer for the immediate suspension of the implementation of the new *SL* cap of 8.5% starting January 2010. The proposed amendment is aimed at making the Resolution consistent with the provisions of *RA No. 9136* and *RA No. 7832*, by increasing the *SL* cap to not less than 9%. The hearing on the Petition was conducted on November 18, 2010. Thereafter, *MERALCO* was directed to submit its *FOE*. *MERALCO* has submitted is *FOE* and is awaiting *ERC* decision on this Petition.

Benefit Sharing Scheme to Lower System Loss

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

On December 11, 2012, the *ERC* posted on its website the second draft of the *Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities*. The salient points of the second draft rules include calculation of System Loss Charge using the prevailing system loss cap or the lowest consecutive five year average system loss, whichever is lower, and an equitable sharing (50-50) of incentives between the customer and the *DU* on the savings which is the difference between the lower of this system loss level and the *DU*'s actual system loss. Any system loss reward from the *PIS* under the *RDWR* for private *DU*s shall be offset from the rewards the *DU* will receive from this Benefit-Sharing scheme, except when the net benefit from this scheme is less than the *PIS* rewards of the *DU*, in which case the *DU* will retain the rewards under the *PIS* and forego its share under this Benefit-Sharing Scheme. The foregone share of the *DU* shall be added to the End-user share correspondingly. As at March 17, 2014, *MERALCO* and *PEPOA* are awaiting the action of the *ERC* on this matter.

Retail Competition

On February 24, 2012, the *DOE* issued a circular designating the *PEMC* as the Central Registration Body, or *CRB* under the *RCOA*. The *CRB* is tasked to develop market infrastructure, systems and processes capable of supporting *RCOA* registration, customer switching and information exchange among industry participants.

On May 9, 2012, the *DOE* issued another circular prescribing the general policies for the implementation of *RCOA*. The circular provides the overall direction *DOE* intends to take in developing the policy framework for *RCOA* implementation.

On September 27, 2012, the *DOE* and the *ERC* issued a joint statement setting the initial *RCOA* implementation on December 26, 2012. The joint statement clarified that the *RCOA* commencement is on a phase-in and partial implementation of the program, with the first six (6) months of *RCOA* implementation (December 26, 2012 – June 25, 2013) allotted as the Transition Period to allow all concerned parties to undertake their respective preparations to operationalize the mechanism for *RCOA*. An initial *RCOA* Commercial Operation using an interim IT system was set to start on June 26, 2013.

On December 17, 2012, the *ERC* issued Resolution No. 16 series of 2012 adopting the Transitory Rules for the implementation of *RCOA*. The resolution provides the detailed responsibilities of industry participants during the *RCOA* transition period.

On January 9, 2013, the *DOE* issued Department Circular, "Promulgating the Retail Rules for the Integration of Retail Competition and Open Access in the Wholesale Electricity Spot Market", to provide rules for the integration of retail competition in the operations and governance processes of the WESM, the management of the transactions of Suppliers and Contestable Customers, and the operations of the Central Registration Body.

On March 26, 2013, *PEMC* began the *RCOA* Trial Operations Program, a nine-week test period participated in by the various entities and service providers of *RCOA*.

On May 6, 2013, the *DOE* issued Department Circular, "Enjoining all Generation Companies, Distribution Utilities, Suppliers and Local Suppliers to Ensure an Effective and Successful Transition towards the Implementation of Retail Competition and Open Access", which required generation companies, suppliers and *DU*s to disclose their supply portfolio and capacity allocation to determine the available energy supply for Contestable Customer in the market. *MERALCO* submitted its first compliance to said Circular last June 7, 2013.

On June 19, 2013, the *ERC* issued a resolution adopting the Supplemental Rules to the Transitory Rules for the implementation of *RCOA* . The resolution seeks to prevent contestable customers who have yet to execute a Retail Supply Contract or *RSC*, with a *RES* from being disconnected or transferred to *SOLR* service upon the commencement of initial commercial operations of *RCOA*. Qualified contestable customers who fail to enter into a *RSC* with a *RES* shall be deemed to stay with their current *DU* until December 26, 2013 or until such time that it is able to find a *RES* provided that they inform the *DU*.

In accordance with the *ERC*'s "Transitory Rules for the Initial Implementation of Open Access and Retail Competition", commercial operations of *RCOA* began on June 26, 2013.

Nineteen *RES*s were licensed by the *ERC* to provide competitive retail supply service to eligible contestable customers. As at December 31, 2013, 287 customers have opted for contestability and are now being supplied by competitive retail electricity suppliers.

On September 4, 2013, the *ERC* conducted a public consultation on its proposed amendments to the *RES Licensing Rules,* for which *MERALCO* submitted comments and participated in the public consultation.

As at December 31, 2013, there are about 782 contestable customers in *MERALCO*'s franchise area and 287 have already switched to their respective *RES*s.

Philippine Export Zone Authority or PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and "Guidelines for the Supply of Electric Power in Ecozones." Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DU*s which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DU*s at the *RTC*-Pasig.

In support of the government's objective of providing lower cost to Ecozone locators, *MERALCO* entered into a *MOA* with *NPC* on September 17, 2007 for the provision of special Ecozone rates to high load factor *PEZA*-accredited industries. The *ERC* authorized the immediate implementation of the Ecozone Rate Program or *ERP*. The program expired in December 2012.

The *ERP* was initially scheduled to expire by December 25, 2011 but was extended twice and was terminated on December 25, 2012.

In January 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and Trans-Asia Oil and Energy Development Corporation for the sale of power to *CEZ* and its locators beginning January 26, 2013.

As an alternative to the *ERP*, *MERALCO* filed an application for the implementation of Peak/Off-Peak (POP) Program. On December 17, 2012, the *ERC* provisionally approved the application and *MERALCO* started implementing the program on February 1, 2013.

Purchase of Subtransmission Assets or STAs

On November 25, 2009, *MERALCO* signed a Contract to Sell with *TransCo* for the sale and purchase of certain subtransmission assets for ₱86 million. On February 25, 2010, the *ERC* approved this Contract to Sell. On June 1, 2012, the *ERC* rendered a decision dated March 6, 2012, approving the sale of the said *STA*s in favor of *MERALCO* for ₱85 million.

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*'s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013, *MERALCO* filed a motion for partial reconsideration regarding the exclusion of certain facilities for acquisition, which has yet to be resolved by the *ERC*.

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

MERALCO's POP Program

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

In an Order dated December 17, 2012, the *ERC* provisionally approved the *POP* Program.

Feed-in-Tariff (FIT)

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

On May 16, 2011, the National Renewable Energy Board or *NREB* filed its Petition to Initiate Rule Making for the Adoption of *FIT*. The Petition proposed a specific *FIT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FIT* Rates that are significantly lower than the rates applied by the *NREB*.

To fund the *FIT* payments to eligible *RE* developers, a *FIT*-Allowance charge will be imposed on all end-users. The *FIT*-Allowance will be established by the *ERC* upon petition by the *TransCo*, which had been designated as the *FIT* Fund Administrator. The *FIT*-Allowance Petition will go through the process of public hearings and consultations.

To supplement the *FIT* Rules, the *ERC* is currently drafting *FIT*-Allowance Payment and Collection Guidelines. This set of guidelines will govern how the *FIT*-Allowance will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FIT*-Allowance from the electricity consumers, the remittance to a specified fund, the disbursement from the *FIT*-Allowance fund and the payment to eligible *RE* developers. The draft is currently undergoing public consultations.

Net Metering Program

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

On September 4, 2012, the *ERC* released the first draft of the Proposed Net Metering Rules. The proposed rules will govern the implementation of the Net Metering program for *RE* sources. It also seeks to establish the standards for interconnecting these *RE* sources to the *DU*s' systems. The pricing methodology, however, will be addressed in another set of rules and will be endorsed to the *ERC* in due course. Meantime, the distribution utilities' blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. On September 21, 2012, the *ERC* conducted the first public consultation on the proposed rules.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The rules will govern the *DU*s' implementation of the Net Metering program. Included in Rules are the Interconnection Standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the *ERC* in due course. In the meantime, the distribution utilities' blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The rules took effect on July 24, 2013. *MERALCO* started accepting net metering applications on the same day. As at March 17, 2014, *MERALCO* has already energized five Net Metering customers, the country's first participants to the net metering program.

34. Subsequent Event

On March 17, 2014, the *BOD* declared a final cash dividend of ₱6.45 per share to all shareholders of record as at April 15, 2014, payable on May 8, 2014.

Glossary of Terms

MERALCO'S UNBUNDLED TARIFF COMPONENTS

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

ENVIRONMENTAL CHARGE is a universal charge that accrues to an environmental fund to be used solely for watershed rehabilitation and management. Such fund is managed by the National Power Corporation (NPC) under existing arrangements and, under Section 34(d) of the Republic Act No. 9136, or the Electric Power Industry Reform Act (EPIRA), is pegged at PhP0.0025 per kWh.

GENERATION CHARGE is the cost associated with Meralco's purchase of power, from its suppliers – Independent Power Producers (IPPs) via Power Supply Agreements (PSAs) and the Wholesale Electricity Spot Market (WESM).

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

LOCAL FRANCHISE TAX is levied by provinces and cities for businesses enjoying a franchise, and paid to such local government units, in accordance with the provisions of Sections 15 and 137 of the Local Government Code. This is a pass-through charge for Meralco paid and collected in accordance with BIR and ERC Regulations.

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

MISSIONARY ELECTRIFICATION CHARGE is a universal charge to fund the electrification of remote and unviable areas, as well as areas not connected to the transmission system, as mandated under Section 70 of the EPIRA.

SENIOR CITIZEN DISCOUNT/SENIOR CITIZEN SUBSIDY is a socialized pricing mechanism for senior citizens provided under Republic Act No. 8884 or the Expanded Senior Citizens Act of 2010. There are two Senior Citizen Discounts provided to end-users. The first provides a maximum of 5% discount on the electricity bills of residential accounts registered under the name of a senior citizen which consume not more than 100 kWh a month. The second grants a 50% discount on the electricity bills of senior citizen institutions accredited by the Department of Social Welfare and Development (DSWD). The discounts are applied on the qualified customers' total generation, transmission, system loss, distribution, supply and metering charges amount, net of lifeline discount, and are funded through a subsidy to be paid by customers that are not availing of the Senior Citizen Discount or the Lifeline Discount.

STRANDED CONTRACT COSTS OF NPC refer to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market.

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

SYSTEM LOSS CHARGE refers to the cost-recovery of power lost due to technical and non-technical system losses. The maximum level of losses that may be recovered by private distribution utilities was set at 9.5% by Republic Act No. 7832 which was reduced to 8.5% starting 2010, as provided under ERC Resolution No.17, Series of 2008.

TRANSMISSION CHARGE refers to the cost of delivery of electricity from generators, usually located in other provinces or in remote areas outside the distribution utility's franchise area, to the distribution system of Meralco and charges for ancillary services procured by the transmission service provider. This is paid to the National Grid Corporation of the Philippines (NGCP), the transmission service provider.

UNIVERSAL CHARGE is a charge imposed on all electricity end-users as determined, fixed and approved by the ERC, pursuant to Section 34 of the EPIRA. It is remitted to the Power Sector Assets and Liabilities Management Corporation (PSALM), a government-owned and controlled corporation created by Republic Act No. 9136. At present, this includes the stranded contract costs of NPC, missionary electrification, and environmental charges. Other possible components of the Universal Charge which are yet to be resolved by the ERC are: a) Stranded Debts of the NPC, b) Stranded Contract Costs of Distribution Utilities, and c) Equalization of the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported fuels.

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

MERALCO'S TARIFF CATEGORIES

RESIDENTIAL AND GENERAL SERVICE A (RGSA) is the rate class applicable to residential customers for all domestic purposes such as lighting, heating, etc., in a single dwelling unit. This is also applicable to non-industrial and industrial customers with a connected load of less than five kilowatts.

GENERAL SERVICE B is the rate class applicable to non-residential customers with a connected load of five to less than 40 kilowatts.

GENERAL POWER (GP) is the rate class applicable to non-industrial and industrial customers with a minimum demand of 40 kilowatts for general power, heating and/or lighting.

GOVERNMENT HOSPITALS, METERED STREETLIGHTING SERVICE AND CHARITABLE INSTITUTIONS (GHMSCI) is the rate class applicable to government hospitals duly registered and certified by the Department of Health, metered streetlights, traffic lights, certain public parks under the National Park Development Committee and duly registered facilities of charitable nstitutions.

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

EMBEDDED GENERATORS WHEELING POWER TO NON-MERALCO CUSTOMERS AND/OR WESM is the rate class applicable to embedded generators connected to the distribution utility system with a minimum capacity of 40 kilowatts for wheeling of power to non- Meralco customers and/or selling to the WESM.

OTHERS

AUTOMATIC ADJUSTMENT OF GENERATION, TRANSMISSION AND SYSTEM LOSS CHARGES is an automatic recovery mechanism promulgated by the ERC that allows the monthly adjustment of Generation, Transmission and System Loss Charges to reflect the actual movement in generation and transmission costs and the losses per voltage level. This mechanism allows DUs to more timely recover the true cost of electricity, since changes in the generation and transmission costs are immediately reflected on customers' bills. The computation of generation, transmission and system loss charges is in accordance with the formulas prescribed in ERC Resolution No. 16, Series of 2009.

PERFORMANCE-BASED REGULATION (PBR) is an internationally accepted rate-setting methodology adopted by the ERC, pursuant to Section 43 (f) of the EPIRA to replace the Return-on-Rate Base (RORB) or Cost-Plus regulation. PBR is a forward-looking framework that aims to ensure that capital and operating expenditures are efficiently undertaken to provide timely, reliable, adequate and affordable power by the distribution utility to consumers in its franchise area. PBR entails the use of incentive mechanisms that reward or penalize the utility for exceeding or falling short of the prescribed performance standards.

REGULATORY ASSET BASE (RAB) consists of the assets employed by a regulated entity to provide efficient regulated distribution services, and upon which a utility is allowed to earn a rate of return based on a Weighted Average Cost of Capital (WACC). The RAB represents the appraised or roll-forward asset value of the utility's investment in facilities, equipment and other properties used and useful in the provision of electric service.

RETURN ON RATE BASE (RORB) is the ratio of operating income to the utility's rate base which is expressed as a percentage. Prior to the ERC's adoption of PBR, Meralco's unbundled tariffs were based on a RORB equivalent to its WACC for the year 2000, as determined by the ERC.

RULES FOR SETTING DISTRIBUTION WHEELING RATES (RDWR) is a pricecap variation of the Performance- Based Regulation as adopted by the ERC for private distribution utilities. This is an update of the Distribution Wheeling Rates Guidelines (DWRG) considering specific entry points among private distribution utilities. RDWR includes a reward and penalty mechanism called the Performance Incentive Scheme (PIS), which includes the following: a) a Price linked Incentive (S-factor) scheme which determines the rewards or penalties of DUs using a weighted performance measure, based on the performance levels achieved against a number of indices in the calendar year preceding each Regulatory Year. b) a Guaranteed Service Level (GSL) scheme which provides customers guarantees regarding responsiveness and effectiveness of DUs. If GSLs are not met, predetermined penalties will be paid by distribution utilities directly to customers.

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

ELECTRIC INDUSTRY PARTICIPANTS refers to any person or entity engaged in the generation, transmission, distribution or supply of electricity.

DISTRIBUTION UTILITY (DU) refers to any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a Distribution System in accordance with its franchise and the EPIRA.

ENERGY REGULATORY COMMISSION (ERC) is the independent, quasijudicial regulatory body that was created pursuant to Section 38 of the EPIRA.

INDEPENDENT POWER PRODUCER (IPP) is an existing power-generating entity not owned by the NPC.

NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP) is a privately-owned corporation which was awarded the concession to operate and maintain the Philippines' electricity transmission network. NGCP was granted a 50-year franchise under Republic Act No. 9511. As the system operator of the power grid, NGCP balances the demand and supply of electricity to efficiently serve all of its customers which are generators, private distribution utilities, electric cooperatives, government-owned utilities, ecozones, industries and directly connected companies.

NATIONAL POWER CORPORATION (NPC) is the government-owned and controlled corporation created under Republic Act No. 6395, as amended.

NATIONAL TRANSMISSION CORPORATION (TransCo) is a government-owned and controlled corporation created under Section 8 of the EPIRA to which NPC transferred its transmission and sub-transmission facilities

and assumed the authority and responsibility of NPC for the planning, construction and centralized operation and maintenance of its high voltage transmission facilities. Following the competitive public bidding in 2007, TransCo awarded the concession contract for the operation, maintenance, improvement and expansion of its transmission assets and the operation of any related business to the NGCP. Ownership of all transmission assets, however, remains with TransCo. As owner of the transmission assets, TransCo monitors NGCP's compliance with the terms and conditions of the Concession Agreement, divests remaining subtransmission assets to qualified distribution utilities, and undertakes contractual consultancy and other technical services for the Philippine Economic Zone Authority.

PEAK/OFF-PEAK (POP) PROGRAM provides customers an incentive to take advantage of significantly lower power rates by shifting at least 46% of their operations to off peak-hours when cost of electricity is lower than the blended rates.

PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA) is the Philippine government agency created under Republic Act No. 7916 tasked to promote investments, extend assistance, register, grant incentives and facilitate the business operations of investors in export-oriented manufacturing and service facilities inside selected areas throughout the country proclaimed as PEZA Special Economic Zones (ecozones).

PHILIPPINE ELECTRICITY MARKET CORPORATION (PEMC) is a nonstock and non-profit corporation constituted in November 2003 upon the initiative of the Department of Energy (DOE) with representatives from the various sectors of the electric power industry to be the governance arm of the WESM. The PEMC was likewise constituted as the autonomous group market operator (AGMO) to undertake the preparations for the establishment of the WESM and its initial operations during the interim period prior to the selection of the independent market operator (IMO). As AGMO, it acts as both the governance arm and market operator of the WESM. After the transition to the IMO, the PEMC will remain to be the governance arm of the WESM while its market operations functions will be transferred to the IMO.

POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION (PSALM) is a government-owned and controlled corporation created under Section 49 of the EPIRA, which took ownership of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets.

PRIVATE ELECTRIC POWER OPERATORS ASSOCIATION, INC. (PEPOA) is an association of privately-owned electricity utilities franchised to operate an electric light and power distribution service in the urban areas outside of Metro Manila.

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

WHOLESALE ELECTRICITY SPOT MARKET (WESM) is the market where trading of electricity is made and was established by the DOE pursuant to Section 30 of the EPIRA.

MAGNA CARTA FOR RESIDENTIAL ELECTRICITY CONSUMERS refers to the set of rules promulgated by the ERC which governs the rights and obligations of residential consumers.

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

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

TRANSITION SUPPLY CONTRACT (TSC) is a document, that contains the agreement between a generator and a distribution utility on the terms and conditions of the supply and purchase of energy including a corresponding schedule of applicable rates and consistent with Section 67 of the EPIRA.

AUTOMATIC LOAD DROPPING (ALD) is the process of automatically and deliberately removing pre-selected loads from a power system in response to an abnormal condition in order to maintain the integrity of the power system.

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

DISTRIBUTION SYSTEM refers to the system of wires and associated facilities of a franchised DU extending between: (a) the delivery points on the transmission or subtransmission system or generating plant connection and (b) the points of connection to the premises of end-users.

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

ELECTRIC POWER PLANT refers to facilities for producing electricity through electric power generation.

ENERGY is the integral of the active power with respect to time, measured in watt-hour or multiples thereof.

GIGAWATTHOUR (GWh) is the unit of electric energy equal to 1,000,000,000 watt-hours.

GIGAWATT is the unit of electric power equal to 1,000,000,000 watts.

GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities, located in each of Luzon, Visayas and Mindanao, or as may be determined by the ERC in accordance with Section 45 of the EPIRA.

INTERRUPTION FREQUENCY RATE (IFR) is the average number of times each customer connected to the Meralco distribution system experiences power interruption within a certain time period. IFR includes pre-arranged, forced and generation/ transmission-related interruptions. 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.

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

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

KILOWATTHOUR (kWh) is the unit of energy equal to 1,000 watthours.

LOAD is the entity or electrical equipment that consumes or draws electrical energy.

LOAD FACTOR is the ratio of the total energy delivered during a given period to the product of the maximum demand and the number of hours during the same period.

LUZON GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities located in the island of Luzon.

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

MANUAL LOAD DROPPING (MLD) is the process of manually and deliberately removing pre-selected loads from a power system, in response to an abnormal condition, and in order to maintain the integrity of the power system.

POWER is the average of the instantaneous power over one period of the electrical wave, measured in watts or multiples thereof.

SUBTRANSMISSION LINES carry power from a bulk power source to distribution substations.

SYSTEM LOSS in a distribution system, is the difference between the electric energy input to the system and electric energy output from the system. It refers to technical and non-technical losses occurring in a distribution system during the conveyance of electricity to end-users.

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

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

WATT is the amount of usable (effective) power delivered or consumed.

CAPTIVE CUSTOMER is an electricity end-user that belongs to the captive market.

CAPTIVE MARKET, the electricity end-users who do not have the choice of a supplier of electricity, as may be determined by the Energy Regulatory Commission (ERC) in accordance with the Electric Power Industry Reform Act (EPIRA).

CONSUMER SATISFACTION INDEX (CSI) is the weighted index that measures general and specific areas of customer satisfaction and priorities. Both satisfaction and level of importance by attribute are dictated by customers through an annual survey (quarterly reading starting 2009). This survey is conducted among residential, core and non-core customers.

CONTESTABLE CUSTOMER is an electricity end-user that belongs to the contestable market.

CONTESTABLE MARKET, the electricity end-users who have a choice of a supplier of electricity as may be determined by the Energy Regulatory Commission (ERC) in accordance with the Electric Power industry Reform Act (EPIRA).

FEED-IN-TARIFF system is a renewable policy mechanism which involves the obligation on the part of electric power industry participants to source electricity from RE generation at a guaranteed fixed price applicable for a given period of time.

INITIAL SWITCH/SWITCHING is the commercial transfer of a Contestable Customer from DU as Captive Customer to RES/Local RES, which took effect on June 26, 2013 or the subsequent billing period immediately following June 26, 2013, or not later than December 26, 2013.

LOCAL RES is the non-regulated business segment of the DU authorized by the ERC to supply electricity to Contestable Customers within the DU's franchise area only, or Persons authorized by appropriate entities to supply within their respective economic zones. As Local RES, the DU is not required to secure a supplier's license.

NET METERING is a consumer-based incentive program which supports RE initiatives. It covers electric power generated by an end-user from an eligible on-site RE system, for instance, facilities with solar panels. The end-user is credited for any electric energy exported to the distribution utility.

RENEWABLE ENERGY ACT OF 2008 or the Republic Act No. 9513 was signed into law in December 2008. It aims to accelerate the exploration and development of renewable energy resources in the country. To achieve this goal, the RE Act provides fiscal and non-fiscal incentives to any entity that will engage in the business of renewable energy, including the manufacturers, suppliers and RE developers or generators. Fiscal incentives include Income Tax Holiday, duty-free importation, accelerated depreciation, special realty property tax rates, zero-rated value added tax, etc. Non-fiscal incentives include the Net Metering Program, Feed-in-Tariff System, Renewable Portfolio Standards and Green Energy Option Program.

Recognitions and Awards:

Motivating the Entire Meralco Organization

In 2013, various groups and organizations locally and overseas recognized the Company's excellence and achievements in a range of subjects of particular importance to Meralco. These were in the areas of corporate governance, investor relations, communications, customer and employee engagement, and Corporate Social Responsibility.



3rd Asian Excellence Recognition Awards

Held on March 27, 2013 at the Renaissance Harbor View Hotel, Hong Kong
The Asian Excellence Awards is designed to recognize achievements and excellence in management acumen, financial performance, corporate social responsibility, environmental practices and investor relations.

Asia's Best CEO (Philippines)

Oscar S. Reyes
Recognized for outstanding achievements in corporate governance, investor communications, business ethics, corporate social responsibility and financial performance.

Best Investor Relations Company in the Philippines

Best Investor Relations Professional in the Philippines - **Rafael L. Andrada**
Asia's Best CFO (Philippines) - **Betty C. Siy-Yap**
Received three recognitions for excellence in investor communications and financial performance.

Best Corporate Social Responsibility

Jeffrey O. Tarayao
Recognized for excellence in corporate social responsibility and environmental practices.

FinanceAsia Annual Best Managed Companies Top 4 - Most Committed to a Strong Dividend Policy

Awarded on June 19, 2013 at the Makati Shangri-la
The Award is a recognition by investors of how the company upholds shareholders' rights through payouts of above-average industry trends.

9th Corporate Governance Asia Recognition Awards 2013 Asia's Icon on Corporate Governance

Awarded on June 25, 2013 at the Marriott Hotel, Resorts World, Manila
The Icon award is the highest accolade given to Asian companies for being consistent awardees of Asia's Best in Corporate Governance citation. Meralco has been a recipient of this award given by Corporate Governance Asia (CG Asia) for three years now.

Asian Human Capital Awards - Grand Winner

Awarded on September 12, 2013 at Resorts World, Sentosa, Singapore
Meralco was named Grand Winner at the Asian Human Capital Awards for its leadership excellence in people management practices on Sustainable Employee Engagement and a Culture of Innovation.
The Award was conferred by the Ministry of Manpower of Singapore to Meralco from among 89 entries from 11 countries.

Philippine Stock Exchange PSE Bell Award for Corporate Governance

Awarded on November 19, 2013 at Makati Shangri-La Hotel

Institute of Corporate Directors (ICD) Top Local Corporate Governance Practitioner, among Philippine Publicly Listed Companies Awarded on November 15, 2013

Recognized as a forerunner among Philippine publicly listed companies in terms of adherence ASEAN Corporate Governance Scorecard provisions on rights and equitable treatment of shareholders, role of stakeholders, disclosure and transparency and board responsibility. In preparation for ASEAN Economic Integration in 2015, the ICD administers the ASEAN Corporate Governance Scorecard of Philippine Publicly Listed Companies.

3rd Integrity Summit

Awarded on September 19, 2013 at Makati Shangri-La Hotel
Distinguished as one of seven Philippine companies that qualified in the Advanced Level, for mainstream and best integrity practices.
The Summit is organized by Integrity Initiative, a multi-sectoral organization led by the Makati Business Club (MBC) and the European Chamber of Commerce of the Philippines (ECCP) with the commission to advocate integrity and develop a critical mass to combat corrupt practices.

2013 Platts Top Global Energy Company Award

Awarded on October 29, 2013 in Singapore
42nd in Asia, and 149th in 250 Global Energy Company Rankings.

The event recognized the outstanding accomplishments of industries from Asia and around the globe.

Platts Global Energy Award for outstanding Corporate Social Responsibility

Awarded on December 2013 at the Waldorf Astoria, New York, USA
Recognized for aligning business goals with social development objectives.
Also lauded for relief efforts in Typhoon Yolanda-stricken areas in the Visayas.

Bested over 280 Philippine publicly listed companies.
The PSE Bell Awards annually recognizes publicly listed companies with exemplary corporate governance standards based on PSE's Corporate Governance Guidelines for Listed Companies, which include, among others, a sound business strategy, an effective board of directors and policies to protect shareholders' rights.

9th Philippine Dealing System (PDS) Awards Night

Awarded on February 27, 2014 at Makati Shangri-La Hotel
Given the "Citation for the First Bond Issue with both a Put and Call Option" for its PhP7 billion bonds due 2025.

ISO 9001:2008 Recertification for Quality Management System (QMS)

Awarded to Corporate Information and Technology (CIT) for quality ICT solutions and business process improvements.

ISO 9001:2008 Certification of Full Compliance for Call Center

This is the third ISO seal for the Meralco Call Center.

ISO/IEC 17025:2005 Reaccreditation for Meter Testing Laboratory

Awarded to Metering Services and Asset Management (MSAM) for competency of laboratory, personnel and facilities in carrying out testing and calibration activities.

2013 Philippine Quill Awards

Awarded on November 11, 2013 at the Crowne Plaza Galleria Manila
Recognized as Company of the Year for bagging 16 Awards of Excellence and 19 Awards of Merit.
The Philippine Quill Awards is organized annually by the International Association of Business Communicators (IABC) to recognize excellent communication work in the professional and student levels.

49th Anvil Awards

Awarded on February 26, 2014 at Solaire Resort and Casino
Garnered a total of seven awards at the 49th Anvil Awards. Of these, six were Awards of Merit and one was an Award of Excellence.
Given annually by the Public Relations Society of the Philippines (PRSP), the Anvil Awards is considered the most prestigious recognition for public relations.

Investor Information

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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.

2013 MERALCO ANNUAL REPORT

Corporate Communications - Meralco
Concept and design: Studio 5 Designs, Inc.
Portraits and operations photography: Wig Tysmans, Albert Labrador

Eton Emerald Lofts
First Philippine Industrial Park (FPIP)
Montalban Tourism Office
Robinsons Cybergate Plaza
Rockwell Land Corporation

9lives™ Silk
Totally Chlorine Free
FSC
PEFC
Post-consumer Recovered Fiber
CO_2

9 Lives 55% Recycled Silk is a high quality 55% recycled paper with excellent environmental attributes. It's crisp white surface produces pin-sharp pictures and solid colors that stay bright. It is a perfect solution for companies who wish to demonstrate their environmental stance without compromising on quality.



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