COVER SHEET

PW-102

S.E.C Registration Number

MANILA ELECTRIC COMPANY

(Company's Full Name)

LOPEZ BUILDING, ORTIGAS AVENUE,

BRGY UGONG, PASIG CITY

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

ATTY. WILLIAM S. PAMINTUAN

Contact Person

632-8014

Company Telephone Number

12-31

Month Day

Fiscal Year

17-C

FORM TYPE

05 29

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.2(c) THEREUNDER

1. **Date of Report:** *February 26, 2018*
2. **SEC Identification Number:** *PW-102*
3. **BIR Tax Identification Code:** *000-101-528-000*
4. **Name of Issuer as specified in its Charter:** *Manila Electric Company*
5. **Country of Incorporation:** *Philippines*
6. **Industry Classification: (SEC use only)**
7. **Address of principal office:** *Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City*
8. **Issuer's telephone numbers:** *6328014* **Area Code:** *1605*
9. **Former name or former address:** *Not Applicable*
10. **Securities registered pursuant to Sections 18 and 12 of the SRC or Sections 4 and 8 of the RSA:**

Number of Shares of
Common Stock Outstanding

1,127,098,705
(As of December 31, 2017)

Debt Securities: Php 18.5 Billion Bonds

11. **Item Number reported:** ***Item 9 (Other Events)***

The Company's Board of Directors, in its regular meeting held today, February 26, 2018, approved the following matters:

1. The Company's Financial and Operating Results for the year ended December 31, 2017 with comparatives for 2016 (refer to the attached Press release); and

2. The declaration of a final cash dividend of Pesos 8.065 per share to all shareholders of record as at March 28, 2018, payable on April 25, 2018. This consists of a final regular cash dividend of Pesos 4.478 per share and a special cash dividend of Pesos 3.587 per share. This final cash dividend, in addition to the interim regular dividend of Pesos 4.489 per share declared on August 3, 2017 and paid on September 22, 2017, brings total cash dividends paid from 2017 Consolidated Core Net Income (CCNI) to Pesos 12.554 or 70% payout.

3. Appointment of retired Chief Justice Artemio V. Panganiban as lead independent director.

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MANILA ELECTRIC COMPANY
Issuer

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

Date: February 26, 2018

Cc: Disclosure Department
Listings and Disclosure Group
Philippine Stock Exchange

Issuer Compliance and Disclosure Department
Philippine Dealing & Exchange Corp.

MERALCO

PRESS RELEASE
FINANCIAL AND OPERATING RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVES FOR 2016

Highlights

- Consolidated Core Net Income for 2017 at Pesos 20.2 billion, 3% higher compared with Pesos 19.6 billion in 2016
- Consolidated Reported Net Income for 2017 at Pesos 20.4 billion, 6% higher than Pesos 19.2 billion generated in 2016
- Consolidated electricity revenues at Pesos 275.2 billion for 2017, 10% higher than in 2016
- Consolidated distribution revenues at Pesos 59.6 billion for 2017, 5% higher than in 2016
- Consolidated Core EBITDA at Pesos 34.6 billion, 2% higher than Pesos 34.0 billion in 2016
- Core Earnings per Share at Pesos 17.93
- Final regular cash dividend of Pesos 8.065 per share declared, including a special dividend of Pesos 3.587 per share
- Total dividend of Pesos 12.554 per share, representing 70% payout of the 2017 Consolidated Core Net Income
- Consolidated volume of energy sold for 2017 at 42,102 GWh, 5% higher than in 2016
- Customer count up by 5% to 6.3 million

- Average consolidated distribution rate for 2017 at Pesos 1.42/kWh, stable compared with 2016

MANILA, PHILIPPINES, 26th February 2018 – Manila Electric Company ("*Meralco*" or the "*Company*") (PSE: *MER*) today announced that its audited Consolidated Core Net Income ("*CCNI*"), before exceptional items, amounted to Pesos 20.2 billion, 3% better than in 2016. Consolidated Reported Net Income for the year ended December 31, 2017 amounted to Pesos 20.4 billion. Core Earnings per Share for 2017 reached Pesos 17.93, while Reported Earnings per Share was Pesos 18.09.

The Board of Directors of *Meralco* approved today a final cash dividend of Pesos 8.065 per share to all shareholders of record as at March 28, 2018, payable on April 25, 2018. This consists of a final regular cash dividend of Pesos 4.478 per share and a special cash dividend of Pesos 3.587 per share. This final cash dividend, in addition to the interim regular dividend of Pesos 4.489 per share declared on August 3, 2017 and paid on September 22, 2017, brings total cash dividends paid from 2017 *CCNI* to Pesos 12.554 or 70% payout. Previously, the Board declared a Pesos 5.0 billion dividend equivalent to Pesos 4.436 per share out of *Meralco*'s retained earnings available for declaration in addition to the regular interim cash dividend of Pesos 4.489 per share mentioned above.

2017 proved to be another strong year for *Meralco* in the commercial, operating and financial fronts. Notwithstanding cooler temperatures during the first four (4) months of the year, consolidated energy sales volumes for 2017 grew by 5% to 42,102 GWh, with *Meralco* breaching the 41,000-mark at 41,528 GWh and Clark Electric Distribution Corporation ("*CEDC*") at 574 GWh. This translates to a 5-year compounded annual growth rate ("*CAGR*") also of 5%. The combined effects of (i) a growing customer base; (ii) positive economic conditions during 2017, with Gross Domestic Product ("*GDP*") growth at 6.7%, moderate inflation at 3.2% and softening of the peso at Pesos 49.93 to US$1 at year-end 2017; and (iii) stable power supply and low power plant outages during the year contributed to this robust energy sales performance. This was underpinned by Customer

Retail and Networks initiatives to accelerate new customer acquisitions and energization, and to minimize distribution system interruption.

Meralco's billed customers continued to grow at a healthy rate of 5%. The year ended with a total of 6.3 million customer accounts for a net additional 288,000 customers to the six (6) million at the end of 2016. The year saw no significant rate issues with the average retail price at Pesos 8.03 per kWh as at December 31, 2017, the second lowest since 2010, albeit higher than in 2016, due to higher fuel prices and depreciation of the peso versus the U.S. dollar, which drove generation charges up and to the higher feed-in-tariff allowance ("*FIT-All*"), which had been granted by the Energy Regulatory Commission ("*ERC*").

Gross revenues grew to Pesos 282.6 billion, 10% more than Pesos 257.2 billion in 2016, as a result of higher volume and pass-through generation charges resulting from rising fuel prices and depreciation of the peso. Electricity revenues, comprising 97% of gross revenues, totaled Pesos 275.2 billion compared with Pesos 249.2 billion in 2016. Pass-through components as a percentage of total electricity revenues was at 78% in 2017, one percentage point higher than in 2016, largely reflecting the increased fuel prices billed by the generating companies. While *Meralco*'s distribution charge was stable at Pesos 1.42 per kWh, distribution revenues increased by 5% in 2017 to Pesos 59.6 billion versus 2016, reflecting the effect of higher volumes sold.

Consolidated Core *EBITDA* amounted to Pesos 34.6 billion, up 2% over Pesos 34.0 billion in 2016, equivalent to a Core *EBITDA* margin of 12% on consolidated revenues, one percentage point lower than in 2016.

CCNI rose by 3% to Pesos 20.2 billion in 2017 over Pesos 19.6 billion in 2016, driven by the 5% increase in energy distributed, higher financing income from funds deployed due to improved yields, and the adjustment of provisions following the continuing resolution of legacy fiscal matters. *CEDC*, a 65%-owned subsidiary of *Meralco*, further contributed close to Pesos 140 million to *CCNI*, due to increased volume of electricity distributed to its 2,146 customers within the Clark Economic Zone. *CEDC* has a franchise granted by the Clark Development Corporation ("*CDC*") to distribute power within its franchise area.

Consolidated capital expenditures ("*CAPEX*") in 2017 amounted to Pesos 12.1 billion, 5% higher compared with the previous year, with the partial approval by the *ERC* of Pesos 24.2 billion out of a total of Pesos 33.1 billion filed by *Meralco* for the 1st and 2nd Regulatory Years ("*RY*s") of the 4th Regulatory Period ("*RP*") in June and July 2016, respectively. *Meralco* has also filed for *CAPEX* of Pesos 18.8 billion for the 3rd *RY* of its 4th *RP* but is awaiting the *ERC* approval following the completion of all public hearings. *CAPEX* requirements filed by *CEDC* totaled Pesos 1.6 billion for the 1st and 2nd *RY*s of its 3rd *RP*. *CEDC* has received an approval from the *ERC* to implement its Pesos 198 million Roxas Substation project, which was energized in September 2017, and is awaiting the *ERC*'s decision on the balance of its *CAPEX* filing.

Cash flows from operations for 2017 reached Pesos 28.4 billion. Free cash flows amounted to Pesos 19.2 billion. Cash and cash equivalents as at December 31, 2017 amounted to Pesos 45.9 billion, excluding placements in available-for-sale ("*AFS*") and held-to-maturity ("*HTM*") instruments, and other cash placements totaling Pesos 45.3 billion, which are classified under other non-current assets and other current assets according to their maturities.

Total interest-bearing debt remains unchanged at Pesos 40.3 billion (including debt of subsidiaries totaling Pesos 1.6 billion) at the end of 2017, of which Pesos 15.5 billion are due to mature within 2018.

Gross Debt to EBITDA stood at 1.17x. *Meralco* maintains a strong balance sheet and liquidity position and remains net debt negative. Total principal debt repayments, customer refunds and financing charges paid amounted to Pesos 7.2 billion in 2017. For the year ended December 31, 2017, total financing expenses amounted to Pesos 1.5 billion.

Among *Meralco*'s non-electric subsidiaries, CIS Bayad Center, Inc. ("*Bayad Center*") and Radius Telecoms, Inc. ("*Radius*") provided meaningful additions to the *CCNI* of the *Company*.

Bayad Center formalized a capital alliance arrangement with a Japanese technology company, Densan System Limited Co., ("*DSK*") in May 2017, which enables technology transfer and partnership in the payment space. During 2017, *Bayad Center* established a multichannel payment platform which allows customers to be served via all available channels and devices, providing *Meralco* customers and the paying public convenience with the availability of more payment options. *Bayad Center* saw bills payment transactions handled grow to over 91 million in 2017 with over 255 billers served consisting of utilities, airlines, government, and financial institutions, among others. Today, it has close to 500 co-owned and branded stores, 571 Automated Payment Machines (from 254 in 2016) and over 1,000 retail machines for sari-sari stores, online payment services, spot billing and ambulant tellering within *Bayad Center* and the biller offices. *Bayad Center* has over 10,000 corporate partners. Consolidated revenues of *Bayad Center* in 2017 broke the Pesos 1.5 billion-mark or a 16% increase over 2016. Contribution to *CCNI* of *Meralco* was at Pesos 260.1 million.

Radius Telecoms, Inc. ("*Radius*") whose fiber-based data connectivity, internet and managed telecommunications services are offered to enterprise-, channel-, and carrier-clients grew significantly in 2017. Revenues reached Pesos 1.1 billion, 20% higher than in 2016, mainly due to an expanded customer base with the completed bandwidth upgrade and installation of additional fiber circuits. *Radius* counts among its customers, telecommunications companies across the region, local financial institutions and universities. Net income grew to Pesos 394.1 million for a net income margin of 37% in 2017.

"Electricity growth continues to be a barometer of the economy's expansion. In 2017, consumption on the demand side, and services on the supply side, remained to be the mainstay of the economy, contributing to the 6.7% *GDP* growth. We are well positioned to support and enable the Government's "Build, Build, Build" anchor economic program, in addition to Government's anticipated approval of unsolicited proposals covering rehabilitation, maintenance and operations of the country's infrastructure facilities such as major airports, light and heavy rail. These Government-led, private sector-driven investments will fuel consumption spending and further propel the country towards a higher economic growth trajectory in 2018 and beyond," said **Manuel V. Pangilinan,** Chairman of *Meralco*.

Strong Sales Growth despite Industry Challenges

While continuing energy efficiency may help temper power requirements, new investment-led demand for energy may well, in fact, put a strain on existing power plants. It is imperative that the entire energy industry with enabling support of the *ERC*, Department of Energy ("*DOE*"), Department of Environment and Natural Resources ("*DENR*") and Congress ensure that the much needed new power generation capacities are well in place to meet the country's growing power requirements.

The expansion of the Philippine economy in 2017 is very well reflected in the economic and business activities within the *Meralco* franchise area where over 50% of the Philippine *GDP* is generated. For the first time in the *Company*'s 115-year history, consolidated sales volumes of electricity distributed consistently broke the 3,000 GWh level every month, registering a high of 3,835 GWh in June and a low of 3,039 GWh in March 2017. The robust growth is largely due to the positive economic and business environment, stable power supply, and the sustained expansion in *Meralco*'s customer base. The phenomenon of synchronized economic growth in most major and emerging economies globally, attributable to years of recovery and growth-stimulating monetary policy, provide additional bandwidth to sustain the strength of the economy. The recently enacted Tax Reform for Acceleration and Inclusion ("*TRAIN*") Law, while imposing additional value-added tax and excise taxes on the energy industry is expected to contribute about a quarter of the amount needed for the Government's "Build, Build, Build" program, which in turn will enable further economic expansion and higher energy demand.

New records were set in 2017 as *Meralco* continued to challenge its performance. Consolidated energy sales volume reached 42,102 GWh, growing by 1,960 GWh or close to 5%, albeit lower than the 3,018 GWh-increase in 2016, a high base year. The total customer base grew the most in terms of count since 2000, ending at 6.3 million in 2017.

Commercial volumes, which accounted for 39% of total sales, added 730 GWh in 2017, with real estate, hotels and restaurants, and retail trade volumes growing at 8%, 11% and 5%, respectively. The largest demand for office space within the franchise area remains to be from the Business Process Outsourcing ("*BPO*") segment, which has 48% of total space demand, albeit much lower than the 80% in 2016. The Philippine Online Gaming Operations ("*POGO*") is a fast emerging market with a 5% to 7% growth in demand for building spaces in 2017. *BPO*s and *POGO*s supported the quick-service restaurant ("*QSR*s") business. Additionally, new township developments and multinational technology services contributed to the growth. Consumer confidence was also reflected in the arrival statistics of foreign travelers, notwithstanding a few concerns on safety and security in selected areas. In 2017, a total of 6.5 million tourist arrivals were recorded, a significant number of which was registered within the Entertainment City. Airline budget fares, the growing number of boutique hotels and condominium units joining the transient hotel networks like AirBnB, provided travelers with more affordable options. Moving forward though, there could be some potential slowdown in the *BPO* sector due to automation and technology disruption, regulatory and fiscal issues, adequacy of qualified human capital and increasing competition.

Residential volumes continued to grow at 5%, or an additional 615 GWh, buoyed by (i) almost 275 thousand net new accounts contributing 134 GWh; (ii) ramp-up of accounts energized in 2016, which contributed 269 GWh; and (iii) 212 GWh of organic sales volumes. The share of Residential was at 31% of total sales, same as in 2016. Despite moderate increases in inflation during 2017, consumer confidence and spending remained high throughout the year.

Industrial sales volumes in 2017 were 29% of the total sales, with more than 5% growth driven by the semiconductor, food and beverage, and basic metals industries, which were up by 6%, 4% and 19%, respectively. The electronics industry continues to be the country's top exporter, accounting for around 50% of Philippine export volumes. Highly competitive electricity supply cost and the high reliability of the *Meralco* network have turned the semiconductor companies away from self-generation to increasing grid reliance. Continued development of high rise facilities and ongoing housing and reconstruction activities across horizontal developments have pushed up the demand for flat products, semi-finished steel products and billets, and consequently, the demand for electricity from the basic metals sector.

Equally Strong Customer Focus and Operations amidst "Disruptions"

The *Company*'s continuing engagement with customers and the focus on facilitating customer applications and accelerating energization have enabled *Meralco* to grow its customer base. In 2017, *Meralco* began development of a Customer Experience Engine ("*CXE*"), a digital end-to-end Customer Relationship Management ("*CRM*") portal, with the Ordinary Service Application ("*I-JOIN*"), Internal Knowledge-based inquiry ("*I-ASK*"), and Document Management System ("*DMS*") processes going online and live during the year. The payment, inquiry and after-service platforms will be launched in 2018.

Generation charge in 2017, although averaging higher at Pesos 4.40 per kWh compared with Pesos 3.86 per kWh in 2016, remained to be the second lowest since 2010 and at an affordable level for all customer classes. *Meralco* had tightly negotiated its Power Supply Agreements ("*PSA*s") with several coal-fired and natural gas-fired power generators in 2012-13, with the phase-out of the Transition Supply Contracts ("*TSC*s") with the National Power Corporation ("*NPC*"). Average retail price for the year for the captive customers was at Pesos 8.03 per kWh, Peso 0.53 per kWh higher than in 2016, largely due to the depreciation of the peso and higher fuel costs. Coal price was at an average of US$ 87.41 per MT (US$ 63.10 per MT in 2016) while natural gas, which is indexed against crude oil was at US$ 7.07 per GJ (US$ 6.34 per GJ in 2016). These higher dollar prices were exacerbated by the depreciation of the peso during the year. Pesos 4.72 per kWh or 59%, of the average retail price represented generation charge (including system loss ("*SL*") charge). Transmission charge was at Peso 0.78 per kWh, distribution charge at Pesos 1.42 per kWh and, taxes, subsidies, universal charge and *FIT-All* at Pesos 1.11 per kWh, accounting for 10%, 18% and 13% of the average retail price, respectively.

In 2017, consolidated net system input ("*NSI*") was at 44,639 GWh, 4% higher than in 2016, with *Meralco* peak demand reaching 6,973 MW, 3% higher than the registered peak of 6,748 in 2016, within the franchise area. For *CEDC*, peak demand grew to 96 MW in 2017 compared with 92 MW in 2016. The Luzon grid peak demand in 2017 broke the 10,000-level at 10,054 MW, 3% higher than in 2016. The 4% increase in *NSI* is less than the almost

5% increase in sales volume, largely due to further improvement in system loss performance.

Meralco continued to execute on the partial approval of *CAPEX* by the *ERC* for the 1st and 2nd *RYs* of the 4th *RP*, which allowed the addition of two (2) new substations, expansion of three (3) existing substations and construction of an additional 115 kV line, among others. More specifically, these completed *CAPEX* projects include the new Lucena and Pulilan Substations, the additional capacity in San Miguel, Balintawak and Veinte Reales Substations, and the additional 115 kV line from Paco Substation. In addition, three (3) other significant projects were completed. These were the (i) replacement of the Malibay power transformer bank no. 1; (ii) the uprating of the115 kV power circuit breakers at Balintawak; and (iii) the replacement of the Urdaneta power transformer bank no. 3, which was filed as an emergency *CAPEX* with the *ERC*.

Compounding the challenges faced by *Meralco*'s Networks team which include *CAPEX* executions for (a) system maintenance; (b) load and customer growth; (c) network and customer service upgrading; (d) weather hardening and resiliency; (e) safety and security; and (f) automation, are the massive poles and facilities relocation work required by the Department of Public Works and Highways ("*DPWH*") for road widening, Public Private Participation ("*PPP*") projects and in due course the "Build, Build, Build" projects. In 2017, a total of 1,771 electric poles affected by *PPP* and *DPWH* projects were relocated.

To enable certain segments of the residential customer base to manage their consumption, *Meralco* launched prepaid metering in February 2014. As at December 31, 2017, cumulative meters installed within the franchise area was 89,717, of which 48,735 were activated during the year. Average kWh per unit ("*AkPU*") was at 136 kWh demonstrating the segment such *CAPEX* was covering. The ramp-up in the deployment of prepaid meters is being calibrated with the 4th *RP CAPEX* approvals of the *ERC* and with the sourcing of such meters to ensure *Meralco*'s stringent technical specifications at acceptable pricing and terms are met.

"While needing to engage continuously with our regulators, policy makers and legislators in order to assure delivering on our mandate of adequate, reliable and least cost or affordable 24x7 power to all customers in our franchise area, *Meralco* remains steadfast with quality customer service. In 2017, we built on a managed level of *CAPEX* approvals, albeit partial, while continuing to provide best in class services to our over 6 million customers. Even with occasional declines in operating metrics as a result of well-planned and coordinated service interruptions to handle the Government- or *PPP* Project-required facilities relocation works, and unplanned but minimized service interruptions due to contact of debris, billboards or trees with our wires, we have repeatedly challenged our teams to beat our prior year operating performance. These have already been better than the last reset. This reaffirms our efficiency as a distribution utility.

"We remain alert and responsive to market and environmental changes, and customer wants and needs. This involves increasingly disrupting ourselves to respond to these changes, including active Renewable Energy *PSA*-contracting, utility scale and rooftop solar installations and increasing electric vehicle adoption. Whether through traditional or disruptive technology, our customers come first", said **Oscar S. Reyes,** President and Chief Executive Officer.

<u>Retail Competition and Open Access' ("*RCOA*") Continuing Challenges</u>

Four and a half years since the commencement of *RCOA*, there are now (as at December 31, 2017) 55 *RES* players to provide electricity to voluntary contestable customers with demand of at least 750 kW in Luzon and Visayas. As at December 31, 2017, there were a total of 1,675 qualified contestable customers in Luzon and Visayas, of which 947 with total demand of 2,397 MW have opted for contestability and are being served by 26 suppliers.

Meralco's local Retail Electricity Supply ("*RES*") unit, *MPower* and affiliate *RES*, Vantage Energy Solutions and Management, Inc. ("*Vantage*"), served 294 customers with aggregate sales of 5,120 GWh in 2017. Certain regulatory, policy and industry issues remain misaligned and are challenged administratively or judicially. However, the *RCOA* market continues to be adequately served and remains intensely price-competitive with corresponding benefit to contestable consumers.

Power Generation: Urgent Need for Regulatory Action

A number of *PSA*s, some involving addition of new, highly fuel-efficient and reliable, and highly environmentally-responsive power generating plants were filed with the *ERC*, by distribution utilities ("*DU*s") and electric cooperatives ("*EC*s") jointly with various power generators as early as April 2016. These *PSA*s are required to be in place by their target commercial operations date ("*COD*") to ensure adequate, efficient and reliable power supply and to thereby avert the risk of power outages that will be damaging to the economy, businesses and industries and households. Their approval with urgency is needed, even as the passage of time since their filing in 2016 has already caused significant increases in the Engineering, Procurement and Construction ("*EPC*") costs and financing costs of these new power plants," said **Mr. Reyes**.

MERALCO PowerGen Corporation ("*MGen*") and its partners, as well as other industry participants, remain hopeful that amidst all the challenges, these key *PSA*s will be acted upon in a timely manner in support of the country's and consumers' demand requirements commencing next year and in the succeeding three (3) years and onwards. Quite a number of existing baseload and mid-merit plants are vintage 2000 or older, with progressively degrading capacity and reliability.

San Buenaventura Power Limited ("SBPL")

Construction of *SBPL*, the country's first supercritical 455 MW (net), coal-fired power plant in Mauban, Quezon is on its 27th month and *COD* is expected to be by the middle of 2019.

SBPL is a joint venture of *MGen* with New Growth B.V., a subsidiary of Electricity Generating Company Limited of Thailand ("*EGCO*").

Atimonan One Energy, Inc. ("*A1E*")

A1E which is located in Atimonan, Quezon will be the country's first ultra-supercritical coal-fired power plant with a capacity of 2 x 600 MW. The *PSA* with *Meralco* was submitted to the *ERC* in April 2016. Public hearings, Technical Working Group ("*TWG*") review and assessment of the PSA and the tariff, and other regulatory processes are essentially "complete". *ERC* approval is awaited.

The project, which is classified as a Committed Project by the *DOE* has secured *DENR*'s Environmental Compliance Certificate ("*ECC*"), and has been issued the Certificate of Registration as a Preferred Pioneer Enterprise by the Board of Investments ("*BOI*"). It is needed by the country to ensure sufficient capacity for the future.

Evaluation of the *EPC* bids from contractors is also essentially concluded. A Mandate Letter for up to Pesos 107.5 billion from a group of seven (7) banks has been signed. The *A1E* project is "shovel-ready" and awaits *ERC* approval to enable it to reach target *COD* by 2022.

Connection Agreement with the National Grid Corporation of the Philippines ("*NGCP*") was executed in January 2017. The 23-kilometer transmission line from the Atimonan power plant site to the new Pagbilao Substation was approved by the *ERC* in February 2017. A Memorandum of Understanding for the construction of the transmission line has been signed. Construction of a 1.6-kilometer access road to the project site has been completed.

MGen has recently established a joint venture with the Electricity Supply Board of Ireland ("*ESBI*"), a leading third party service provider in operations and maintenance ("*O&M*") services worldwide, that will allow for a transfer of skills and expertise to *MGen* over the term of the joint venture.

Redondo Peninsula Energy Corporation ("RP Energy")

RP Energy is a phased 2 x 300 MW circulating fluidized bed ("*CFB*") coal-fired power plant in Subic Zambales. The 225 MW PSA with *Meralco* for Phase 1 was submitted to the

ERC for approval in April 2016. Public hearings, *TWG* review and assessment of the *PSA* and the tariff, and other processes were essentially completed at the end of April 2017. *ERC* approval is still being awaited. A separate *PSA* for the balance of 75 MW had also been signed with Aboitiz Energy Solutions, Inc. on April 21, 2016.

RP Energy is classified as a Committed Project by the *DOE* with an *ECC* from the *DENR*, and has been approved and registered by the *BOI* as a preferred non-pioneer enterprise. *RP Energy* is committed to the execution of the project.

Project costs continue to increase while awaiting *ERC* approval due to *EPC* cost escalation, a weaker peso to US dollar rate, and higher interest rates. *RP Energy* is exploring ways to manage these increasing *EPC* and financing costs with the aim of preserving the project economics.

RP Energy is a joint venture among *MGen*, Therma Power, Inc. of Aboitiz Power Corporation and Taiwan Cogeneration International Corporation – Philippine Branch.

St. Raphael Power Generation Corporation ("*St. Raphael*")

St. Raphael is a 2 x 350 MW pulverized coal-fired power plant in Calaca, Batangas. A *PSA* was signed by *St. Raphael* and *Meralco* in April 2016 for 400 MW of the capacity of the plant. The *PSA* is awaiting approval by the *ERC*.

An *ECC* for the project was secured in September 2015. A grid impact study for the proposed transmission line interconnection was approved by *NGCP* in February 2017. Development activities for the project are ongoing.

MGen and Semirara Mining and Power Corporation ("*Semirara*") entered into a Joint Venture Agreement in 2016 for a 50:50 stake in the planned 2 x 350 MW coal power plant.

Conclusion and Outlook

"Technology and digital transformation are re-shaping every industry, and ours is no exception. We have made a conscious decision to embrace these revolutionary changes and disrupt ourselves to ensure that our customers are served best and can enjoy the benefits of the latest in relevant technology.

"In electricity distribution, this means smart meters, smart grid, smart cities, e-vehicles and charging infrastructure. We aim to increasingly serve customers digitally, on-demand and at a touch of the finger.

"In power generation, this means increasing Renewable Energy (solar, wind, run-of-river, hydro, biomass and battery storage as this continues to mature), and the latest highly efficient and environmentally-responsive baseload and mid-merit coal and gas-fired plants.

"As always, even as we look at 2018 and the coming years with optimism buoyed by the Government's "Build, Build, Build" strategy, we remain circumspect about prospects we and other players face. We will accordingly continue to be at the forefront of development to support the requirements of business and help the country achieve its growth goals while keeping to today's battlecry – adhere to Environmental, Social and Governance standard," concluded **Mr. Pangilinan**.

	MANILA ELECTRIC COMPANY Consolidated Financial Highlights (in Million Pesos, except per share data)		
	For the Year Ended December 31		% Change
	2017	2016	
REVENUES			
Electricity	275,172	249,206	10
Non-electricity	7,384	7,975	(7)
	282,556	257,181	10
COSTS AND EXPENSES	256,178	231,473	11
OTHER INCOME – net	1,484	985	51
INCOME BEFORE INCOME TAX	27,862	26,693	4
PROVISION FOR INCOME TAX	7,363	7,353	-
NET INCOME	20,499	19,340	6
NET INCOME – AS REPORTED	20,384	19,176	6
CORE NET INCOME	20,213	19,583	3
EARNINGS PER SHARE			
On Reported Net Income			
Basic	18.09	17.01	6
Diluted	18.09	17.01	6
On Core Net Income [1]			
Basic	17.93	17.37	3
Diluted	17.93	17.37	3

[1] Reported net income, adjusted to exclude the effect of foreign exchange gains or losses, impairment charges, mark-to-market adjustments, gain on disposal of investment and other one-time, exceptional transactions.

This press release may contain some statements, which constitute "forward-looking statements" that are subject to a number of risks and uncertainties that may affect the business and results of operations of *Meralco*. Although the management of *Meralco* believes that expectations reflected in any of the forward-looking statements are reasonable, it cannot guarantee any future performance, action or events.

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About MERALCO

Meralco is the largest electric power distribution company and the largest private sector utility in the Philippines. Through a Consolidated Certificate of Public Convenience and Necessity, *Meralco* provides electric service within its franchise coverage. Its subsidiaries are engaged in engineering and consulting, construction, bills payments and other electricity-related services. A subsidiary is in the process of developing the Company's power generation portfolio.

Meralco is listed on the Philippine Stock Exchange (PSE: MER). *Meralco* has the largest market capitalization among the Philippine listed utility and power sector companies.

Further information is available at www.meralco.com.ph.