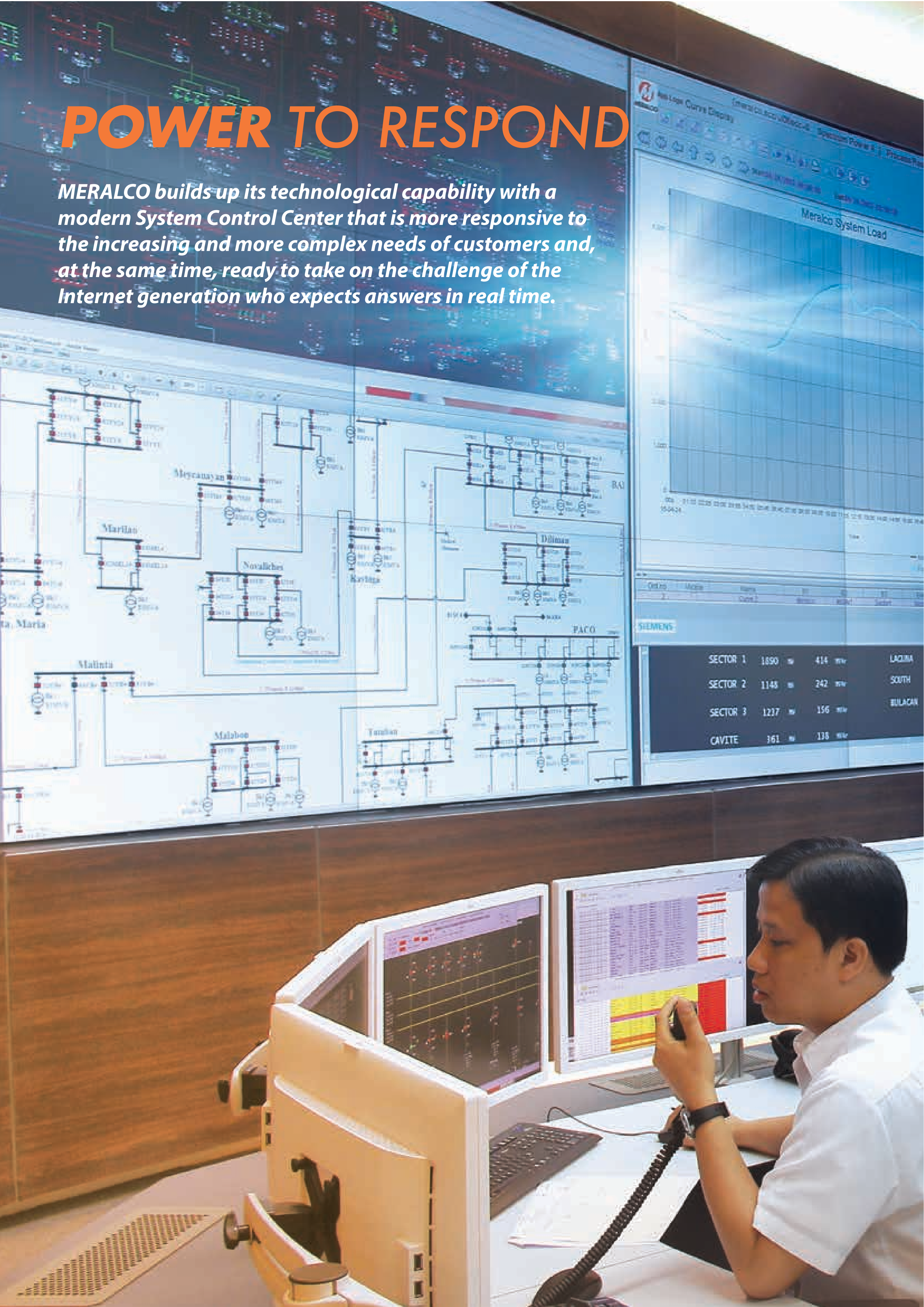
POWER TO ALL

2014 MERALCO ANNUAL REPORT

POWER TO RESPOND

MERALCO builds up its technological capability with a modern System Control Center that is more responsive to the increasing and more complex needs of customers and, at the same time, ready to take on the challenge of the Internet generation who expects answers in real time.




SYSTEM TIME
11:45:32
FREQUENCY
59.970
STANDARD TIME
11:44:24
Meralco System Load

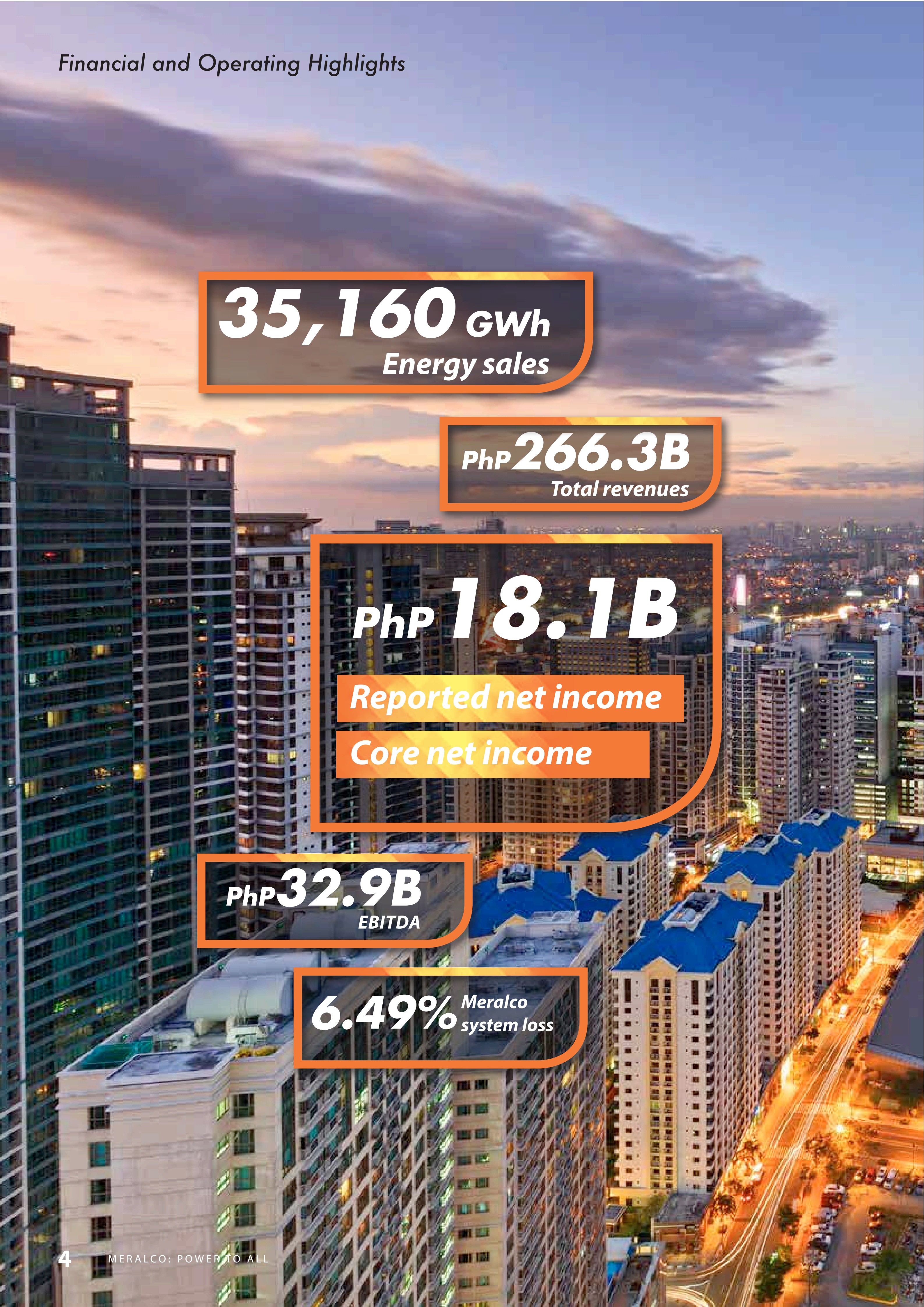
Contents

Who we are

- Largest electric distribution utility in the Philippines
- 112 years in service
- Powers 5.6 million customers
- Covers over 9,337 km^2
- Market capitalization of PhP288.5 billion (US$6.5 billion) as at year-end 2014
- Exceptional sales, operations and financial performance
- Committed to being the total energy solutions provider of choice

About the Cover

Meralco prepares for the future by embarking on the transformation of its traditional power distribution network, customer facing and support services facilities to a highly customer-responsive and efficient structure enabling innovative solutions in step with the fast changing times. Innovations like the smart grid, prepaid electricity and e-vehicle charging give consumers more options and control on how they consume electricity. It is all about giving the new generation better alternatives on how they use power at their fingertips.



35,160 GWh
Energy sales

PhP266.3B
Total revenues

PhP18.1B
Reported net income
Core net income

PhP32.9B
EBITDA

6.49% Meralco system loss

Comparative Highlights

	2010	2011	2012	2013	2014
FINANCIAL INFORMATION					
(In Million Pesos except per Share Data and Percentages)					
Revenues					
Sale of electricity	239,077	253,989	282,991	294,849	**261,740**
Sale of other services	1,856	2,819	2,279	3,787	**4,596**
Total	240,933	256,808	285,270	298,636	**266,336**
Costs and Expenses					
Purchased power	200,916	205,674	232,068	238,198	**203,242**
Operating	17,694	19,726	19,292	19,421	**20,187**
Depreciation and amortization	5,911	5,504	5,576	6,118	**6,093**
Interest and other financial charges (income) - net	(1,044)	(819)	(1,041)	307	**669**
Others	4,138	7,977	7,353	10,265	**9,677**
Total	227,615	238,062	263,248	274,309	**239,868**
Net income attributable to equity holders of the parent	9,685	13,260	17,117	17,211	**18,053**
Core net income	12,155	14,887	16,265	17,023	**18,128**
EBITDA	18,841	24,649	27,690	30,682	**32,927**
Utility plant and others - net	103,250	105,510	109,312	112,586	**120,830**
Interest-bearing long-term financial liabilities	21,072	24,376	22,826	31,777	**29,642**
Notes payable	149	67	1,787	1,814	**400**
Equity attributable to equity holders of the parent	58,969	62,156	67,902	75,162	**79,154**
Capital expenditures	9,053	8,748	10,321	10,187	**12,582**
Market price per share at end of year	228.00	247.20	260.60	251.00	**256.00**
Core earnings per share	10.78	13.21	14.43	15.10	**16.08**
Cash dividends declared per common share	6.95	7.80	8.10	10.20	**12.36**
Market capitalization	257,018	278,625	293,722	282,902	**288,537**
Shareholder return	14.6%	11.8%	8.7%	0.2%	**6.9%**

	2010	2011	2012	2013	2014
OPERATING INFORMATION					
Number of customers (In Thousands)					
Residential	4,412	4,580	4,735	4,901	**5,097**
Commercial	421	433	440	453	**464**
Industrial	10	10	10	10	**10**
Streetlights	4	4	4	4	**4**
Total	4,847	5,027	5,189	5,368	**5,575**
Energy sales (in GWh)					
Residential	9,540	9,334	9,779	10,235	**10,364**
Commercial	11,830	12,027	12,749	13,302	**13,814**
Industrial	8,734	9,080	10,111	10,417	**10,850**
Streetlights	143	141	132	130	**132**
Total	30,247	30,592	32,771	34,084	**35,160**
System Loss (in %)					
Meralco	7.94	7.35	7.04	6.92	**6.49**
CEDC	3.81	3.96	3.75	4.33	**4.37**

Message from the Chairman and President and Chief Executive Officer

To our fellow shareholders,

Amidst changes and challenges persistently evolving in business and industry, we are pleased to report that Meralco ended 2014 with outstanding performance in sales, operational and financial results to outperform those of previous years.

As we continue to strengthen our mandate to serve, we remain fully cognizant of the various challenges we face as a Company. This demands our unrelenting focus on outstanding service delivery, operational excellence and smart spend on capital and operating expenditures. In so doing, we remain able to deliver on our commitment to sustain our momentum of growth.

Improved showing by major subsidiaries and affiliates, buoyed by vibrant commercial, industrial and residential sectors helped boost the year's performance. These factors played in the middle of a highly supportive backdrop of healthy consumer and investor confidence in the country.

2014 Consolidated Core Net Income rose to PhP18.1 billion, over 6% higher compared with the PhP17.0 billion in 2013. This included the contribution from two electricity-related engagements, one as technical partner with the Integrated Energy Distribution and Marketing (IEDM) in Nigeria where Meralco provides management and technical services to two distribution utilities – Ibadan Electricity Distribution Company and Yola Electricity Distribution Company. The other contribution is from Meralco's distribution management services in the Cavite Economic Zone (CEZ) under a 25-year concession.

Consolidated Reported Net Income at the end of 2014 was PhP18.1 billion, rising 5% over 2013. Consolidated Core Earnings per Share for the year was at PhP16.08, while Reported Earnings per Share stood at PhP16.02.

> *Our sights are on the transformative power of innovation and technology to better serve the customers of today and excite the customers of the future.*

Consolidated Sales Volume grew by 3% at 35,160 GWh, largely a result of the combined commercial and industrial volumes of Meralco and Clark Electric Distribution Corporation (CEDC), which grew by 4%. Similarly, a 4% rise in number of customers to almost 5.6 million prompted the growth. However, cooler temperature in the first four months of the year, typhoons and thinning power supply reserves dampened consolidated energy sales.

Electricity revenues at PhP261.7 billion remained the biggest component of Consolidated Revenues at 98%. The lower consolidated electricity revenues were due to two factors. These were the loss of the pass-through supply revenue component on the electricity delivered to contestable customers, who shifted their power sourcing to other electricity suppliers under Retail Competition and Open Access (RCOA), and the PhP9.3 billion downward adjustment in 2014 in the Wholesale Electricity Spot Market (WESM) bill for the December 2013 supply as a result of a price recalculation directed by the Energy Regulatory Commission (ERC).

Our Consolidated Core EBITDA ended the year at PhP33.1 billion which was equivalent to a Core EBITDA margin of 12% on consolidated revenues.

Total dividends paid out of core earnings for the year amounted to PhP12.87 per share, or a payout of 80% of 2014 core earnings per share. The amount consisted of regular dividends of PhP8.04 per share or 50% of core earnings per share, and a special dividend of PhP4.83 a share, representing 30% of core earnings per share.

Message from the Chairman and President and Chief Executive Officer

> **Our corporate mission to share the Meralco brand of service beyond the franchise marked milestones in 2014.**

Strengthening the Core Power Distribution Business

Alongside the steady growth in our customer base and correspondingly, the demand for quality and reliable electricity, we continued to invest heavily in the electric distribution network, customer facing and support services infrastructure. Consolidated capital expenditures (CAPEX) increased 24% in 2014 at PhP12.6 billion, from the amount spent for the same purpose in 2013.

Our corporate mission to share the Meralco brand of service beyond the franchise marked milestones in 2014. In May, the Company signed a 25-year Lease Concession Agreement with the Philippine Economic Zone Authority (PEZA) for the CEZ power distribution system in Rosario, Cavite. Situated in the southern part of our franchise, CEZ is the biggest economic zone in the Philippines and covers 332 hectares of prime distribution area with aggregate annual consumption of 478 GWh. In November, the PEZA approved Meralco's application for registration as an Economic Zone Utilities Enterprise within PEZA-CEZ.

In a related development, Meralco likewise went into a partnership with Comstech Integration Alliance, Inc. (Comstech) to provide management and operational assistance to Pampanga Electric Cooperative II (PELCO II). PELCO II, which operates under a franchise granted by the National Electrification Administration (NEA), covers seven municipalities with a total demand of 76 MW in the province of Pampanga.

Eighteen months into RCOA, a good number of contestable customers have still remained as captive customers being served by the distribution utility (DU). The Meralco Retail Electricity Supplier (RES) unit, MPower has contracted 207 Contestable Customers as of December 25, 2014.

Building a Robust Power Supply

We carried on with building our power generation capabilities with our subsidiary, Meralco PowerGen Corporation (MGen), continuing to develop a portfolio of highly reliable and fuel-efficient power plants in alliance with partners of proven track record. This to fulfill our aim of being an integral part of the solution to the growing concern of power supply inadequacy, and to ensure Meralco's ability to meet our customers' growing requirements for reliable quality power supply at the most reasonable cost.

A major challenge unfolded in the second half of 2014 when the Department of Energy (DoE) gave notice of an impending power crisis in the summer of 2015. Directed towards both government and the private sector, the forewarning considered the already thinning power supply reserves due to sustained growth in peak demand, aggravated by the 30-day shutdown of the Malampaya natural gas facility, the scheduled maintenance shutdown of certain power plants and forced plant outages.

Providing a supply safety net during this critical period is the Interruptible Load Program (ILP), which calls on business customers with de-loading generating capacity of 1 MW or higher to run their own generating units when power reserves hit red alert levels, instead of drawing power from the grid. Meralco proactively worked with government and the private sector to ensure the program's success. Meralco and the Retail Electricity Supplier Association (RESA), with the full support of the DoE, the ERC and the Committee of Energy of both Houses of Congress were successful in signing up 617 MW of self-generating capacity of 223 participating companies and government agencies.

But there remains the imperative of ensuring power supply adequacy for the Meralco franchise area. Power Supply Agreements (PSAs) were inked to meet our long-term requirements while Interim Power Supply Agreements (IPSAs) were sealed to further augment customer needs during periods of high demand, in particular during the warm summer months between March and June.

Strategic and effective communication remains to be a major driver for Meralco. The Company's engagement in multi-platform media enabled proper understanding of issues and appreciation of different customer service programs and offerings. Our corporate communications initiatives resulted in an all-time high Public Relations (PR) Value as measured by a third party. Conscious efforts to inform our various stakeholders of corporate developments and value-adding customer services helped gain favorable responses as the year progressed.

Delivering on Responsible Corporate Citizenship

Facing one of its most challenging years in 2014, the One Meralco Foundation (OMF), our corporate social responsibility arm, carried on to fulfill its long-term commitment to help drive economic growth and improve the lives of Filipinos.

During the year, OMF reached over 39,122 families through many social development initiatives. We believe that energy is important to help communities rise above poverty. Energy enables productivity and commerce in communities within and beyond our franchise, including areas that are hardest to reach. OMF has energized island schools, rural health clinics and far-off agricultural centers. It actively collaborates with other organizations and builds on partnerships to extend our reach.

We are happy to note that around 2,552 of our employees volunteered in the OMF's various programs. Driven by an innate desire to be of service to the community, our volunteers participated in programs such as school electrical safety assessments, sports programs, tree planting activities, coastal cleanup projects, repacking of relief goods and other outreach activities.

We dedicated a special part of this Report to responsible corporate citizenship to underscore the value of business as an important participant in the upliftment of lives and

"We believe that energy is important to help communities rise above poverty. Energy enables productivity and commerce in communities within and beyond our franchise, including areas that are hardest to reach."

communities. We hope that through such efforts, we as individuals and as a Company are able to do our share in empowering Filipinos to enjoy a brighter future.

Better Opportunities Lie Ahead

We have seen stronger interest and confidence in the Philippines among local and global investors. This provides an ideal setting for sustained growth and continued resurgence of domestic and business activities. But our future will not be without challenges, and risks which are inherent in our respective businesses including, in our case, potential volatilities in the power supply chain.

We need to be ahead of the curve and anticipate the fast-evolving needs and requirements of our customers. People are increasingly being empowered, with the internet a vital part of the core. We, therefore, cannot remain traditional or maintain the status quo.

Our sights are on the transformative power of innovation and technology to better serve the customers of today and excite the customers of the future. We have recently launched the Meralco Power Lab, a multi-functional facility which helps empower consumers to spend smartly for power through a well-informed selection of energy efficient appliances, devices and practices. We have successfully piloted prepaid electricity service, *Kuryente Load*, in a select part of our franchise area. We have ventured into the electric vehicle space through pilot EV charging stations. Succeeding pages of this Report give more details.

We move forward on these, and on many more, endeavors. You will be part of the exciting journey ahead.

To end, we would like to thank the members of the Board of Directors who continue to be supportive and share our vision of a bright and empowered future for the country and our fellow Filipinos, our employees who are driven to outperform with passion and dedication, and our customers whom we are privileged to serve and who reward us with their trust and patronage.

MANUEL V. PANGILINAN
Chairman

OSCAR S. REYES
President and Chief Executive Officer

6.1%
Full-year GDP growth

Largest growth sectors per annum

7.5 % Industry

6.0 % Services

PhP 44.39
Average rate against the U.S. Dollar

Looking back: Philippine economy continues to outperform

The country's gross domestic product (GDP) grew by 6.1% in 2014, recording 12 consecutive quarters of GDP growth above 5% and remains one of the fastest-growing economies in Southeast Asia.

Economic growth in 2014 was driven by strong domestic and foreign direct investment, which surpassed government targets, alongside consistent growth in remittances and business process outsourcing revenues and expansion in the real estate, and certain manufacturing sectors.

Amidst challenges posed by various natural calamities and a slowdown in government infrastructure spending, the industry and services sectors remained robust, expanding by 7.5% and 6.0%, respectively.

- The growth of the industry sector was driven by increased manufacturing output in electronics; food and beverage; basic metals and rubber and plastic products.
- Meanwhile, top contributors to the growth of the service sector were trade and real estate activities.

HARNESSING THE **POWER** OF SERVICE

We continue to pursue unparalleled service anchored on efficiency of operations and initiatives, aiming to reach and serve more.

Energy Sales and Customer Count: Reaching new highs

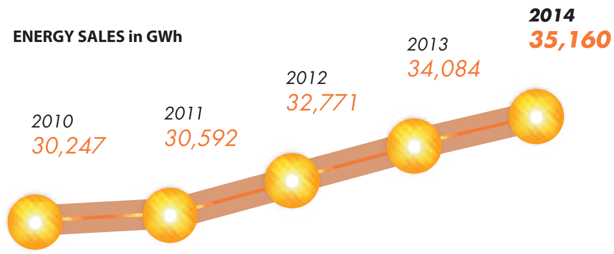
Consolidated energy sales, inclusive of Clark Electric Distribution Corporation (CEDC), went up 3% from 34,084 GWh in 2013 to reach a new high of 35,160 GWh in 2014.

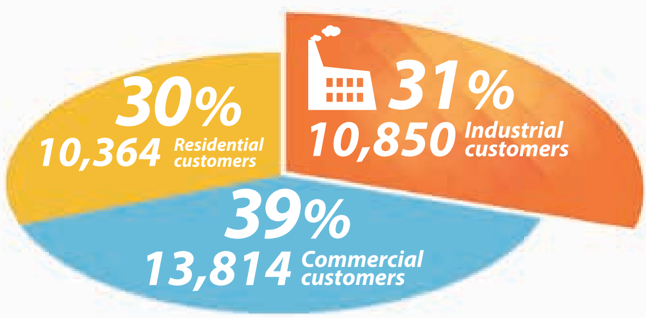
Out of the total, 39% came from commercial customers, 31% from industrial customers and 30% from residential customers.

Growth was driven mainly by the Industry and Services Sectors, as manufacturing output and construction activities for residential and Business Process Outsourcing (BPO) projects continued to expand, supported by consistent performance of retail trade.

- Industrial energy sales increased by 4% from 10,417 GWh in 2013 to 10,850 GWh in 2014. Aside from the increase in manufacturing output of electronic products, firms engaged in the production of food and beverages, basic metals, and rubber and plastics showed significant growth in response to high local and foreign demand.
- Commercial energy sales also increased by 4% from

ENERGY SALES in GWh





Note: Flat streetlights account for less than 1% or 132 GWh of Total Energy Sales

Meralco successfully withstood several challenges during the year

Power interruptions due to Typhoons Glenda, Mario and Ruby affected as many as 4.6 million customers and resulted in an estimated 287 GWh of unrealized energy sales.

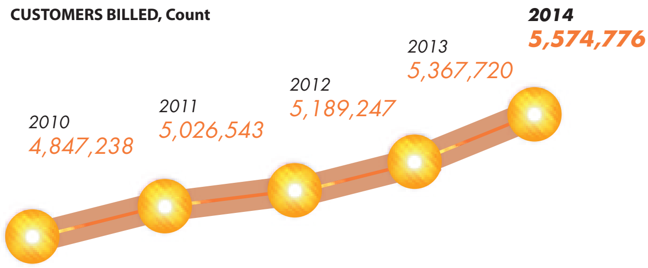
Increased incidences of forced outages (83) and scheduled maintenance shutdowns (52) of power plants in the Luzon Grid increased, resulting in frequent declarations of Yellow (due to inadequate reserves) and Red Alert (because of generation deficiency).

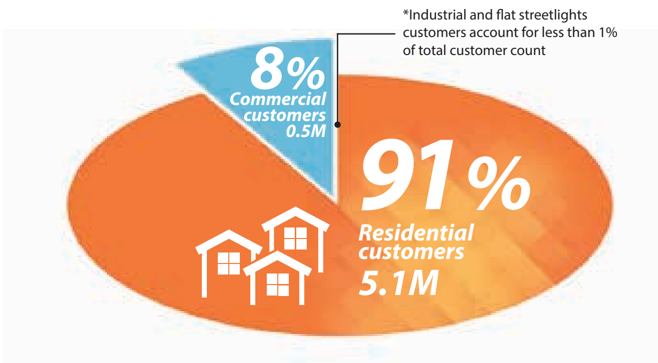
13,302 GWh in 2013 to 13,814 GWh in 2014. The consistent flow of remittances from overseas Filipino workers (OFW) and the expansion of BPO activities supported continued growth in consumer spending and the retail trade subsector. The growth of BPOs, likewise, encouraged real estate firms to develop more office space.

- Residential energy sales grew by a relatively modest 1% from 10,235 GWh to 10,364 GWh. As temperatures dipped to a 10-year low during the first quarter of 2014, growth of household electricity consumption was muted, before recovering during the rest of the year.

Consolidated customer base expanded by 4% in 2014 to 5,574,776 from 5,367,720 in 2013.

- Residential customers at nearly 5.1 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





Operating Performance: Attaining New Standards

The Company outperformed all eight S-Factor and GSL standards set by the Energy Regulatory Commission (ERC), six (6) of which exceeded previous years' performance.

System loss, system reliability and availability, power and quality and time-to-process applications reached record levels. System performance gains translated into rewards and savings under the Performance Incentive Scheme (PIS) of the Performance-Based Regulation (PBR).

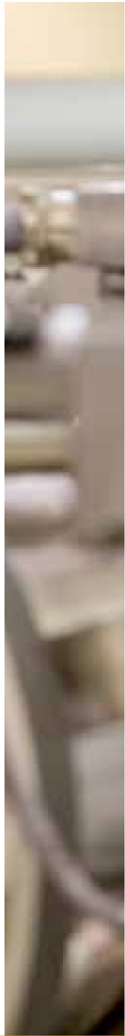
Meralco system loss was at an all-time low of 6.49% in 2014, 2.01 percentage points lower than the 8.5% system loss cap set by the ERC and 0.43 percentage point improvement from the previous year's level of 6.92%. This resulted in PhP4.6 billion savings in 2014 or a cumulative PhP16.8 billion savings over the last seven years, equivalent to 7.9 centavos per kWh, realized by customers.

CEDC's system loss was at 4.37% in 2014.

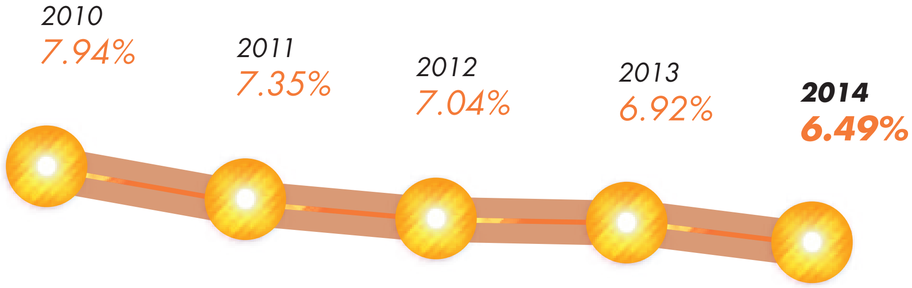
Capital Expenditures: Enabling Record Growth and Operational Excellence

Capital expenditures in 2014 was at PhP12.6 billion, up by 24% from PhP10.2 billion in 2013. Electric Capital Projects (ECP) accounted for the greater portion of the expenditures to:

- Improve the distribution system to ensure reliability, power quality and resiliency in the face of natural calamities and other contingencies.
- Meet growth in power demand and enhance customer experience.
- Control and further reduce system loss.
- The ECPs added 126 MVA of substation capacity and 31 km of primary distribution lines - bringing the total substation capacity to 16,381 MVA and total primary circuit length of 17,409 km.



MERALCO SYSTEM LOSS RATE



16,381 MVA
Total substation capacity

17,409 km
Total primary circuit length

AVERAGE BILL RATES in PhP per kWh

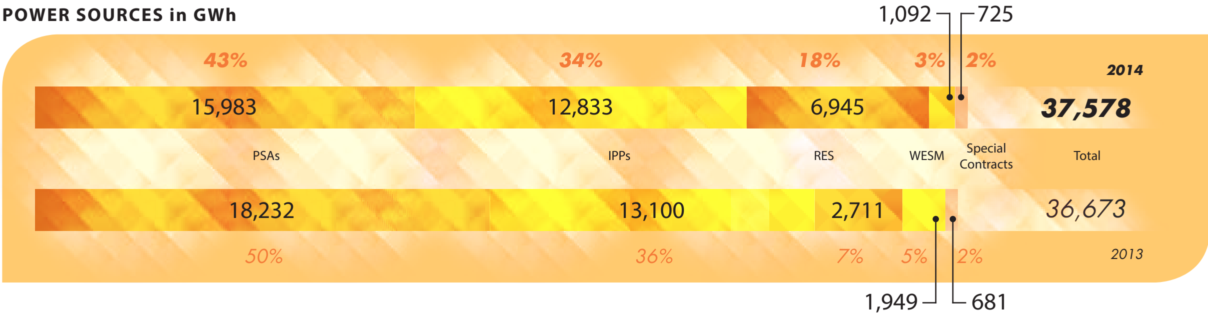
	Generation	Meralco	Taxes/UC/Subsidies	Transmission	System Loss	Total
2014 (%)	57%	17%	12%	9%	5%	
2014	5.34	1.61	1.11	0.92	0.44	9.42
2013	5.39	1.66	1.08	0.86	0.46	9.45
2013 (%)	57%	18%	11%	9%	5%	

THE MERALCO CUSTOMER BILL:
Generation Charge, the Dominant Component

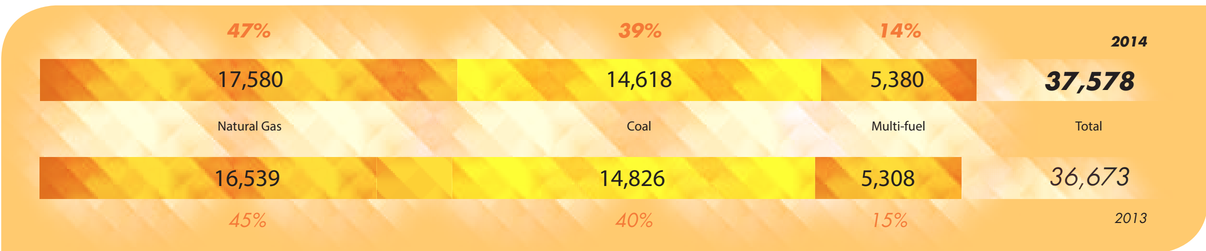
Average retail rate of electricity across all customer classes in 2014 was PhP9.42 per kWh, slightly lower compared with PhP9.45 per kWh in 2013.

- Generation Charge continued to be the single largest component of the customers' bill at 57% of the total average bill for 2014, equivalent to PhP5.34 per kWh, and decreasing by 1% compared with 2013.
- Meralco's Distribution Charge of PhP1.61 per kWh, down by 3% from PhP1.66 per kWh in 2013, accounted for only 17% of the average bill of customers.
- Transmission Charge, which comprised 9% of the customers' bill, at PhP0.92 per kWh, was up by 7% in 2014 compared with PhP0.86 per kWh in 2013.
- Taxes, Subsidies and Universal Charges was 12% of the customers' bill at PhP1.11 per kWh, increasing by 3% in 2014.
- System Loss Charge decreased by 4% and was 5% of the average bill at PhP0.44 per kWh.

POWER SOURCES in GWh



FUEL MIX in GWh



POWER SUPPLY AND DEMAND:
Sourcing to Ensure Adequate, Reliable, Least Cost Supply

Consolidated Net System Input (NSI) went up 2% in 2014 to a record 37,578 GWh from 36,673 GWh in 2013.

- The lower NSI growth relative to the increase in energy sales reflects further gains in system loss reduction.

Power sourced in 2014 were from:

- Power Purchase Agreements (PPAs) with First Gas Power Corporation (Santa Rita Plant), FGP Corp. (San Lorenzo Plant) and Quezon Power (Philippines) Limited Co., accounted for a combined 12,833 GWh or 34% of total NSI.

- The Power Supply Agreements (PSAs) with South Premiere Power Corporation (Ilijan), San Miguel Energy Corporation (Sual), Sem-Calaca Power Corporation (Calaca), Masinloc Power Partners Company Ltd. (Masinloc), Therma Luzon, Inc. (Pagbilao), Therma Mobile, Inc. (Navotas) and small renewable energy plants totaled 15,983 GWh or 43% of the NSI.

- Sourcing from the WESM which was limited to only 3% of total NSI, or 1,092 GWh inspite of scheduled and extended maintenance shutdowns and unscheduled forced outages, of base load power plants in 2014.

Power wheeled through Meralco in 2014:

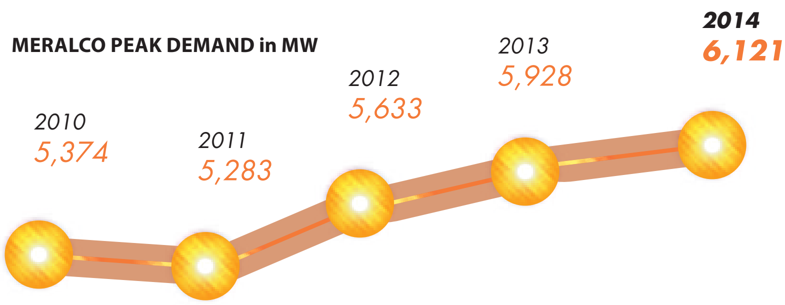
- Contestable customers, which wheeled their supply through Meralco, sourced power from their respective Retail Electricity Suppliers, accounting for 6,945 GWh or 18% of total NSI.

- Customers under Special Contracts such as Sunpower, Cocochem Agro-Industrial Park (CAIP) and Cavite Economic Zone (CEZ), sourced a total of 725 GWh or 2% of total NSI.

Meralco peak demand rose by 3% at 6,121 MW, recorded on May 21, 2014 from the 2013 peak demand at 5,928 MW.

Luzon peak demand registered on the same day was higher by 5% at 8,717 MW over the 8,305 MW in 2013.

MERALCO PEAK DEMAND in MW



Performance-Based Regulation

Rate-setting under Performance-Based Regulation (PBR) is governed by the Rules for the Setting of Distribution Wheeling Rates (RDWR). Tariffs are set based on the regulated asset base, the required operating and capital expenditures and the regulated return which are determined for each Regulatory Period (RP) to meet operational performance and service level requirements. These requirements are to meet customer needs for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the Energy Regulatory Commission (ERC) during the rate reset process. PBR also employs a mechanism that rewards or penalizes a distribution utility (DU) depending on its network and service performance.

The rate reset is done on an RP basis with one RP consisting of four (4) Regulatory Years (RYs). Meralco's RY starts on July 1 and ends on June 30 of the following year. Currently, Meralco is on the 4th year (RY 2015) of the 3rd RP, which covers the period July 1, 2011 to June 30, 2015.

While the rate reset is done once every four (4) years, under the RDWR, there is an annual rate verification and translation process which determines the Maximum Average Price (MAP) and the regulated rates per customer category for each RY. The ERC had issued provisional approvals on the Company's MAP verification and translation for each RY of the 3rd RP. The approved MAPs for RY 2012, 2013, 2014 and 2015 were PhP1.6012, PhP1.6303, PhP1.6474 and PhP1.5562 per kWh, respectively.

Retail Competition and Open Access

The transition period for Retail Competition and Open Access (RCOA) began on December 26, 2012 pursuant to the joint statement released by the ERC and the Department of Energy (DoE) on September 27, 2012, and the Transitory Rules for the Implementation of RCOA (ERC Resolution No. 16, Series of 2012). The commercial operations of RCOA started six (6) months thereafter on June 26, 2013.

The DoE issued on July 2, 2013 Department Circular DC2013-07-0013, which prescribed supplemental policies to empower contestable customers under RCOA. This was followed by the release of Department Circular No. DC2013-07-0014 on July 9, 2013, promulgating the Retail Market Manuals for the implementation of RCOA and providing for transitory arrangements. To provide alignment of rules implementing RCOA, the ERC on March 31, 2014 issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants (ERC Resolution No. 6, Series of 2014). On the same date, the ERC issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body (CRB) and the Reportorial Requirements imposed on it. This resolution mandates all DUs to submit to the CRB information on end-users with (1) monthly average peak demand of at least one megawatt (1 MW) for the preceding 12 months; and (2) monthly average peak demand of 750 kW but not greater than 999 kW. ERC uses these information in issuing the certificates of contestability.

The issuance of Retail Electricity Suppliers (RES) licenses was suspended by ERC on October 22, 2014 (ERC Resolution No. 17, Series of 2014). The evaluation of RES license applications was held in abeyance until such time that the amendments to the Rules for the issuance of RES licenses have been issued by the ERC.

As of December 25, 2014 or 18 months since the start of commercial operations of RCOA, there were about 347 contestable customers in Meralco's franchise area obtaining retail supply from their respective RES out of 831 qualified contestable customers that have been certified by ERC as of November 30, 2014. The remaining 484 have chosen to remain under the Meralco regulated supply service.

Feed-in-Tariff (FIT)

Pursuant to Republic Act No. 9513, or the Renewable Energy Act of 2008 (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 kWh for electricity from wind, solar, ocean, run-of-river hydropower and biomass energy sources.

The National Renewable Energy Board (NREB) filed a petition with the ERC on May 16, 2011 proposing a FIT Rate for each emerging renewable resource. The petition underwent public consultations and hearings and on July 27, 2012, the ERC approved FIT Rates that were significantly lower than the FIT Rates that were proposed by NREB.

As a supplement to 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 (FIT-All) will be calculated using the formulae provided. The FIT-All is a uniform charge in peso per kWh (PhP/kWh), which will be billed to all on-grid electricity consumers nationwide in support of the FIT Program. The FIT-All charge will form part of a Fund which will be used to pay the FIT-eligible developers of Renewable Energy-based power plants.

As the designated administrator of the FIT Fund, the National Transmission Corporation (TransCo) filed its application on July 30, 2014, seeking approval for the FIT-All for calendar years 2014 and 2015. After the conduct of public hearings, the ERC provisionally approved a FIT-All of PhP0.0406 per kWh. The Order also mandated collection agents such as Meralco to reflect the FIT-All as a separate line item in the customers' bills. Meralco started collecting the FIT-All in its February 2015 billing under the line item "FIT-All (Renewable)".

Additional 450 MW Solar Capacity under the FIT System

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

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 from the ERC in due course. Meantime, the DUs' 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 February 10, 2015, Meralco has already energized 65 Net Metering customers. These customers have an aggregate generating capacity of 439 kWp (kilowatt peak). Meralco is the first distribution utility in the country which implemented the net metering program.

Primary Offer Cap and Secondary Price Cap in the Wholesale Electricity Spot Market

The WESM tripartite Committee composed of the ERC, the DoE and the Philippine Electricity Market Corporation (PEMC) issued on December 27, 2013 Joint Resolution No. 2, Series of 2013 reducing the Offer Price Cap in the WESM from PhP62,000 per MWh to an interim level of PhP32,000 per MWh. The interim level was to be in effect until a new Offer Price Cap has been determined but not later than 90 days from the issuance of the Joint Resolution. The interim offer price cap was extended by 60 days from March 27, 2014 to give time for the conduct of public consultations.

ERC subsequently promulgated on May 5, 2014 ERC Resolution No. 8, Series of 2014 entitled "An Urgent Resolution Setting an Interim Mitigating Measure in the Wholesale Electricity Spot Market". Under the resolution, a secondary cap of PhP6,254 per MWh was set for the supply months of May and June, 2014. The secondary cap will be imposed if the Generator Weighted Average Price (GWAP) over a rolling 72-hour period exceeds PhP8,186 per MWh. The said resolution sought to avoid high market prices, similar to what had been experienced during the Malampaya shutdown in November and December 2013. ERC extended the interim mitigating measure twice. On June 16, 2014, ERC prolonged the imposition of the measure for 45 days. Later, it was extended for another 120 days beginning August 10, 2014 or until ERC shall have established a permanent pre-emptive mitigating measure in the WESM, whichever comes earlier.

Another Joint Resolution was issued by the WESM Tripartite Committee on October 24, 2014 which states that pending the determination of a new WESM Offer Price Cap which considers the permament mitigating measures to be issued by the ERC, the interim WESM Offer Price Cap of PhP32,000 per MWh shall continue to be effective for a period of 120 days from October 24, 2014. The WESM Tripartite Committee on February 20, 2015 further extended the interim WESM Offer Price Cap at its current level until September 30, 2015.

Meanwhile, on December 15, 2014 the ERC promulgated Resolution No. 20, Series of 2014 entitled "A Resolution Adopting and Establishing a Preemptive Mitigation Measure in the Wholesale Electricity Spot Market". Under the new mitigation measure, a secondary price cap of PhP6,245 per MWh will be imposed if the GWAP over a rolling 168 -hour (or 7-day) period exceeds PhP9,000 per MWh. The market clearing price for the immediate trading interval following the breach will be the actual market clearing price or the value of the price cap, whichever is lower. It shall be imposed until after a determination that the succeeding GWAP rolling average is already below the threshold. The preemptive mitigation measure took effect on January 9, 2015.

Interruptible Load Program (ILP)

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

Meralco called on its Interruptible Load Program (ILP) with eligible commercial customers, such as malls and condominium buildings on three (3) separate occasions last May 16, July 12 and September 8, 2014.

The Company is working with the DoE, the ERC and other stakeholders on the mechanics to implement the expanded ILP to cover not only captive customers but also contestable customers. ERC recently approved the amendments to the ILP rules which expands the scope of the ILP to include contestable customers, locators in economic and Freeport zones and customers directly connected to the National Grid Corporation of the Philippines (NGCP).

There are 223 companies with a total generating capacity of 617 MW that have signed up with Meralco, MPower and with other retail electricity supplier as ILP participants.

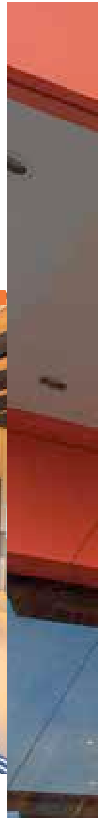
Concession Agreement with Philippine Economic Zone Authority

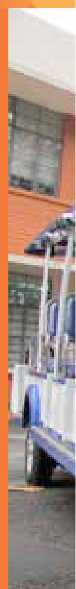
On May 26, 2014, Meralco and Philippine Economic Zone Authority (PEZA) entered into a concession agreement with a term of 25 years, for the operation and maintenance of the distribution system of Cavite Economic Zone (CEZ) beginning on said date.

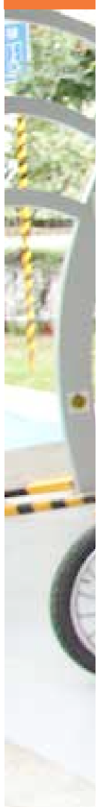
POWER TO MAKE A DIFFERENCE

We are resolute in driving customer centricity, service efficiency and innovation. This is the mindset that will power Meralco to the future. Customer satisfaction can only get better by raising the bar on solutions creativity, responsive to consumer sensitivities.


MOVE
MeralcO Virtual Engine







Enhancing the customer experience and communicating with all stakeholders is a continuing drive. In 2014, the highlights were:

On the Customer Experience

Prepaid Electricity or *Kuryente Load* was successful in its technical and commercial pilot with 3,000 customers. Meralco is poised to make the service more pervasive, in response to the growing demand for Prepaid Electricity Service (PRES), upon the approval of the PRES business rules by the Energy Regulatory Commission (ERC). The PRES allows customers to control their consumption and save; lifts the burden of a big monthly payment via "sachet" small-denomination load amounts; and solves many operational issues for lessors/lessees and developers/property managers.

Kuryente Load also has a significant social dimension. Research shows that households which often resort to illegal connections prefer the service than risk fires and other harm.

Prepaid electricity is the first of a series of service innovations that is in Meralco's Smart Grid journey. Smart grid will enable advanced metering infrastructure and network automation, and will allow Meralco to pursue "green" initiatives like electric vehicles and renewables.

Two Customer Centers for payment and application transactions were built in strategic, high-growth areas:

- Market! Market! in Fort Bonifacio
- Metropoint Mall in Pasay City

To ensure transparency, safety, and timeliness of customer-side electrical installations for households and businesses, the Accredited Meralco Contractors (AMCs) program was intensified. The number of contractors doubled to 256, and more training sessions were held on best practices in customer service, in addition to safety and Meralco technical standards courses. Nearly 40,000 applications went through AMCs in 2014, over three (3) times more versus the prior year.

Two websites targeting specific customer segments, the Corporate Business Group and the Meralco Biz Partners Group, were launched to provide an avenue for relevant, segment-specific digital communications.

The Meralco Virtual Engine (MoVE), a mobile application to help customers monitor their electricity consumption, was re-launched with a streamlined user interface for easier navigation, a usage tracker for real-time electricity consumption, and Global Positioning System (GPS)-enabled maps to find the nearest Meralco Business Center. There were almost 135,000 downloads of this app, 43% more versus last year. It was in the top 10 most downloaded utility apps in Google Play and the Apple App Store during the month of its launch.


MERALCO
POWER LAB


ATENEO eJEEP
ATENEO


eVEHICLE POWER STATION


Health
Benefits
Pedal assist
for extra push
and power


Power Quality Information Drive

Meralco heightened its advocacy and support for electric vehicles (EV) which have a lower cost to operate (potentially up to 50% savings versus diesel). The following were milestones for the year:

- The 4th Philippine EV Summit was hosted by Meralco, in cooperation with the Electric Vehicle Association of the Philippines, with Senator Benigno "Bam" Aquino IV as keynote speaker.
- The Ateneo de Manila University electric vehicle charging station was inaugurated in the Loyola Heights campus with four (4) electric shuttles now in operation.
- A charging station in the Net Lima Building in Bonifacio Global City (BGC) was opened.
- Twenty (20) electric bikes were made available within the Meralco compound for use of employees – in addition to the three (3) electric shuttles already in operation.

Construction of Meralco Powerlab, a facility that will test the energy efficiency of appliances and showcase new technologies, for the benefit of customers, commenced operation.

On Stakeholder Communications

A revitalized Meralco Advisory – this is a 60-second material produced by Meralco every month and aired in prime time news to advise customers, government, and the power industry players on rate changes and tips on being energy smart. Production values and info-graphics were refreshed for clearer messaging.

"Bright Ideas" campaign for residential and "Power Ideas" campaign for business -- these educate customers on making energy-smart choices in buying and using appliances. Eight (8) partnership programs with local appliance manufacturers allowed for exclusive promotions for Meralco customers with over 6,000 transactions.

On social media, customer engagement with Meralco increased geometrically:

- Our Facebook fans grew to over 191,000, up by 73% from last year and engagement was more than five (5) times compared with prior year – people liking our posts, making queries and comments. These data are from Facebook Analytics.
- On Twitter, our followers now number over 450,000, up more than twice versus last year. Mentions of @meralco also grew at the same rate, according to Salesforce Radian6, a social media measuring platform used globally.

Meralco Luminaries

Meralco Advisory

Powering people excellence

Operational Excellence

Meralco achieved an all-time low headcount of 5,766 coupled with all time highs in Customer per Employee Ratio (CPER) and Sales per Employee Ratio (SPER), reflecting a highly productive, high performing and dynamic workforce. This was achieved through strengthened manpower optimization initiatives in partnership with the line organizations.

Sustained Employee Engagement through Innovative People Programs

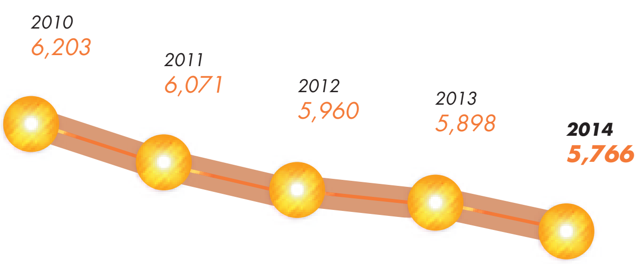
The Company launched "Meralco Engaging You," an integrated offering of people programs built on existing corporate initiatives to attract, retain and motivate our employees.

Cognizant of communications as an acknowledged engagement tool, communication activities were held in different platforms, including regular engagement sessions with union members and sector operations personnel.

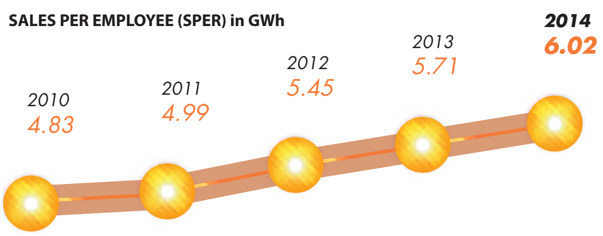
Focus was also on health and wellness activities which are central through a program called Orange Fit.

Linemen from the Company's different sectors participated in the 2014 Lineman's Rodeo, an annual event which pays tribute to the men of the lines showcasing talents and skills in friendly competitions.

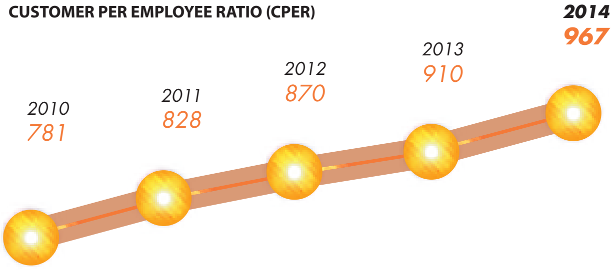
EMPLOYEE COUNT



SALES PER EMPLOYEE (SPER) in GWh



CUSTOMER PER EMPLOYEE RATIO (CPER)



HR Excellence and Leadership Development

The Company instituted a robust succession management and talent development process to further drive excellence in leadership and power up the technological and innovation mindset within the Company.

It also introduced a stronger variable incentive program for the rank and file employees, consistent with the pay-for-performance policy which rewards more those who perform better.

Two new courses, Breakthroughs and New Frontiers, strengthened the Leadership Development curriculum, both requiring action learning projects to ensure practical application on the job.

The Company also enhanced the technical competency framework for employees through the Engineering Talent Competency Assessment (ETCA), as it also implemented an idea generation project called "Meralco CoSTAR," which identifies and develops innovation champions.

Likewise, it extended the Meralco brand of HR excellence by sharing best practices with the subsidiaries and business expansion units.

Ecosystem Management and Safety

- Meralco Power Academy (MPA)

On its first full-year operations as a non-stock, non-profit educational foundation, MPA developed and conducted 12 new programs to build up knowledge and future-proof key talents of the Philippine power and energy industry.

MPA identified and designed programs targeted for the power and energy sector, suppliers and the community by partnering with Meralco and external experts. MPA had set the gold standard on Solar PV education and training for the country, highlighting quality, safety and reliability standards with four (4) batches and 127 graduates for the year.

It formed strategic academic alliances with Heads of ASEAN Power Utilities/Authorities (HAPUA) and the University of the Philippines for the long term development of power and energy professionals.

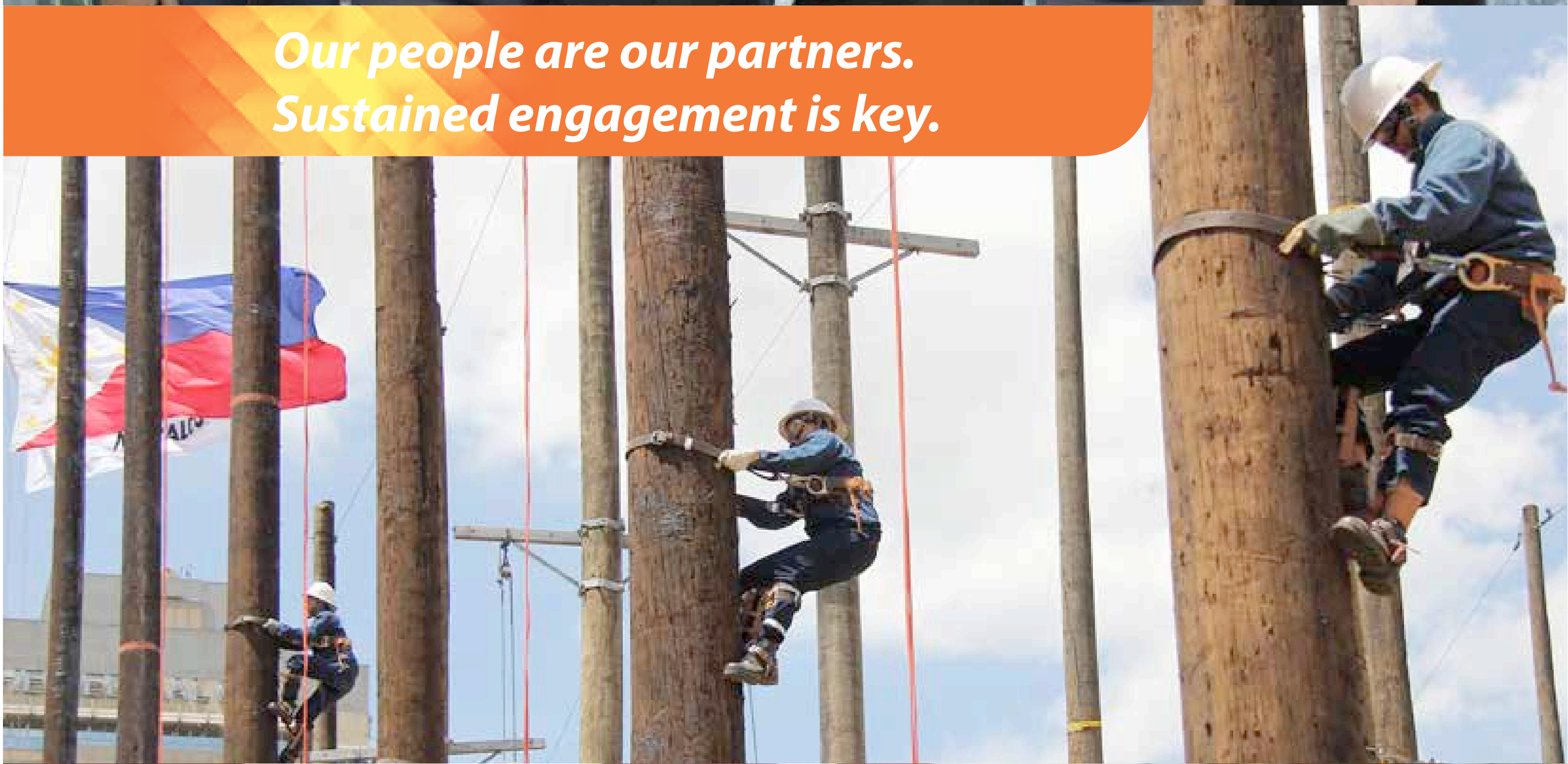
- Corporate Responsibility

The Company initiated the Trash-to-Cash for a Cause project, transforming proper waste management practices into a revenue generating activity. The proceeds were donated to the One Meralco Foundation to support its Makabayan activities.

It participated in the International Coastal Clean-up: Sea the Change, a coastal clean-up activity of the University of the Philippines' Marine Biological Society and the Department of Environment and Natural Resources.

Safety being at the core of our operations, the Company achieved a zero fatality record in 2014.

Our people are our partners.
Sustained engagement is key.



UNLOCKING THE **POWER** OF RESOURCES

As change is inevitable, so is growth. Meralco taps into its vast resources to enhance its operations. Embarking into bold ventures and accomplishing industry breakthroughs have unlocked the Company's full potential.

MERALCO POWERGEN CORPORATION (MGEN)

San Buenaventura Power Ltd. Co. (SBPL) made significant progress towards the start of the construction of its 455 MW (net) coal-fired power generation facility, the country's first coal-fired power plant to use supercritical technology that is more efficient than existing coal-fired power generation facilities across the Philippines.

In May, SBPL executed a Power Supply Agreement (PSA) with Meralco for the facility's capacity. To cap project developments for 2014, the Department of Environment and Natural Resources issued SBPL an Environmental Compliance Certificate (ECC) in November stating the project will use supercritical technology.

Redondo Peninsula Energy, Inc. (RP Energy) jumpstarted the acceleration of major development activities as the Supreme Court (SC) issued a decision on February 3, 2015 upholding the validity of RP Energy's ECC and its first two (2) amendments, and the project's Lease and Development Agreement (LDA) with the Subic Bay Metropolitan Authority.

To date, site preparation activities, including a comprehensive slope study have been completed.

The Grid Impact Study (GIS) and Facilities Study (FS), have been approved by the National Grid Corporation of the Philippines (NGCP) with a Connection Agreement signed in October 2014. The application for transmission line construction is awaiting approval from the Energy Regulatory Commission (ERC).

Atimonan One Energy, Inc. (A1E) continued development activities for the project in Quezon Province following a change in fuel from liquefied natural gas (LNG) to coal. The A1E project will be a 2 x 600 MW (net) power plant using pulverized coal supercritical technology, and is expected to be online in 2020.

Global Business Power Corporation (GBPC) is 22% owned by MGen after an additional 2% equity was acquired in June 2014.

GBPC owns 552 MW of operating coal power plants and 149.5 MW and 7.5 MW of operating diesel power plants in the Visayas and Mindoro, respectively.

The newest power plant is Toledo Power Corporation's (a wholly-owned subsidiary of GBPC) 1 x 82 MW circulating fluid bed (CFB) coal-fired facility that commenced commercial operations in December 2014.

Under construction is Panay Energy Development Corporation's (PEDC) 1 x 150 MW CFB coal-fired power plant in Iloilo City that held its groundbreaking ceremony in March 2014. Commercial operations date is expected in the third quarter of 2016.

PacificLight Power, Singapore Pte. Ltd. (PLP) completed commissioning of its 2 x 400 MW liquefied natural gas (LNG)-fired combined cycle gas turbine power plant on Jurong Island, Singapore which began commercial operations in February 2014.

Less than a year after commencement of operations, PLP was named Asian Gas Power Plant of the Year for 2014 by the Asian Power Awards in September 2014. Established in 2004 by the Asian Power Magazine, the annual awards has been recognizing top achievers, best practices and innovations in the region's power industry and is judged by an independent panel of experts.

In October 2014, the PLP project was successfully registered as a Clean Development Mechanism (CDM) project under the United Nations Framework Convention on Climate Change, making it the largest CDM project in Singapore. The CDM recognizes projects that contribute to sustainable development and emissions reduction by enabling registered project activities to earn Certified Emission Reduction ("CER") credits, each equivalent to one ton of CO_2.

The power plant was also given the Singapore Building and Constructing Authority (BCA) Green Mark. Launched by BCA in January 2005 to promote environmental awareness in the construction and real estate sectors, it is a benchmarking scheme that aims to achieve a sustainable-built environment by incorporating best practices in environmental design and construction, and the adoption of green building technologies.

DISTRIBUTION BUSINESS EXPANSION: Bringing Meralco brand of service to more communities and industries

CAVITE ECOZONE.
In 2014, Meralco signed a 25-year Concession Agreement with the Philippine Economic Zone Authority (PEZA) for the operations and maintenance of the power distribution system of the Cavite Economic Zone (CEZ) in Rosario, Cavite. CEZ, which is the largest economic zone in the country is home to global semiconductor and electronics assembly companies, garment and steel manufacturers, logistics and other services entities. In accordance with the terms of the Concession Agreement and consistent with its objective of sharing the Meralco brand of service, the Company undertook the investment and operations of the CEZ distribution network with priorities on distribution line reliability, safety, revenue assurance and energy efficiency. Ongoing improvements in the power distribution services of CEZ are aimed at further contributing to PEZA's mission of development of environment-friendly ecozones and enhancement of CEZ's status as a world-class investment destination.

At December 31, 2014, CEZ serves a total of 299 multinational locators in CEZ with total energy sales of 478 GWh. The system loss rate was at 2.85%.

COMSTECH: PELCO II

Comstech Integration Alliance, Inc. (Comstech), with Meralco as its technical partner was awarded the Investment Management Contract (IMC) for Pampanga Electric Cooperative II (PELCO II). PELCO II is the largest among four (4) electric cooperatives in the province of Pampanga, the franchise area of which includes the municipalities of Bacolor, Guagua, Lubao, Porac, Sta. Rita, Sasmuan and the City of Mabalacat.

The IMC, which was approved by the members and ratified by the National Electrification Administration allows Comstech to invest and manage the electricity distribution business of the cooperative.

PELCO II serves 160,000 customers with sales volume increasing by 6% to 344 GWh in 2014. Major milestones during the year are the (i) reduction in the system loss rate to 12.98%, below the ERC-mandated system loss cap of 13.00% for electric cooperatives, the first ever instance in the history of PELCO II's operations; (ii) improvement in collection rate to 93% from 91%; and (iii) reduction in customers' service application processing time by as much as 25%.

IBEDC AND YEDC IN NIGERIA

In November 2014, marked the first anniversary since implementation of the Management and Technical Services Agreement with the Ibadan Electricity Distribution Company (IBEDC) and Yola Electricity Distribution Company (YEDC). While there are improvements in the operating metrics, the electricity distribution businesses in Nigeria is not without challenges. In 2014, only close to 4,000 MW of power was available to a population of 170 million.

With half of the customers of IBEDC and YEDC still unmetered, the investments in the coming year shall cover large scale metering, upgrading of the billing system and a revenue assurance system.

RETAIL ELECTRICITY SUPPLY

MPOWER

Since the commencement of Retail Competition and Open Access (RCOA) on June 26, 2013, MPower, Meralco's Local Retail Electricity Supply (RES) has successfully contracted and switched 207 qualified contestable customers for Phase 1, accounting for over 50% of the total customers who have voluntarily opted for contestability. MPower remains unrelenting on customer-centricity, price stability and power reliability throughout the contract period of its contestable customers, making it the RES of choice.

Beyond maintaining its market position, MPower endeavors to be the best-in-class RES participant while ensuring the success of RCOA through stronger customer partnerships and service excellence, continuous development of various innovative and competitive energy products and pricing options, enhancement of customer management and risk management processes and improved customer touch points.

During the year, MPower, together with its customer-partners and One Meralco Foundation, Inc. (OMF), launched a school electrification program to benefit selected public elementary and high schools. These schools, which were previously not connected to the grid, were provided solar panels to power up their classrooms and computers to enhance the students' learning experience.

As the next waves of open access are implemented, more customers can reap the benefits of competitive rates and services, which MPower aims to continuously provide through innovative energy solutions and services.


MERALCO

ENERGIZED BY THE **POWER** OF HOPE

Meralco recognizes the power of hope in building communities across the country. As we constantly commit to reenergizing people's dreams and aspirations, we enable them to reach for their goals and take the lead in bringing the nation forward.

2014 was one of the most challenging years, but our commitment to help improve the lives of those who need us most, further strengthened our determination to serve.

The Power of Hope

More than 25 million Filipinos count on Meralco every day for the energy that powers their lives—safely, reliably and affordably. This, we are able to do, because of our long-term commitment to drive economic growth and improve the lives of Filipinos. It is in the same spirit, that the power we bring through our corporate social responsibility (CSR) initiatives, sparks hope in the lives of the many communities we serve.

Through our CSR arm, the One Meralco Foundation, Inc. (Foundation), we have reached more than 39,122 families through various social development initiatives in 2014. It is our belief that energy is vital to rise above poverty. It can save time and improve productivity at home, help people and community organizations earn a living and energize community services for those hardest to reach: island schools, rural health clinics and far-away agricultural centers.

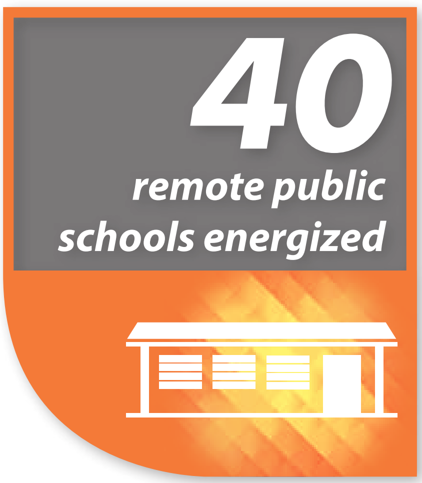
In 2014, we continued to spread the light of hope to families in need of power. We have energized 5,300 households belonging to 61 communities within the Meralco franchise area. Working with local governments, the program uses a multi-stakeholder approach in bringing electricity to marginalized families. Meralco business centers also work with the communities' homeowners association and prepare them in the ownership of the program and its sustainability. Electrification design and solutions are customized for each community and require close coordination and engagement with various government, community, civil society organizations and the beneficiaries themselves to make the program successful and sustainable. By doing this, families enjoy the benefits of safe, reliable and affordable electricity service.

Bringing Hope to Off-grid Public Schools

Beyond the franchise area, the Foundation reaches to far-flung public schools through its School Electrification Program. Completing 40 schools in 2014, the program has allowed more than 11,000 students to improve their learning experiences since electricity-powered multimedia educational tools can now be used inside their classrooms. The program installs a 1 kW solar photo voltaic system in partner schools. The set-up is capable of harnessing solar power and converting it to electrical energy that is adequate to power light bulbs, ventilation, laptop computers and multimedia systems for several hours each day. Provinces where this program was implemented expanded in 2014, to include: Calayan Islands in Cagayan, South Cotabato, Sarangani, Leyte, Cagbalete Island in Quezon, Palawan, Romblon, Northen and Western Samar. A number of these schools cater to indigenous peoples like the T'bolis of South Cotabato and the B'laans of Sarangani.

Building Hope Through Education and Sports

The connection between energy and education cannot be underestimated. This has become more relevant as the country faces more challenges in the energy space. To address this, the Foundation has launched an Energy Education program primarily for students and teachers. It has developed a set of 350 lessons in energy that teachers can incorporate in their Science, Mathematics, English, Social Studies and Home Economics subjects. In partnership with the Department of Education and the Coalition for Better Education where the Foundation is an active member, the lessons were developed by a group of selected public school teachers and includes topics on sources of energy, energy management, efficiency and conservation. It also includes project-based learning activities to make understanding energy a fun learning experience for the students.




MERALCO
ONE MERALCO
FOUNDATION

Through our collaboration with various organizations, we are building partnerships that enable us to extend our reach as far as our resources will take us.

Meralco employees, particularly its engineers, also spearheaded the "Safe Ang School Ko" program where they help principals, school heads, and school building administrators learn about electrical safety in schools as part of the annual Brigada Eskwela program.

The Foundation has also engaged more than 2,000 disadvantaged but talented young students in various development programs that prepare them for an active role in their schools and communities. Two hundred dependents of employees of Meralco and its subsidiaries received educational grants through the MVP Academic Assistance Awards. Sports enthusiasts from various communities nationwide were also involved in our Basketboys and chess clinic programs. Sports development was also instrumental in involving young people of the Autonomous Region of Muslim Mindanao to be agents of peace through the annual Football for Peace program which the Foundation strongly supported. Similarly, young people who would like to develop their singing and stage performance talents to help their families got first-hand mentoring from the nationwide talent competition, Akapela Open.

Restoring Hope Amidst Adversity

The Foundation also sustained its rehabilitation and recovery work after Typhoon Yolanda through various projects. Power restoration support continued in Leyte as well as in other provinces like Albay and Sorsogon, which were affected by Typhoon Glenda. Eighteen classrooms were built in the provinces of Leyte, Iloilo, Capiz and Aklan so students and teachers can return to their normal learning environment after the devastating typhoon. These classrooms were funded mainly by Meralco employees through the "1Day2Give" program. The Foundation also funded the Palina River Cruise in Capiz to boost local tourism and contribute to a sustainable livelihood for families affected by Typhoon Yolanda. On top of this, boats were distributed to fishermen from Western Visayas to help in the resumption of the livelihood of families in the coastal areas.

Driven by its mission of service in the franchise area of Meralco, 2,552 employees volunteered in various programs such as school electrical safety assessments, sports programs, tree planting, coastal clean up, repacking of relief goods and other outreach activities. These reflect not only how the Company lives up its corporate values of malasakit and makabayan, but also the light of hope that our employees bring when they share their time, talents and treasures with many marginalized communities.

2014 was one of the most challenging years, but our commitment to help improve the lives of those who need us most, further strengthened our determination to serve.

Despite signs of progress, many communities continue to face challenges. It is in this context that our role in nation-building is more relevant than ever. Through our various social development programs, we contribute in helping more Filipino families, schools and communities become more productive. Through our collaboration with various organizations, we are building partnerships that enable us to extend our reach as far as our resources will take us. Ultimately, our passion and involvement as individual volunteers and as a Company, may shine as a beacon of hope that will empower Filipinos to enjoy a brighter future that all of us deserve.


MERALCO

Service to All Stakeholders

No company can continue to thrive for more than a century of existence if it merely looks out for its own welfare. A company attends to some great demand and strives to provide great service, not for itself, but for all its stakeholders; otherwise, its profitability ends and its relevance ceases.

STAKEHOLDERS

I. Policies

Meralco is now on its 112th year of service to all its stakeholders which include its shareholders, customers, employees, suppliers, creditors, investors, government and the communities where it operates.

As a result of continuous interactions with its stakeholders, the Company formulated guidelines and strategies to ensure sustainable development determined to operate a business that abides by corporate governance and corporate values to build up confidence among all stakeholders. Evident actions are taken through policies, business and operating plans, as well as regular follow through by various business responsibility units, particularly on policies relating to consumer welfare, energy conservation, employee engagement, and community development.

The following policies govern the Company's relations with its stakeholders.

The Company's Revised Manual of Corporate Governance (MCG) is the Company's fundamental governance policy or board charter which clearly states the qualifications, roles and responsibilities of directors and officers as well as the rights of the shareholders. It identifies matters that require Board of Directors (Board) approval, which predominantly include broad policy guidance, material acquisition or disposal of assets, significant regulatory, legal and financial issues, annual budget, noteworthy agenda, related party transactions (with approval of shareholders), appointment and termination of Directors and key management and other matters as may be deemed appropriate by the Board.

Conflict of Interest (COI) Policy requires all directors, officers and employees to annually disclose their interest in transactions and any other conflicts of interest through the Full Business Interest Disclosure (FBID) Form for directors and officers, and the Annual Conflict of Interest Disclosure Form for employees. The Company requires directors and key management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when a conflict exists between their interest and that of the Company's.

The "Standards of Business Conduct and Ethics" (Code of Ethics or COE) prescribes ethical values and behavioral standards, such as adherence to laws and regulations, required of all directors, officers and employees of the Company as they perform their respective duties and responsibilities.

The Company enhances awareness and monitors compliance through an online HR Express Corporate Governance Facility, accessible to all employees for the CG disclosures and commitment required of them. Failure to comply with CG disclosures is sanctioned. This is discussed in detail in the Code on Right Employee Conduct (COREC), for implementation by the direct supervisors of erring employees.

Copies of the Code of Ethics are likewise regularly disseminated to all to guide them. A written commitment to corporate governance and the Company's Code of Ethics is required to be submitted annually from all directors, officers and employees of the Company.

The Corporate Governance Office monitors the implementation of and compliance to the Code of Ethics. All directors, senior management and employees are required to submit duly accomplished Full Business Interest Disclosure (FBID) and COI Forms annually. They are also required to disclose gifts they received from Third Parties. The Company, from time to time, issues advisories on restrictions in trading of Company's shares for all directors, senior management and employees. In addition, the E-report Mo facility (Whistleblowing facility) is made available as a channel of reporting violation of the Company's Code of Ethics.

The Company's Internal Audit Office audits the compliance of directors, officers and employees to the Code of Ethics and other corporate governance related policies, including required Company disclosures. The result of the Internal Audit review is reported to the Audit and Risk Management Committee responsible for reviewing the process for communicating the code of conduct to all employees and monitoring their compliance thereto.

Insider Trading Policy prohibits directors, officers and employees from benefitting from information that is not generally available to the market through observance of a blackout period (10 trading days before and two trading days after the release or announcement of the Company's material information or financial and operating results), during which trading in Company shares is prohibited.

The Company requires all its directors and officers to disclose to the Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), and Philippine Dealing and Exchange Corporation (PDEx) the details of any trading, dealings, acquisition, disposal, or change in their beneficial ownership of the Company (MER) shares, within two (2) business days after the transaction.

Suppliers' Business Conduct Policy states that the Company engages the services of Suppliers that advocate the same corporate governance standards and business ethics. The Company observes its clearly detailed procurement and supplier selection policies to secure mutual trust and strategic relationships, including economic, social, and environmental cooperation.

All Company purchases are listed in a sourcing plan, which specifies the criteria and methods for sourcing these items. This plan undergoes review and approval of the Procurement hierarchy. Pre-bid conferences are held among the Company's procurement personnel, end-users and prospective bidders. Only those accredited suppliers are qualified to inquire and participate in bids and awards. More 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 section of the Company website.

Related Party Transactions (RPT) Policy requires a committee composed of independent directors to review material/significant RPTs to determine whether they are in the best interest of the Company and shareholders. All RPTs of the Company are conducted in fair and at arms' length terms. No RPTs can be classified as financial assistance to entities other than wholly-owned subsidiary companies.

The Company discloses the names of related parties, degree of relationship, nature and value for each material/significant RPT. Details are found in the Notes to Consolidated Financial Statements on Related Party Transactions.

E-Report Mo (Whistleblowing Policy/Anti-Corruption Programmes and Procedures) encourages the reporting of any violation of corporate governance rules or policies, questionable accounting or auditing matters, and other malfeasance 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 and expect corresponding resolution based on merit of report.

The Company provides appropriate protection against retaliation to an employee/stakeholder who reports illegal/unethical behavior. In the event of retaliation, the reporting person or witness may file a report to CGO by filling out a Retaliation Protection Report Form. Protection from retaliation will be granted, upon endorsement of CGO, reviewed by the Management Disciplinary Committee or the relevant Board Committee for approval of the CEO, his designated representative or the Chairman of the Board.

In 2014, the Company received 11 reports of violations and illegal/unethical behavior. These reports were investigated according to the facts provided and the procedures defined in the whistleblowing policy. Nine (9) or 82% of these reports have been resolved. Investigations are on-going for the remainder.

The foregoing policies were distributed to all offices and are available to all stakeholders through the Company's Corporate Governance Intranet Portal and website (www.meralco.com.ph).

Corporate Governance Office

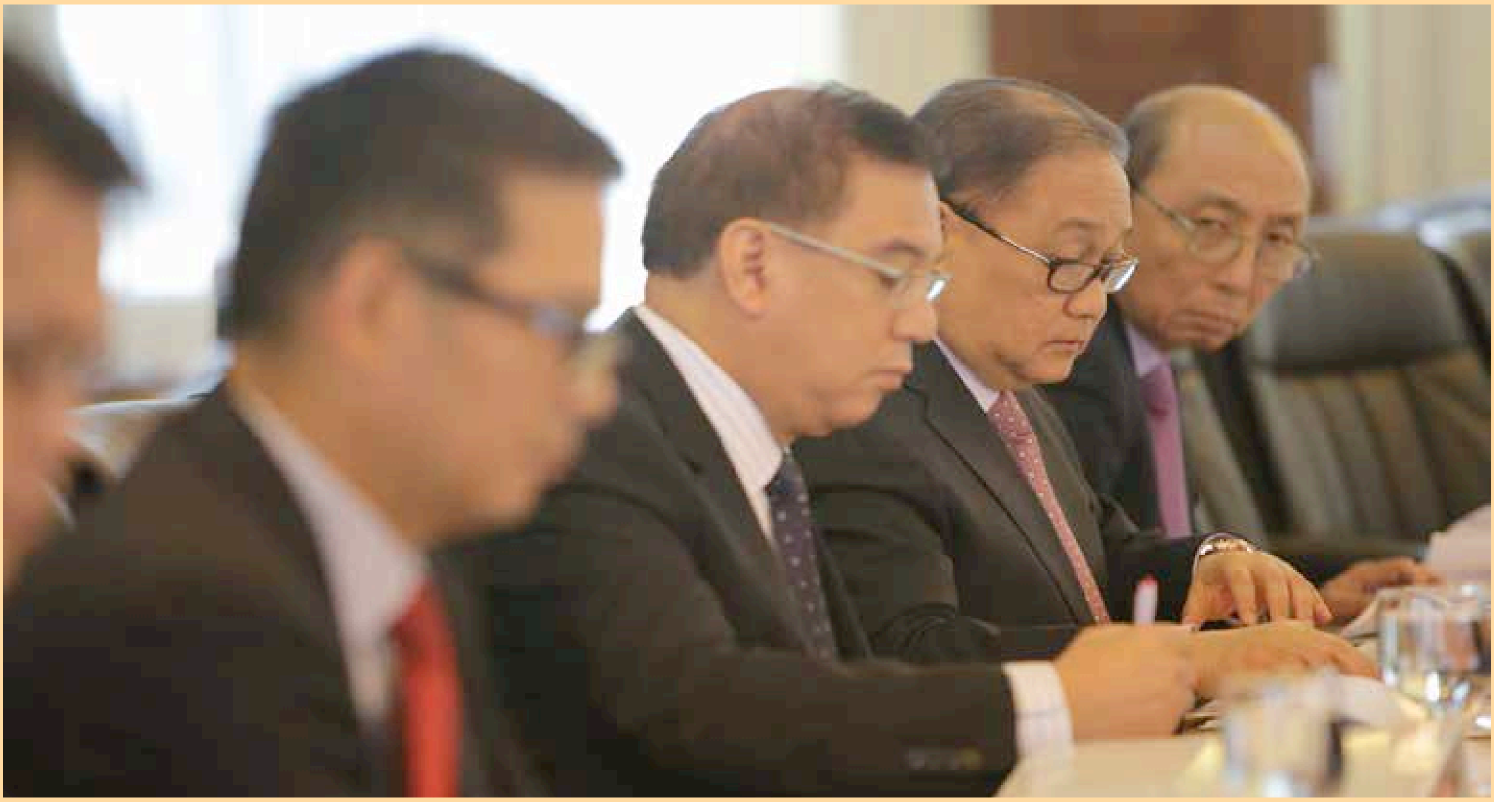
Manila Electric Company (Meralco)
8/F Lopez Building
Meralco Center, Ortigas Avenue
Brgy. Ugong, Pasig City 1605 Philippines
Tel: (632) 1622-2798
Mobile: 0918-9483662
Email: cgo.staff@meralco.com.ph

In 2014, there was no case of insider trading or policy violations involving directors and officers of the Company and no RPTs that can be classified as financial assistance to entities other than wholly-owned subsidiary companies. The Company is in full compliance with the code and policies of corporate governance.

II. Customers

It is the Company's policy to provide its customers with good service and fair treatment; complete, correct, and actual information; and undertake customer satisfaction surveys to continuously improve services. Related activities are:

- Providing standardized services to home and micro businesses, small and medium enterprises and corporate business groups.
- Standardization of policies, work processes related to customers at all business centers and public information of the services and rates offered by the Company such as the monthly Meralco Advisory.



- Communicating significant operational plans and holding appreciation events such as Meralco Luminaries with customers at least once a year.
- Undertaking surveys on customers' level of satisfaction to improve the Company's service standards.
- Promoting safety as a way of life by providing safe and healthy work environment to prevent accidents, injuries and other illnesses.
- Taking action and responsibility on climate change by preventing pollution through the optimization of the use of natural resources, minimizing waste generated by processes and being an active partner in reforestation.
- Pursuant to Energy Regulatory Commission (ERC) Resolution No. 42, series of 2006, the Company established a Consumer Welfare Desk (CWD) in its branches as well as a Consumer Assistance Office (CAO) in ERC. The CWD and the CAO are manned by CWD Officers who have undergone relevant training and are able to assist the customers.

III. Community

In 2014, Meralco employee-volunteers devoted their time, skills and effort in various volunteerism projects and together logged a total of more than 25,000 hours of dedicated service. The employees engaged in a bamboo planting activity along the Pasig River to help reduce soil erosion. Moreover, they covered 2,000 textbooks that was donated to the schools in Visayas which the Company helped rehabilitate after the Typhoon Yolanda.

A benefit concert was held to raise funds for the reconstruction of chapels and churches damaged by Typhoon Yolanda. This project is part of the Company's continuing program to help in the rehabilitation of Typhoon Yolanda affected areas. The reconstructed chapels will also serve as possible evacuation or community centers to serve various needs of people especially in times of natural disasters.

IV. Creditors

The Company strictly respects loan agreements with creditors; avoids using these loans to cause damage to the Company; ensures timely payment of these loans; and efficiently operates the business to assure creditors of the Company's healthy financial standing and loan payment capabilities.

Moreover, the Company provides loans only to subsidiaries under its shareholding structure, with no financial assistance offered to any unrelated company.

V. Employees

The Company values its human capital through proper treatment in terms of their health, welfare, safety, training and compensation.

Meralco's 2014 Lost Time Injuries Rate (LTIR) of 0.41 is better than the global LTIR benchmark of 0.48. The Company has undertaken pro-active safety activities and programs currently in full swing: e.g. visibility requirement of Safety and Environment Management Engineers through field inspections; revival of the Safety Meetings in the Business Centers; Public Safety initiatives through pocket sessions conducted in building work sites, among others.

The Company has programs in place to develop employee skills, potentials, and leadership for career growth and advancement such as a Management Trainee Course (Power Innovators) to groom future leaders and specific courses on new business development and management. Training attendance was recorded at an average of 43 hours per employee. Staff turn-over caused by market forces is lower than market average.

To drive higher levels of employee performance, Meralco employs both short-term and long-term incentives in accordance with the following major principles and objectives: The main aim is to attract, retain and motivate Meralco's employees. The compensation philosophy of the Company is communicated to all employees.

The Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets; provides for long-term incentives such as pay based on Meralco's achievement of specified level of consolidated core net income approved by the Board and determined on an aggregate basis for a three year period as well as executives' attainment of a minimum level of performance rating. The Company provides for schemes that account for performance beyond short-term financial measures such as the Employee Stock Purchase Plan (ESPP) and balanced scorecard schemes.

It also provides for short-term incentives through variable pay to reward individual and team performance that contribute to the achievement of corporate goals and objectives. Short-term incentives such as Annual Performance-Based Bonuses (APB) are implemented to engage employees of Meralco to collaborate and work towards the achievement of corporate goals and targets.

Further, as part of Meralco's performance management process, employee performance is assessed on the basis of: (1) actual vs. desired results, and (2) how results were delivered in the light of corporate core values. Therefore, the achievement of financial and non-financial measures is reflected in performance planning and assessment, and this drives the Company's merit and incentive pay programs.

Succession Planning of Chief Executive Officer and Senior Management

The Meralco Board and the 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 is the talent review 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 Meralco's 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 authentic and 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.

VI. Shareholders

The Company upholds the rights of all shareholders, including the minority shareholders, such as the right to participate in:

- Changes in the Company's charter, such as amendments to the Company's Articles of Incorporation or By-laws;
- Authorization of additional shares or transfer of the Company's assets;
- Approval of remuneration or increases in remuneration of non-executive and executive directors; and
- Voting on matters in absentia through the use of proxy forms.

In cases of mergers, acquisitions and/or takeovers requiring shareholders' approval, the Board of the Company appoint an independent party to evaluate the fairness of the transaction price.

Dividend Policy

The Company's dividend policy, as approved by the Board and ratified by the shareholders during the May 25, 2010 AGM, 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 beyond 50% of the core earnings for the year, relative to availability of unrestricted retained earnings and cash, in accordance with the guidelines of the SEC.

In 2014, the Company declared dividends amounting to PhP12.87 per common share, equivalent to 80% of core earnings per share. Initial dividends paid on September 18, 2014 of PhP5.91 per share includes a PhP1.53 per share look-back dividend for 2013. The final dividends amounting to PhP8.49 per common share is payable on April 15, 2015.

Annual General Meeting (AGM)

It is the Company's policy to encourage shareholders, including institutional shareholders and minority shareholders, to attend the AGM. The 2014 AGM was held on Tuesday, May 27, 2014, at 10:00 AM 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

SHAREHOLDERS (as of December 31, 2014)

The complete list of the Public Ownership Report of Meralco as at December 31, 2014 was disclosed to the SEC, PSE and PDEx on January 13, 2015, where approximately 81.03% of the Company shares are held by principal and strategic shareholders, and the remaining 18.97% shareholdings are held by institutional investors, which are composed of the public float, the government, employees and other individuals.

The Company has a straightforward structure of alliance among its affiliates, and joint ventures, with no joint-holding or cross-holding of shares. There is no pyramid shareholding structure within the Group.

VISION

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

MISSION

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

they can indicate their preferred votes. Shareholders can download proxy forms together with details about how to appoint a proxy to shareholders from the Company website.

The Company granted all, including minority, shareholders with the right to propose in advance or inquire on agenda items and nominate directors, which were approved by the Board during its meeting on March 31, 2014.

To provide shareholders with enough time to examine the information, the AGM Notice, which is in English, was posted on the Company website and distributed to shareholders on April 16, 2014, 28 working days ahead of the AGM date of May 27, 2014.

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

A two-hour registration period was allotted before the AGM.

The Corporate Secretary reported a quorum with the attendance of shareholders who own or hold a total of over 960,000,000 shares or approximately 85.18% of the total issued and outstanding shares of the Company.

An electronic system facilitated the registration and vote tabulation to expedite the process and ensure accuracy and reliability of 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 Office of the Corporate Secretary. Representatives from Reyes Tacandong & Co., an independent firm of accountants, validated the voting results for each agenda item.

The Company allowed shareholders to freely express their views and raise their questions at the AGM.

The Chairman of the Board, Chairman of the Audit Committee, Chairman of the Remuneration and Leadership Development Committee, Chairman of the Nomination and Governance Committee, Chairman of the Finance Committee, President and Chief Executive Officer, Chief Finance Officer, Corporate Secretary, Assistant Corporate Secretary, other officers and the external auditor attended during the AGM to clearly answer all aspects of shareholders' questions. Relevant procedures and guidelines were followed before, during and after AGM.

Corporate Objectives

I. Strengthen the core distribution business
II. Build the power generation portfolio
III. Participate in retail electricity supply
IV. Grow the electric distribution service area
V. Drive the expansion of subsidiaries

The Company posted the resolutions at the AGM on its website on 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.

VII. Board of Directors

The Board of Directors upholds high standards of corporate governance within the Company in keeping with the principles of fairness, accountability, integrity and transparency.

The Company is in full compliance with the SEC's Revised Code of Corporate Governance as amended.

Conduct of Affairs

The Board is responsible for the oversight of the management of the Company's business and affairs. The Board works closely with Management to achieve profitability and sustainability of the Company in the service of all its stakeholders. Apart from its statutory duties and responsibilities, the fundamental functions of the Board include, but are not limited to, the following:

(a) establishing the Company's vision, mission, values and standards, and ensuring that obligations to shareholders and other stakeholders are understood and met;

(b) setting the overall strategic directions, corporate objectives and long-term goals of the Company;

(c) verifying that the financial and human resource procedures are in place for the Company to meet its objectives;

(d) reviewing and approving major projects, policy decisions, annual budgets, major investment funding and major restructuring of core businesses;

(e) instituting a framework of prudent and effective controls which enables risks to be identified, assessed and managed; and

(f) assessing management's performance, and financial performance of the Company

The Board jointly plans meeting dates at the start of the calendar year, with at least 12 regular meetings, and as often as may be required to deal with ad-hoc matters.

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

The Corporate Secretary must submit Board meeting materials and papers to the directors at least five business days in advance for due consideration, together with details of meeting date, time, place, and agenda.

In 2014, the Board's major accomplishments were:

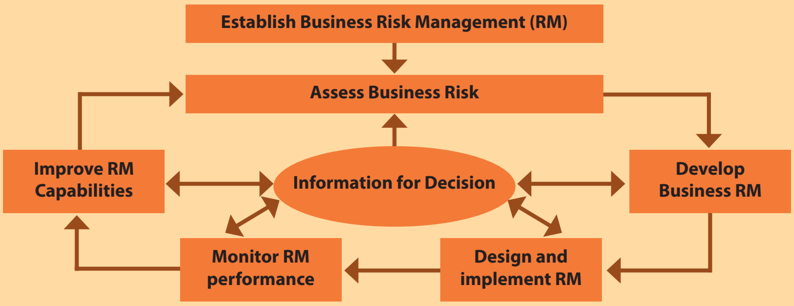
- Review of the mission and vision of the Company
- Monitor the implementation of the corporate strategy
- Review of Power Supply Situation and Outlook
- Approval of Audited Financial Statements
- Approval of business plans and budget
- Application for registration as an Economic Zone Utilities Enterprise
- Review of impact of Tropical Storms and Typhoons to operations
- Approval of Consolidated changes in the Annual Corporate Governance Report (ACGR) and the ASEAN Corporate Governance Scorecard (ACGS) Self-Assessment
- Approval of the Enterprise Asset Management Program
- Review of executive promotions, rightsizing policy and succession planning
- Revision of the Insider Trading and Gifts Policies
- Endorsement of Corporate Governance Enhancement Sessions
- Business Continuity Plan (in case of floods, terrorism, and earthquakes)
- Approve Revised Process for Significant/Material Related Party Transactions
- Revision of the Articles of Incorporation and Manual of Corporate Governance per SEC Memo Circulars 6 and 9, Series of 2014
- Resignation and election of directors
- Enterprise Performance Evaluation and Assessment Results
- Approval of Annual Incentive and Meralco Provident Plans
- Infusion of equity to a subsidiary
- Approval of report of external auditors covering activities of Meralco and determining that there were no fraudulent/illegal acts committed

In 2014, the Company's non-executive directors met 14 times without the presence of the executive director, Mr. Oscar S. Reyes. Among the items discussed in these meetings were the operations and financial reports presented by Management, corporate governance policies and reports of compliance to such, reports of the external auditors and performance assessment of the President and Chief Executive Officer.

Board Diversity

The Board comprises 11 Directors, two (2) of whom are Independent and Non-Executive Directors namely Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas. They and their immediate family members are independent of the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The Nomination and Governance Committee (Nom&Gov) reviewed the nomination, selection and composition of the Board and is satisfied that the present Board has a proper mix and diversity of qualifications, background, experience, independence and skills needed to effectively discharge its responsibilities. The Company has a non-executive director who has had prior work experience in the sector or broad industry group to which the Company belongs. Ambassador Manuel M. Lopez was the Chairman, President and Chief Executive Officer of the Company in different periods from 2001 to 2010. Nom&Gov is satisfied that no individual director overshadows the Board's decision making and that independent decision making is a welcome practice. Nom&Gov, taking into account the scope and nature of operations of the Company, considers the current size of the Board to be adequate for effective decision making.



The framework above is the approach followed for managing the key risks of the Company, namely: a) financial risks; b) operational risks; c) regulatory and compliance risks; d) reputational risks; and e) strategic and corporate risks.

PERFORMANCE INDICATORS

FINANCIAL	NON FINANCIAL
• Measures reflecting the state of the Company to the shareholders such as cash position, core consolidated net income, dividend payouts, etc.	• Customer satisfaction metrics • Customers served per employee ratio • Alignment of business processes to the strategies of the Company • Alignment of learning and development initiatives with Company goals

2014 AGM AND BOARD MEETING ATTENDANCE

Director	Designation	May 27, 2014		Board Meetings
		Annual General Meeting	Organizational Meeting	
Manuel V. Pangilinan[1]	Chairman	Present	Present	12/13
Lance Y. Gokongwei	Director	Present	Present	13/13
Manuel M. Lopez	Director	Present	Present	9/13
Jose Ma. K. Lim	Director	Present	Present	11/13
Ray C. Espinosa[2]	Director	Present	Present	12/13
James L. Go	Director	Present	Present	12/13
Artemio V. Panganiban[3]	Independent Director	Present	Present	13/13
John L. Gokongwei Jr.*	Director	Present	Present	9/10
Napoleon L. Nazareno*	Director	Present	Absent	7/10
Oscar S. Reyes	Director	Present	Present	13/13
Pedro E. Roxas[4]	Independent Director	Present	Present	11/13
Ramon S. Ang**	Director	N/A	N/A	0/2
Estelito P. Mendoza**	Director	N/A	N/A	1/2

[1] Chairman, Remuneration and Leadership Development Committee
[2] Chairman, Finance Committee
[3] Chairman, Audit and Risk Management Committee
[4] Chairman, Nomination and Governance Committee
* Messrs. John L. Gokongwei Jr. and Napoleon L. Nazareno were elected on March 31, 2014.
** Messrs. Ramon S. Ang and Estelito P. Mendoza resigned effective March 31, 2014.

The Nom&Gov has reviewed the multiple board representations held presently by the directors and is of the assessment that they are reasonable and do not hinder in any way, the performance of their duties to the Company.

The Non-Executive Directors actively participate in discussions and decision making at the Board and Board Committee levels, as well as in open and candid discussions with Management. They review and monitor the performance of Management against target goals and objectives.

Chairman of the Board
The Chairman of the Board, Mr. Manuel V. Pangilinan, represents shareholders and governs the functions of directors. He conforms to ethical and good CG principles to set a good example for directors, officers, and employees. He sets the agenda for Board meetings, ensures that every meeting proceeds properly, provides full opportunities for all directors to actively and freely express their opinions or suggestions, addresses governance-related issues that non-executive, independent directors may raise and ensures that the Board exercises strong oversight over the Company and its Management, such that the prospect of any corporate reputation risk is addressed. His roles and responsibilities are specified in the MCG which is accessible at the Company website.

Mr. Manuel V. Pangilinan, the Chairman of the Board, together with President and Chief Executive Officer Mr. Oscar S. Reyes, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, jointly set a clear agenda before each Board meeting.

Orientation and Continuing Education Programs
Each newly elected director is provided with a director's kit which contains policies that defines his duties and obligations as a director under the various laws and regulations. An in-house orientation programme, incorporating briefings from the corporate and regulatory units are arranged for the new director to better familiarize himself with the Company's businesses, stakeholders, regulatory environment and governance practices.

Corporate governance education continues with orientations and trainings for the Board and Senior Management. In fulfillment of the requirements of the Company's Manual of Corporate Governance, the Energy Regulatory Commission (ERC) Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on December 4, 2014, entitled "Corporate Governance Trends & Current Topics in Developed Economies & Their Application in the Philippines & Other ASEAN Countries".

The Senior Management attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on December 1, 2014, entitled "21st Century Leadership & Governance: Thriving Amid Change, Complexity & Lots of Choices" and on March 31, 2014, which was conducted by the Institute of Corporate Directors concerning the ASEAN

ATTENDANCE TO CORPORATE GOVERNANCE TRAINING AND CONTINUING EDUCATION PROGRAMS

Director	Program	Name of Training Institution
Manuel V. Pangilinan	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group Makati Shangri-La
	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School
Ray C. Espinosa	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	ASEAN Corporate Governance Scorecard Orientation	Ricardo Nicanor N. Jacinto Institute of Corporate Directors
	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group Makati Shangri-La
Jose Ma. K. Lim	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	ASEAN Corporate Governance Scorecard Orientation	Ricardo Nicanor N. Jacinto Institute of Corporate Directors
	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group Makati Shangri-La
Oscar S. Reyes	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group Makati Shangri-La
	Handling Ethical Dilemnas: Tools and Techniques	Gretchen A. Winter Center for Professional Responsibility in Business and Society Meralco Theater
	First Pacific Companies: Navigating the New World of Business	First Pacific Companies: Navigating the New World of Business
Artemio V. Panganiban	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group Makati Shangri-La
	First Pacific Companies: Navigating the New World of Business	Thomas Donaldson The Wharton School
Pedro E. Roxas	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong
	Ethics and Governance Failures in the Past (Board Responsibility)	Winthrop Swenson Compliance System Legal Group Makati Shangri-La
	First Pacific Companies: Navigating the New World of Business	First Pacific Companies: Navigating the New World of Business
Manuel M. Lopez	Knowledge Institute 6760 Ayala Avenue, Makati City	Cecile R. Galvez, Partner
Lance Y. Gokongwei	ASEAN Corporate Governance Scorecard Orientation	Ricardo Nicanor N. Jacinto Institute of Corporate Directors
	ATENEO-BAP Institute of Banking	Director, ATENEO-BAP Institute of Banking
James L. Go	SGV & Co. and Knowledge Institute 42 Floor Boardroom Robinsons Equitable Tower ADB Ave. cor. Poveda Road, Ortigas Center, Pasig City	Leonardo J. Matignas Jr., Partner
John L. Gokongwei, Jr.	Seminar on Corporate Governance	SGV (June 17, 2014)
Napoleon L. Nazareno	Corporate Governance: What to Expect from the SEC and Corporate Governance Trends and Current Topics in Developed Economies and Their Application in the Philippines and other ASEAN Countries	Mr. Graham Winter, a partner of global law office Gibson Dunn in Hong Kong

	Executive	Nomination and Governance	Audit	Risk Management	Remuneration and Leadership Development	Finance
Manuel M. Lopez	0/1	N/A	N/A	N/A	N/A	8/13
James L. Go	N/A	3/4	8/9	8/9	N/A	12/13
Manuel V. Pangilinan	2/2	N/A	N/A	N/A	4/4	N/A
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	12/13
Lance Y. Gokongwei	2/2	2/3	7/9	7/9	4/4	N/A
Jose Ma. K. Lim	N/A	3/4	5/9	5/9	0/1	N/A
Artemio V. Panganiban [1]	2/2	N/A	9/9	9/9	N/A	N/A
Napoleon L. Nazareno	1/1	3/3	N/A	N/A	2/3	N/A
John L. Gokongwei Jr.	0/1	N/A	N/A	N/A	N/A	9/9
Oscar S. Reyes	N/A	N/A	N/A	N/A	N/A	N/A
Pedro E. Roxas [1]	N/A	4/4	7/9	7/9	3/4	10/13
Ferdinand K. Constantino [2]	N/A	N/A	N/A	N/A	N/A	1/3
Anabelle L. Chua [2]	N/A	N/A	6/9	6/9	N/A	N/A

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

Corporate Governance Scorecard.

Board Committees
The Board has formed various Board Committees, namely Executive Committee (ExCom), Audit Committee (AuditCom), Risk Management Committee, Nomination and Governance Committee (Nom&Gov), Remuneration and Leadership Development Committee (RLDC) and Finance Committee (FinCom). The Board has delegated specific responsibilities to each of these Committees. These Committees have been formed and guided by their specific terms of reference or charters.

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

A. Executive Committee (ExCom) is composed of six (6) directors, one of whom is an independent director. The ExCom may act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it under the By-Laws, or upon a majority vote of the Board, subject to the limitations provided by the Corporation Code.

In 2014, the Executive Committee accomplished in its two (2) meetings:

- Evaluation of power supply and demand outlook
- Review of options regarding high Wholesale Electricity Spot Market (WESM) prices and Manual Load drops/Interruptible Load Program (ILP)
- Approval to enter into and execute short-term Power Supply Agreements (PSAs) under mutually acceptable terms, takes effect upon ERC approval
- Investment in a local power plant

B. Remuneration and Leadership Development Committee (RLDC) is composed of 5 directors, one of whom is an independent director. The duties and responsibilities of RLDC 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 based on the Company-approved philosophy and budget.

RLDC had four (4) meetings in 2014 to discuss:

- Review and approval of criteria for rank conferment
- Approval of candidates for rank conferment of First Vice President and Senior Vice Presidents
- Review and endorsement of Annual Bonus Plan for 2015
- Review of Toplighting Initiative's core actions and key objectives
- Review of proposed Executive Rightsizing Policy
- Review of performance evaluation plan results
- Review of merit increase programs
- Review of Annual Incentive Plan
- Presentation and review of proposed succession planning programs
- Performance evaluation of President and Chief Executive Officer (via presentation)

The RLDC evaluates and proposes payment of Directors' Fees for the approval of members in shareholders' meeting; and (ii) recommends to the Board a framework of remuneration and specific remuneration packages for Directors and key management, including the President and Chief Executive Officer.

For the sole Executive Director and key management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, options and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it is links rewards to corporate and individual performance. Independent directors receive per diem fees bases on their attendance to Board and Board Committee meetings. They do not receive options, performance shares or bonuses as these are schemes used in remuneration of management and may impair their independence.

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 PhP120,000 for every board meeting attended and PhP20,000 for every committee meeting.

Remuneration of Key Management and Employees
The Company adopts a remuneration policy for staff comprising fixed and variable components in the form of base salary and variable bonus linked to the Company's and the individual's performance. Compensation packages and revisions of key management's remuneration are subject to the review and approval of the RLDC.

Given the highly competitive industry conditions and in the interest of maintaining good morale and a strong spirit of teamwork within the Company, the Top 5 Key Officers of the Company have received an aggregate remuneration of PhP133 Million. For more information on the aggregate total remuneration paid to all key management, please refer to the discussion entitled Compensation of Key Management Personnel in the Notes to Consolidated Financial Statements.

Advisers/Consultants to RLDC
Towers Watson is a leading human resources consulting firm which provides professional services that helps organizations improve performance through effective people management. At present, it offers solutions to the Company in the areas of employee engagement and compensation and benefits management.

C. Nomination and Governance Committee (Nom&Gov) – This Committee is composed of five (5) directors with an independent director as

DETAILS OF 2014 BOARD REMUNERATION (in PhP)			
	Remuneration for AGM and Board Meetings Attended	Remuneration for Committee Meetings Attended	Total
EXECUTIVE DIRECTOR			
Oscar S. Reyes	1,560,000	-	1,560,000
EXECUTIVE DIRECTOR	1,560,000	-	**1,560,000**
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,440,000	110,000	1,550,000
Lance Y. Gokongwei	1,560,000	290,000	1,850,000
Manuel M. Lopez	720,000	90,000	810,000
Ray C. Espinosa	1,440,000	240,000	1,680,000
John L. Gokongwei, Jr.	1,200,000	-	1,200,000
Jose Ma. K. Lim	1,320,000	150,000	1,470,000
James L. Go	1,380,000	430,000	1,810,000
Napoleon L. Nazareno	960,000	110,000	1,070,000
Estelito P. Mendoza	120,000	-	120,000
ALL NON-EXECUTIVE DIRECTORS	10,140,000	1,420,000	**11,560,000**
INDEPENDENT DIRECTORS			
Pedro E. Roxas	1,380,000	460,000	1,840,000
Artemio V. Panganiban	1,560,000	210,000	1,770,000
ALL INDEPENDENT DIRECTORS	2,940,000	670,000	**3,610,000**
GRAND TOTAL	14,640,000	2,090,000	**16,730,000**

chairman. The duties and responsibilities of Nom&Gov as reflected in its charter includes screening qualified nominees for election as directors, assessing the independence of directors, introducing improvements on Board organization and procedures, setting-up of mechanisms for performance evaluation of the Board and Management, and providing programs for continuing education of the Board.

The Nom&Gov undertakes the process of identifying the quality of directors aligned with the Company's strategic directions. It reviews and recommends to the Board for the appointment of Directors and members to the Board Committees. The process involves identifying, reviewing and recommending potential candidates to the Board for consideration.

Nom&Gov has put in place a formal and transparent process for the appointment of new Directors to the Board.

Stakeholders who have identified suitable candidates submit the Nomination and Acceptance Letters, Full Business Interest Disclosure Forms and Curriculum Vitae of such candidates to Nom&Gov for discussion and review on or before the deadline set by the Nom&Gov.

These candidates are sourced from the business network of Board members and from professional search firms such as the Institute of Corporate Directors (ICD) to search for candidates to the Board. One of the Company's directors, who is also the President and Chief Executive Officer, Mr. Oscar S. Reyes is a Fellow of the ICD. The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer is also an ICD Fellow. These candidates would be skilled in core competencies such as strategic planning, business expertise, and industry knowledge.

The shareholders will then elect the directors during the Annual General Meeting of Shareholders (AGM) held every last Tuesday of May.

Upon appointment, the Company sends out a formal letter setting out the Director's roles and responsibilities and the new Director will then attend various briefings with Management.

The Nom&Gov had four (4) meetings in 2014 to accomplish:

- Meralco's Official ASEAN Corporate Governance Scorecard (ACGS)
- Review and Endorsement of Meralco's Consolidated Changes in Annual Corporate Governance Report (ACGR) for 2014
- Review of ACGS Results
- Review Meralco's PSE CG Guidelines Disclosure Survey
- Screening of Nominees to the Board of Directors
- Notice on Resignations of Directors; Consideration of Admission of Replacements
- Results of Board, Board Committee, and President and Chief Executive Officer assessment
- Review and Approval of Amended Gifts Policy Disclosure Procedures
- Review of 2014 ACGS Self-Assessment Results
- Review and Approval of Changes in Annual Corporate Governance Report (ACGR)
- Review and approval of Revised Manual on CG pursuant to SEC Circular No. 9
- Facilitation of Annual CG Enhancement and Continuing Education Programs
- Review and Approval of Revised Insider Trading Policy
- Review of 2014 ACGS Results

D. Audit Committee (AuditCom) – The AuditCom consists of two (2) independent directors, and one (1) of them has over 20 years of experience in the areas of accounting, corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. for 10 years.

The AuditCom had nine (9) meetings in 2014 to discuss:

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

- Financial Reporting
  - Reviewed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Company including management's significant judgment and estimates in respect of the Company's financial statements and the management's representation to the external auditors
  - Recommended to the Board the approval of the Audited

Consolidated Financial Statements of the Company as at and for the year ended December 31, 2014 and their consequent filing with the SEC and other regulatory bodies.

- Audit Process
  - Assessed the independence, performance and effectiveness of the External Auditors, SyCip, Gorres, Velayo & Co., CPAs (SGV) taking into consideration the credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board as the External Auditors of the Company with the assurance that the lead audit partner complies with Rule 68 of the Securities Regulation Code on the rotation of External Auditors
  - Held executive sessions with the External Auditors without the presence of management
  - Reviewed the approved audit plan, scope of work and proposed fees of SGV for audit and other related services
  - Reviewed and approved the Annual Internal Audit Plan
  - Discussed and dissected the results of audits reported by the Chief Audit Executive in her quarterly reports to the Committee
  - Monitored the audit recommendations of the Internal Audit and discussed management's approach on corrective actions
  - Assessed Internal Audit's performance for the preceding year
- Compliance
  - Reviewed and assessed management's process of monitoring compliance with laws and regulations through Internal Audit
  - Obtained updates on the status of compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the ERC, SEC and other regulators concerned with environment and safety, labor and others.

E. Risk Management Committee – consists of two (2) independent directors to assist the Board in its oversight role on the risk management process. The following activities were accomplished by the Committee:

- 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.

F. Finance Committee or FinCom – This 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 financial operations of the Company and matters regarding major purchase contracts, and acquisition and/or divestment of investments, businesses or ventures.

In its 13 meetings in 2014, its major accomplishments were:

- Review and approval of all supply contracts in excess of PhP50 million
- Review and approval of Treasury Investment Policy

- Review and approval of Cash Optimization Strategy (allocation of cash to 2 portfolios)
- Review of Investment and Accreditation Policy
- Approval of creation of Investment Committee
- Review and approval of PSA's and any changes or issues regarding their execution
- Review of quarterly financial statements
- Review and approval of 2015 budget and 2015-2019 Business plan and forecast
- Review additional capital call, surety bonds, capital infusions for subsidiaries
- Declaration of cash dividends
- Authorization for tax debit memo
- Review of special payment agreements
- Review of Equity call
- Review of investments
- Review and endorsement of WESM surety bond for RES transactions

Board, Committee and CEO 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 their duties.

The Board conducted the performance assessment on February 23, 2015, through employment of the following assessment forms, with the following processes and criteria:

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

2. General Board Committee Performance Assessment – each director assessed the overall performance of the 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.

4. President and Chief Executive Officer Performance Assessment – each director assessed the President and Chief Executive Officer's leadership, working relations with the Board, communication and working relations with Management.

On the assessment forms, the Board gives its opinions and suggestions or identifies special issues of interest about its performance on different aspects of the Company's operation.

The Corporate Governance Office sends these assessment forms to every director, collects the completed forms, prepares a summary report, and submits it to the Nomination and Governance Committee and the Board as an agenda item for acknowledgment and discussion.

Corporate Secretary
All Board members have direct and independent access to the Corporate Secretary as well as Management. The Corporate Secretary, under the direction of the Chairman, is responsible for ensuring good information flows within the Board and Board Committees and between Management and Non-Executive Directors, as well as facilitating orientation and assisting with professional development of Directors as required.

Among the duties of the Office of the Corporate Secretary are the following:
- Schedule and inform the Board ahead of their Board meetings and other related activities;
- Provide the necessary board papers associated with items on the meeting agenda at least five business days ahead of the Board meetings;
- Provide ready and reasonable access to information that directors may need for their deliberation on issues listed on the agenda of the Board;
- Assist the Board in the performance of its duties;
- 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 April 2, 2014 to the newly elected directors Messrs. Napoleon L. Nazareno and John L. Gokongwei, Jr.

The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer met the following qualifications and skills required by his position:

- Resident Filipino citizen of good moral character;
- With adequate legal, administrative, basic accountancy, company secretarial and interpersonal skills;
- With continuing education and regular update of the laws, rules and regulations necessary for his position;
- With working knowledge of the operations of the Company and loyal to the Company mission, vision and objectives.

Disclosure and Transparency
To promote stakeholder confidence and compliance to regulatory requirements, the Company releases announcements including its quarterly and full year financial results through the SEC, PSE and PDEx for market dissemination. These provide the shareholders, members of the public as well as investors a balanced and informed assessment of the Group's performance, position and prospects.

Highlights of the Company's 2014 Audited Consolidated Financial Statement was released on February 23, 2015, 54 days after financial year end. The true and fair representation of the annual financial reports are affirmed by the Board through the Chairman, President and Chief Executive Officer and Chief Finance Officer of the Company on the Statement of Management's Responsibility section of this Annual Report.

Through Analyst's and Media Briefings, the officers of the Company, such as the President and Chief Executive Officer, Chief Finance Officer and Investor Relations team present information on performance results, business progress, industry trends, impact of external factors and regulations to shareholders, analysts, investors and media every quarter. 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 participate. Investors can get in touch with the Company's Investor Relations Office located at 5/F of Lopez Building in Meralco Center, Ortigas Avenue, Brgy. Ugong, Pasig City, 1605 Philippines with the e-mail address: investor.relations@meralco.com.ph.

Internal Audit
The Company's Internal Audit Office is a key instrument in safeguarding the efficiency and effectiveness of the Company's operations, the accuracy and reliability of financial reports, and strict compliance to relevant laws and regulations. Internal Audit's scope of work is to ensure that all employees perform their duties in strict compliance with the Company's policies, standards, work procedures, regulations, and applicable laws.

The tasks of Internal Audit are set out in the Corporate Audit Charter and the Code of Corporate Governance of the Company, in monitoring control of financial reporting process and internal control system; information technology security and control; auditing process; enterprise risk management; and compliance. The employees' level of understanding of these mechanisms are constantly enhanced at all levels via the respective lines of command and the Company's various communication media.

Assessment on the adequacy of the Company's internal control system is undertaken annually by relevant business responsibility units and Internal Audit, through a risk-based internal audit plan approved by the Audit and Risk Management Committee. The Internal Audit Group issues reports to Senior Management and the Audit and Risk Management Committee 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 by the Audit and Risk Management Committee and reported to the Board for consideration and opinions. Significant concerns, which have been reported by the internal audit group, and the implementation of responsive remedial measures, are monitored by Management and by the AuditCom. The Audit and Risk Management Committee Report in this Annual Report discloses that the board of directors has conducted a review of and has found adequate the company's material controls (including operational, financial and compliance controls) and risk management systems.

The Company's Internal Audit Group is headed by the Chief Audit Executive and First Vice President, Ms. Helen T. de Guzman, who reports functionally to the AuditCom and administratively to the President and Chief Executive Officer as outlined in the Company's Corporate Audit Charter. The appointment and removal of the internal auditor require the approval of the AuditCom.

CONSOLIDATED EXTERNAL AUDITOR'S FEES* (IN MILLION PhP)

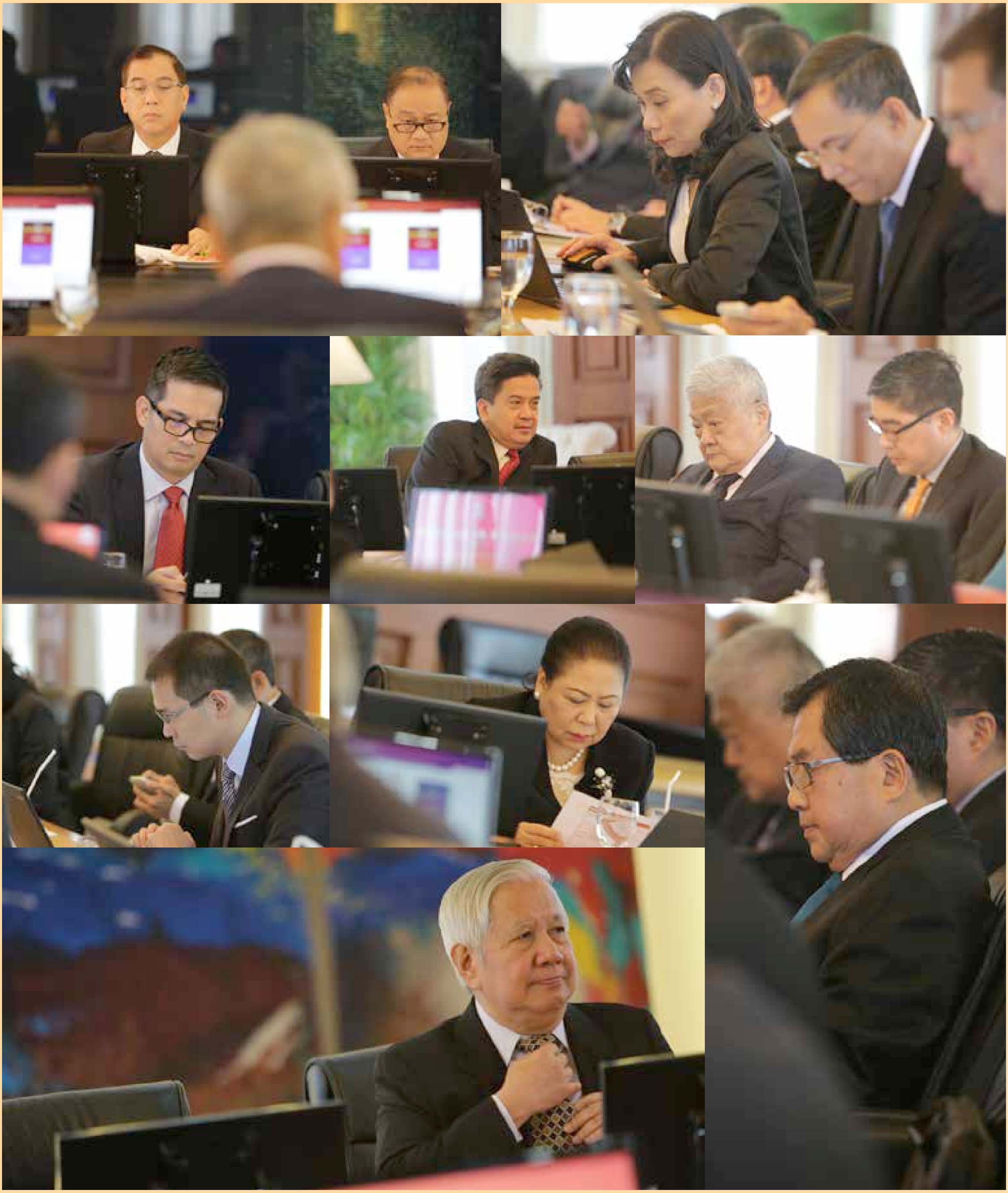
	2014	2013
Financial Statements Audit	7.0	6.5
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the Energy Regulatory Commission	0.3	-
Review of interim consolidated financial statements in relation to MERALCO bond offering	-	1.8
Total	**7.3**	**8.3**

The non-audit services do not exceed the audit services. In fact, no non-audit services were performed by the external auditors in 2014.

* Exclusive of Value Added Tax (VAT).

External Audit
The Company's external auditors, SGV were evaluated, nominated and recommended for appointment including their audit fees by the AuditCom, and such recommendation was approved by the Board. The re-appointment of SGV was thereafter confirmed by the shareholders in the AGM held on May 27, 2014.

Corporate Governance Advocacies and Outlook
In pursuit of further improvements in the discipline of governance, the Company, along with PLDT and SMART Communications, is actively involved with national and international CG advocates and organizations such as the Good Governance Advocates and Practitioners of the Philippines (GGAPP) and the Ethics and Compliance Officers Association (ECOA). The Company regularly participates in best practice and knowledge-sharing events organized by GGAPP and ECOA with CG practitioners, Board and Senior Management, as unified by their CG principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.



SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS as of December 31, 2014

(As disclosed to the SEC/PSE/PDEx on January 13, 2015)

Name	Starting Balance[1]	Buy[2]	Sell[2]	Ending Balance	Direct Holdings[3]	Indirect Holdings[3]	Total Shares[3]	% to Total Share[3]
A. Directors								
1. Manuel V. Pangilinan - Chairman	25,000	-	-	25,000	25,000	-	25,000	0.00%
2. Lance Y. Gokongwei - Vice-Chairman	10	-	-	10	10	-	10	0.00%
3. Oscar S. Reyes - President/CEO	268	-	-	268	268	-	268	0.00%
4. Ray C. Espinosa	21,000	-	-	21,000	21,000	-	21,000	0.00%
5. James L. Go	10	-	-	10	10	-	10	0.00%
6. John L. Gokongwei, Jr.	-	10	-	10	10	-	10	0.00%
7. Napoleon L. Nazareno	-	1,210	-	1,210	1,210	-	1,210	0.00%
8. Jose Ma. K. Lim	10	-	-	10	10	-	10	0.00%
9. Manuel M. Lopez	796,625	199,493	-	996,118	996,118	-	996,118	0.09%
Manuel M. Lopez &/or Ma. Teresa Lopez	1,449,293	-	-	1,449,293	1,449,293	-	1,449,293	0.13%
10. Pedro E. Roxas	1,000	-	-	1,000	1,000	-	1,000	0.00%
11. Artemio V. Panganiban	1	-	-	1	1	-	1	0.00%
TOTAL	**2,293,217**	**200,713**	**-**	**2,493,930**	**2,493,930**	**-**	**2,493,930**	**0.22%**
B. Executive Officers with shareholdings in the Company								
1. Simeon Ken Ferrer - Corporate Secretary	767	-	-	767	767	-	767	0.00%
2. Roberto R. Almazora	56,674	36,408	-	93,082	93,082	-	93,082	0.01%
3. Alfredo S. Panlilio	668	-	-	668	668	-	668	0.00%
4. Ramon B. Segismundo	6,500	-	-	6,500	6,500	-	6,500	0.00%
5. Rafael L. Andrada	20,000	-	-	20,000	20,000	-	20,000	0.00%
6. Ruben B. Benosa	11,731	18,761	-	30,492	30,492	-	30,492	0.00%
7. Helen T. de Guzman	4,091	22,002	-	26,093	26,093	-	26,093	0.00%
8. Ivanna G. dela Peña	26,731	-	-	26,731	26,731	-	26,731	0.00%
9. Antonio M. Abuel, Jr.	-	10,427	-	10,427	10,427	-	10,427	0.00%
10. Ronnie L. Aperocho	-	14	-	14	14	-	14	0.00%
11. Angelita S. Atanacio	-	1,000	-	1,000	1,000	-	1,000	0.00%
12. Marthyn S. Cuan	2,150	0	-	2,150	2,150	-	2,150	0.00%
14. Manolo C. Fernando	14,456	21,274	-	35,730	35,730	-	35,730	0.00%
15. Ferdinand O. Geluz	1,000	12,877	-	13,877	13,877	-	13,877	0.00%
16. Nixon G. Hao	2,791	-	-	2,791	2,791	-	2,791	0.00%
17. Ernie G. Imperial	-	460	-	460	460	-	460	0.00%
18. Fortunato C. Leynes	-	6,000	-	6,000	6,000	-	6,000	0.00%
19. Nestor P. Sarmiento	18,976	-	18,653	323	323	-	323	0.00%
20. Liza Rose G. Serrano Diangson	16,294	22,689	-	38,983	38,983	-	38,983	0.00%
21. Manuel Lorenzo L. Tuason	22,180	-	-	22,180	22,180	-	22,180	0.00%
22. Ireneo Bonifacio Acuna	-	18,355	-	18,355	18,355	-	18,355	0.00%
23. Redentor Leonor Marquez	-	22,116	-	22,116	22,116	-	22,116	0.00%
TOTAL	**205,009**	**192,383**	**18,653**	**378,739**	**378,739**		**378,739**	**0.01%**

PRINCIPAL, STRATEGIC AND SUBSIDIARIES/AFFILIATES SHAREHOLDINGS as of December 31, 2014

(As disclosed to the SEC/PSE/PDEx in 2014) Name	Starting Balance[1]	Buy[2]	Sell[2]	Ending Balance	Direct Holdings[3]	Indirect Holdings[3]	Total Shares[3]	% to Total Share[3]
A. Principal Stockholder								
Beacon Electric Asset Holdings, Inc.	563,124,042	-	56,354,936	506,769,106	506,769,106	-	506,769,106	44.96%
JG Summit Holdings Inc.,	153,191,489	152,497,908	-	305,689,397	305,689,397	-	305,689,397	27.12%
JG Summit Holdings Inc., (PCD Nominee)	152,497,908	-	152,497,908	-	-	-	-	0.00%
TOTAL	**868,813,439**	**152,497,908**	**208,852,844**	**812,458,503**	**812,458,503**	**-**	**812,458,503**	**72.08%**
B. Strategic Stockholder								
Metro Pacific Investments Corporation	-	56,354,936	-	56,354,936	56,354,936	-	56,354,936	5.00%
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**	**56,354,936**	**-**	**100,830,642**	**100,830,642**	**-**	**100,830,642**	**8.95%**
C. Subsidiaries and Affiliates								
Corporate Information Solutions, Inc.	12,526	-	-	12,526	12,526	-	12,526	0.00%
TOTAL	**12,526**	**-**	**-**	**12,526**	**12,526**	**-**	**12,526**	**0.00%**

[1]Based on the January 14, 2014 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2013.
[2]Based on the SEC/PSE/PDEx Disclosures on Statement of Beneficial Ownerships for the year 2014.
[3]Based on the January 13, 2015 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2014.

MANUEL V. PANGILINAN, 68

Director (since May 26, 2009 – 5 years)
President and Chief Executive Officer (from July 1, 2010 to May 28, 2012)
Chairman (since May 29, 2012)

Mr. Pangilinan is the Chairman of Philippine Long Distance Telephone Company (PLDT)*. He also serves as Chairman, or Vice Chairman, or Board Director of Smart Communications Incorporated, Metro Pacific Investments Corporation*, Landco Pacific Corporation, Makati Medical Center, Cardinal Santos Medical Center, Davao Doctors Incorporated, Riverside Medical Center Incorporated in Bacolod City, Our Lady of Lourdes Hospital, Asian Hospital Incorporated, Maynilad Water Services Corporation (Maynilad), Mediaquest Incorporated, Associated Broadcasting Corporation (TV5), Philex Mining Corporation*, Philex Petroleum Corporation, Roxas Holdings, Incorporated*, and Manila North Tollways Corporation.

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.

OSCAR S. REYES, 68

Director (since July 1, 2010)
Chief Operating Officer (July 1, 2010 to May 28, 2012)
President and Chief Executive Officer (since May 29, 2012)

Mr. Reyes is a member of the Advisory Board of the Philippine Long Distance Telephone Company (PLDT)* and of the Board of Directors of the Bank of the Philippine Islands, Manila Water Company, Inc.*, PLDT Communications and Energy Ventures Inc., Basic Energy Corporation*, Cosco Capital Inc.*, Pepsi Cola Products Philippines, Inc.* (Chairman), Sun Life Financial Phils., Inc., among other firms. He is also president of Meralco PowerGen Corporation (MGen) and Chairman of Meralco Industrial Engineering Services Corporation (MIESCOR), Miescorrail, Inc., CIS Bayad Center, Meralco Energy, Inc. (MEI), Redondo Peninsula Energy Inc., and PacificLight Pte. Ltd. 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 Board of Trustees of One Meralco Foundation, Inc., Pilipinas Shell Foundation, Inc., SGV Foundation, Inc. and El Nido Foundation, Inc.

Mr. Reyes completed his Bachelor of Arts degree in Economics at the Ateneo de Manila University, cum laude, and did post-graduate studies at the Ateneo Graduate School of Business, Waterloo Lutheran University and the Harvard Business School.

Our Guiding Leadership

RAY C. ESPINOSA, 58

Director (since May 26, 2009 - 5 years)

Mr. Espinosa is a member of the Board of Directors of Philippine Long Distance Telephone Company (PLDT)*, Manila Electric Company (MERALCO)*, Metro Pacific Investment Corporation*, Roxas Holdings, Inc.*, and also an independent director of Lepanto Consolidated Mining Company (Lepanto)*. He is a director of Meralco PowerGen Corporation, Mediaquest Holdings, Inc., TV5 Network, Inc., and Mediascape, Inc. (Cignal TV). He is the chairman of the Philstar Daily, Inc. and BusinessWorld Publishing Corporation, chairman of the Finance Committee of MERALCO*, and chairman of the Audit Committee of Lepanto*. He is the General Counsel of MERALCO and Head of PLDT's* Regulatory Affairs and Policy Office. He is also a trustee of the Beneficial Trust Fund of PLDT*.

Mr. Espinosa joined First Pacific in June 2013. He is First Pacific Group's Head Government and Regulatory Affairs and Head Communications Bureau for the Philippines.

Mr. Espinosa has a Master of Laws degree from the University of Michigan Law School and is a member of the Integrated Bar of the Philippines. He was a partner of SyCip Salazar Hernandez & Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington D.C., USA) from 1987 to 1988, and a law lecturer at the Ateneo de Manila School of Law from 1983 to 1985 and 1989. He ranked first in the 1982 Philippine Bar examination.

JAMES L. GO, 75

Director (since December 16, 2013)

Mr. Go is the Chairman and Chief Executive Officer of JG Summit Holdings, Inc.* and Oriental Petroleum and Minerals Corporation*; Chairman of Robinsons Land Corporation*, Universal Robina Corp.*, 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.*, Marina Center Holdings Private Limited., United Industrial Corporation Limited, Hotel Marina City Private Limited and the Philippine Long Distance Telephone Company (PLDT)*. He is also the President and Trustee of Gokongwei Brothers Foundation, Inc.

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

JOHN L. GOKONGWEI, JR., 88

Director (since March 31, 2014)**

Mr. Gokongwei is the Chairman Emeritus and a member of the Board of Directors of JG Summit Holdings, Inc.* and certain of its subsidiaries including Universal Robina Corporation*, Robinsons Land Corporation* and JG Summit Petrochemical Corporation. He is currently the Chairman of the Gokongwei Brothers Foundation, Inc., Chairman and Chief Executive Officer of Robinsons Retail Holdings, Inc., Deputy Chairman and Director of United Industrial Corporation Limited. He is also the Chairman Emeritus of Robinsons Bank Corporation. He is a director of Cebu Air, Inc.*, Oriental Petroleum and Minerals Corporation*, Marina Centre Holdings Private Limited and A. Soriano Corporation*.

Mr. Gokongwei received his Masters in Business Administration from De La Salle University, and took the Advance Management Program from Harvard University in Boston, Massachusetts.

*Publicly Listed Company
**Replaced Ramon S. Ang
***Replaced Estelito P. Mendoza

Board of Directors

AMB. MANUEL M. LOPEZ, 72

Director (since April 14, 1986 - 28 years)
Chairman and Chief Executive Officer (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 Chief Executive Officer of Lopez Holdings Corporation* and is the Chairman of Indra Philippines, Inc., Rockwell Land Corporation*, and Rockwell Leisure Club. He is also the President of Eugenio Lopez Foundation Inc., Vice President of First Philippine Holdings Corporation*, and Lopez Inc., and a Director at ABS-CBN Corporation*, ABS-CBN Holdings Corp.*, Sky Cable Corporation, and Lopez Group Foundation Inc..

Mr. Lopez holds a Bachelor of Science in Business Administration and completed the Harvard Program for Management Development.

LANCE Y. GOKONGWEI, 48

Director and Vice- Chairman (since December 16, 2013 – 1 year)

Mr. Gokongwei is the President and Chief Operating Officer of JG Summit Holdings, Inc.*, and the President and Chief Executive Officer of Cebu Air, Inc.*, Universal Robina Corporation*, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is also the Vice Chairman and Chief Executive Officer of Robinsons Land Corporation*, and Chairman of Robinsons Bank Corporation. Concurrently, he is the Vice Chairman of Robinsons Retail Holdings, Inc. and a Director of Oriental Petroleum and Minerals Corporation* and United Industrial Corporation Limited. He is a trustee and the secretary of the Gokongwei Brothers Foundation, Inc.

He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania, summa cum laude.

JOSE MA. K. LIM, 62

Director (since May 29, 2012 – 2 years)

Mr. Lim is the President and Chief Executive Officer of Metro Pacific Investments Corporation (MPIC)*, the leading infrastructure investment firm in the Philippines. MPIC has investments in water distribution, electricity, toll roads and hospitals.

Mr. Lim was appointed President and Chief Executive Officer in 2006 and is currently a director in MPIC's subsidiaries and affiliate companies namely, Manila Electric Company*, Maynilad Water Corporation, Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Medical Doctors Inc., Cardinal Santos Medical Center and Indra Philippines, among others. He also serves as Chairman of Davao Doctor's Hospital, Riverside Medical Center and Asian Hospital.

Mr. Lim holds a Bachelor of Arts degree in Philosophy from the Ateneo de Manila University and received his MBA degree from the Asian Institute of Management.

*Publicly Listed Company
**Replaced Ramon S. Ang
***Replaced Estelito P. Mendoza

Our Guiding Leadership

(RET.) CHIEF JUSTICE ARTEMIO V. PANGANIBAN, 78
Independent Director (since May 27, 2009 - 5 years)

Independent Director Panganiban was a former Chief Justice of the Supreme Court of the Philippines. He was concurrently Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. At present he is also an Independent Director of Petron Corporation*, Bank of the Philippine Islands*, First Philippine Holdings Corporation*, Philippine Long Distance Telephone Company*, Metro Pacific Investments Corporation*, Robinsons Land Corporation*, GMA Network, Inc.*, GMA Holdings, Inc.* and Asian Terminals, Inc.*, Non-executive Director of Jollibee Foods Corporation*, Senior Adviser of Metropolitan Bank and Trust Company and Adviser of Double Dragon Properties Corporation. He is likewise a columnist for the Philippine Daily Inquirer.

Chief Justice Panganiban 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.

NAPOLEON L. NAZARENO, 65
Director (2009-2011 and 2014 – 3 years)***

Mr. Nazareno is the Chairman of the Board of PLDT Communications and Energy Ventures, Inc. (PCEV) since June 28, 2011. He served as President and Chief Executive Officer of PLDT Communications and Energy Ventures, Inc. (PCEV) from November 1998 to January 2003 and from November 2004 to June 2011 and as Chairman of the Board from February 2003 to November 2004. He is concurrently the President and Chief Executive Officer of Smart Communications, Inc. and Philippine Long Distance Telephone Company*, positions he has held since January 2000 and February 2004, respectively. He also serves as Chairman of the Board of Smart Broadband, Inc., i-Contacts Corporation, Smart eMoney, ePLDT Inc., Digital Telecommunications Phils. Inc., and Digitel Mobile Phils Inc.; and as President of Aces Phils. Inc. and Connectivity Unlimited Resources, Inc., which are subsidiaries of Smart. His other directorships include, among others, Manila Electric Company*, Meralco PowerGen Corporation, PLDT Global Investments Holdings, Inc., SPi Technologies, Inc., SPi CRM, Inc. and PLDT Global Corporation. He is also a non-executive director of First Pacific Company Limited. He was recently appointed as Supervisory Board Member of Rocket Internet AG.

Mr. Nazareno is also the Chairman of the Board of Trustees and Governors of Asian Institute of Management, a Governor of the Management Association of the Philippines, and a member of the Council of Advisors of the DLSU – Graduate School of Business and Philippine-Thailand Business Council, among others. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best Managed Companies and Corporate Governance Polls conducted by Asia Money and was recently awarded the Telecom CEO of the Year at the 15th Telecoms Asia Awards in Bangkok.

Mr. Nazareno obtained his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France. Recently, the University of San Carlos in Cebu conferred on him the Doctor of Technology Honoris Causa degree.

PEDRO E. ROXAS, 58
Independent Director (since May 25, 2010 - 4 years)

Mr. Roxas is the Chairman of Roxas Holdings, Inc. he is also the President/Chief Executive Officer and Chairman of Roxas and Company, Inc.*. Concurrently, he is a Director and the President of Fundacion Santiago, Director of Brightnote Assets Corporation, Chairman of Club Punta Fuego Inc., Trustee at Philippine Business for Social Progress, and an Independent Director for BDO Private Bank and Philippine Long Distance Telephone Company*.

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

Corporate Officers and Advisor

ROBERTO R. ALMAZORA, 54
Senior Vice President
Head, MPower

Mr. Almazora heads MPower, the Local Retail Electricity Supplier business segment of Meralco. Prior to his current assignment, he held various executive positions during his 27 years with Meralco and served as Director in various subsidiary / affiliate boards. 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 a resource speaker in various energy conferences and served as an energy adviser to business groups and associations.

Mr. Almazora 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.

RAFAEL L. ANDRADA, 54
First Vice President and Meralco Group Treasurer

Mr. Andrada is a director 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.

RONNIE L. APEROCHO, 46
First Vice President
Head, Networks (since July 2014)

Mr. Aperocho is a member of the Board of Directors of General Electric Philippines Meter and Instrument Company, Inc., Miescorrail, Inc., and Meralco Employees Mutual Aid and Benefit Association, Inc.

He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and was the topnotcher (Rank No. 1) in the October 1991 Electrical Engineering Board Exams. He is currently attending the Masters in Business Administration progam at the J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

Our Guiding Leadership

RUBEN B. BENOSA, 58
First Vice President
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 Customer Frontline Solutions, Inc.

Mr. Benosa holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and completed his Masters in Management at the Asian Institute of Management.

RICARDO V. BUENCAMINO, 70
Senior Executive Vice President
Head, Networks (up to June 30, 2014)

Mr. Buencamino is the Vice Chairman of General Electric Philippines Meter & Instrument Company, Inc. and Meralco Energy, Inc.; a director of Clark Electric Distribution Corporation, 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 is a licensed 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. He is also IIEE's 2005 Most Outstanding Electrical Engineer - Corporate Management Category.

MARTHYN S. CUAN, 35
Vice President
Chief Information Officer

Mr. Cuan is a director of Radius Telecoms, Inc. and Indra Philippines. He is a member of Intel's Enterprise Board of Advisors; Advisory Committee for the Automated Fare Collection System; and in the Information Technology Management Service (ITMS) Advisory Council for the Philippine National Police. He is also Vice President and founding member of the 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.

IVANNA G. DE LA PEÑA, 60
First Vice President and
Head, Regulatory Management Office

Ms. De la Peña 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.

Ms. De la Peña 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.

Corporate Officers and Advisor

SIMEON KEN R. FERRER, 58
Corporate Secretary (since May 26, 2009)

Atty. Ferrer is the Corporate Secretary of Century Peak Metals Holdings Corporation, a public company. He is also a board member of various non-public companies. He is a Senior Partner of SyCip Salazar Hernandez & Gatmaitan, the largest law firm in the Philippines, where he heads the Corporate Services Department and the Hiring Committee. 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, 37
Vice President
Head, Corporate Business Strategy

Mr. Ravelo is concurrently the President and Chief Executive Officer, and a member of the Board Directors of Radius Telecoms, Inc. Prior to joining Meralco, he was part of McKinsey and Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide ranges of industries.

Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration (with majors in Strategic Management and Marketing) at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo was also a former Trustee of the Wharton-Penn Alumni Association, Inc.

RAMON B. SEGISMUNDO, 57
Senior Vice President and Head,
Human Resources and Corporate Services

Mr. Segismundo is the Chief Human Resources Officer of Meralco. He is also the Chairman of Customer Frontline Solutions, Inc., and President and Trustee of the Meralco Power Academy. He holds membership in various boards including One Meralco Foundation, Inc., Meralco Pension Fund, Meralco Industrial Engineering Services Corporation (Miescor), CIS Bayad Center, Inc., Miescorrail, Inc., General Electric Philippines Meter & Instrument Company, Inc., and the Manila Electric Futbol Club, Inc. He served as Chairman of the Philippine Basketball Association (PBA) (2013-2014) and was a PBA Governor representing Meralco Bolts from 2010- July 2014. While in the US, he was a member of the Society of Human Resources Management and acquired certifications as Senior Professional in HR (SPHR) and Global Professional in HR (GPHR). He was previously with GlaxoSmithKline, Arthur Andersen/Sycip Gorres Velayo & Co., Wyeth Pharmaceuticals, SmithKline Beecham and Sterling Winthrop.

Mr. Segismundo holds a Bachelor of Science degree in Industrial Engineering and earned his Master's degree in Business Administration, both from the University of the Philippines.

ALFREDO S. PANLILIO, 51
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 Philippines Meter and Instrument Company, 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.; President of MVP Sports Foundation, Inc.; First Vice President for the Samahang Basketbol ng Pilipinas (SBP) and Treasurer, National Golf Association of the Philippines (NGAP). He is also the Philippine Basketball Association (PBA) Governor for the Meralco Bolts and governor for the Management Association of the Philippines. He has 30 years of experience with telecommunications and information systems. Prior to joining Meralco, he was the President and Chief Executive Officer of PLDT Global based in Hong Kong.

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/The Hong Kong University of Science and Technology.

Our Guiding Leadership

BETTY C. SIY-YAP, 53
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, Redondo Peninsula Energy, Inc., 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 and One Meralco Foundation, Inc. She is the Treasurer of the MVP Sports Foundation, Inc. and First Pacific Learning Academy, Inc. She is the Vice Chairman of the Board of Accountancy of the Professional Regulation Commission and a member of the Holdings Market Governance Board of the Philippine Dealing System Corp. She was a Partner at SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) before joining Meralco.

Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Masters in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

WILLIAM S. PAMINTUAN, 53
First Vice President
Deputy General Counsel, Assistant Corporate Secretary, Compliance Officer and Head, Legal and Corporate Governance Office

Atty. Pamintuan is the Corporate Secretary of Meralco PowerGen Corporation, Atimonan Land Ventures, Inc., Calamba Aero Power Corporation, Atimonan One Energy, Inc. (formerly Luzon Natural Gas Energy Corporation), Kalilayan Power, Inc., MPG Holdings Phils., Inc., MPG Mauban LP Corporation, Redondo Peninsula Energy, Inc., Miescorrail, Inc., Meralco Industrial Engineering Services Corporation and First Pacific Leadership Academy, Inc. He was a former Director of Miescorrail, Inc.; former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc.; and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc.

Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

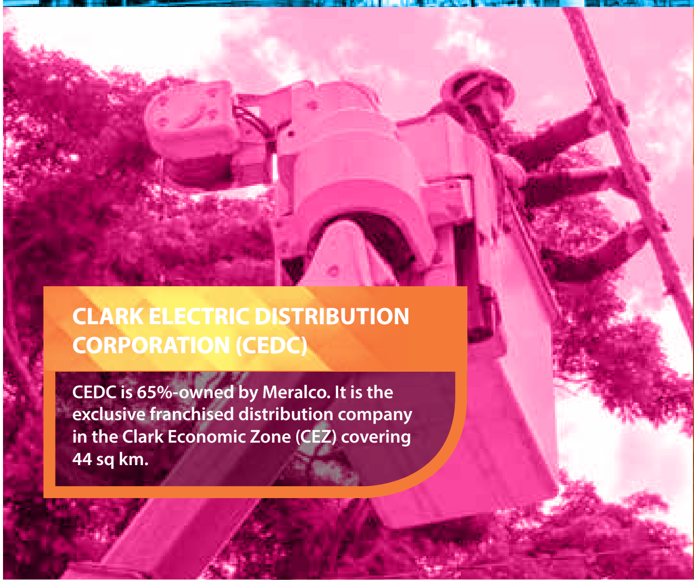
GAVIN D. BARFIELD, 36
Chief Technology Advisor

Mr. Barfield was involved in the design and development of both the Singapore National Energy Market (NEMS) and the Philippines Wholesale Electricity Spot Market (WESM). He was a key advisor to government agencies in energy market developments and regulatory issues, including the introduction of competition and open access. Gavin worked extensively for Singapore Power in the design and development of the IT systems that support the Singapore Electricity Market. He has also helped companies across multiple industries in defining and implementing their technology strategy and leading large software development projects. Prior to joining Meralco, Mr. Barfield led Pöyry Energy Consulting in Asia Pacific and PA Consulting's operations in South East Asia.

Mr. Barfield holds a Bachelor of Science Degree (First Class) in Computing and Management from Loughborough University in the United Kingdom.

MERALCO PowerGen Corporation (MGen)

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.



CLARK ELECTRIC DISTRIBUTION CORPORATION (CEDC)

CEDC is 65%-owned by Meralco. It is the exclusive franchised distribution company in the Clark Economic Zone (CEZ) covering 44 sq km.

CORPORATE INFORMATION SOLUTIONS, INC. (CIS)

CIS is a wholly-owned subsidiary of Meralco. CIS, through CIS Bayad Center, Inc. (CBCI), is engaged in the business of bills payment collection. 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.

MERALCO ENERGY, INC. (MServ)

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 service company through its two flagship services: strategic loadside outsourcing, and energy efficiency solutions.

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 1,030 square meters houses several retail establishments.

MERALCO INDUSTRIAL ENGINEERING SERVICES CORPORATION (MIESCOR)

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

RADIUS TELECOMS, INC. (Radius)

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.

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.

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 RSIC, 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.

MIESCORRAIL, INC.

Miescorrail, Inc. is 100% owned by Meralco. Incorporated in 2009, it is engaged in the business of engineering, construction and maintenance of mass transit system.

Audit Committee Report

REPORT OF THE AUDIT COMMITTEE

The Audit Committee ("Committee") is composed of five (5) directors and one non-voting member; two (2) are independent directors while the rest are non-executive directors. All members of the Committee have professional qualifications and have adequate background in business, finance, law, management and accounting.

In accordance with its oversight responsibilities, the Committee held six (6) regular meetings and three (3) special meetings during the year. The following important activities were tackled, and immediately reported to the Board:

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.
- Reviewed the External Auditor's report on the audit of the 2014 financial statements and discussed areas of audit emphasis.
- Reviewed Management's representation letter to the External Auditors.
- Reviewed in detail and recommended to the Board of Directors the approval of the Audited Consolidated and Parent Company Financial Statements for the year ended December 31, 2014.
- Reviewed and approved the Implementing Rules and Regulations (IRR) of the Related Party Transaction Policy of the Company.
- Reviewed the composition, activities and accomplishments of the Audit Committees of the subsidiaries.

Audit and Controls Processes, the internal and external auditors

- Obtained Management's assurance on the adequacy and effectiveness of the Company's internal control system.
- 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.
- 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 and the Shareholders as the External Auditors of the Company for the ensuing year.
- Reviewed and approved the audit plan, scope of work and proposed fees of SGV for the audit of the 2014 financial statements.
- Reviewed the management letters issued by the External Auditors after the completion of audits of the financial statements for the CY 2012 and 2013.
- Held executive session with the External Auditors without the presence of Management.
- Reviewed and approved the Internal Audit Plan for CY2014, the related key performance indicators and the subsequent changes to the plan as needed.
- Discussed and dissected the results of audits reported by the Chief Audit Executive in her quarterly status reports to the Committee.
- Reviewed and discussed the 2013 and 2014 Annual Reports of performance of the Internal Audit unit.
- Monitored the audit recommendations of Internal Audit and discussed Management's appropriate corrective actions.
- Assessed Internal Audit's performance for the preceding year.

Compliance

- Reviewed and assessed Management's processes of monitoring compliance with laws and regulations.
- Reviewed the Internal Audit reports on the status and disposition of the funds for the Supreme Court-ordered refund as of December 31, 2013.
- Reviewed and noted the Internal Audit report on the Company's process in communicating the Codes of Conduct to the personnel and management and the related compliance monitoring for these Codes as of December 31, 2013.
- Obtained updates on the status of regulatory compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the Bureau of Internal Revenue and the Securities Exchange Commission.

February 20, 2015

On behalf of the Audit Committee:

Retired Chief Justice ARTEMIO V. PANGANIBAN
Chairman, Audit Committee

Statement of Management's Responsibility for Consolidated Financial Statements

The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, including the following components: a) Reconciliation of Retained Earnings Available for Dividend Declaration; b) Tabular Schedule of all the Effective Standards and Interpretations; c) Map showing the Relationships among the Companies within the Group; and d) Supplementary Schedules Required by Annex 68-E, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

MANUEL V. PANGILINAN Chairman of the Board	OSCAR S. REYES President and Chief Executive Officer	BETTY C. SIY-YAP Chief Finance Officer

Independent Auditors' Report

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Electric Company

We have audited the accompanying financial statements of Manila Electric Company and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Electric Company and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-2 (Group A),
March 15, 2012, valid until March 31, 2015
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751287, January 5, 2015, Makati City

February 23, 2015

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2014	2013
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	*7 and 15*	**₱120,830**	₱112,586
Investments in associates and interests in joint ventures	*8*	**14,382**	13,422
Investment properties	*9 and 15*	**1,526**	1,526
Deferred tax assets - net	*28*	**7,089**	5,381
Other noncurrent assets	*7, 10, 12, 27, 29 and 30*	**12,614**	23,603
Total Noncurrent Assets		**156,441**	156,518
Current Assets			
Cash and cash equivalents	*11 and 27*	**69,469**	59,851
Trade and other receivables	*10, 12, 18 and 27*	**30,629**	32,718
Inventories	*13 and 25*	**2,212**	2,750
Other current assets	*14, 23 and 27*	**10,302**	12,167
Total Current Assets		**112,612**	107,486
Total Assets		**₱269,053**	₱264,004
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	*15*	**₱11,273**	₱11,273
Subscriptions receivable		**(8)**	(69)
Additional paid-in capital		**4,111**	4,111
Excess of acquisition cost over carrying value of non-controlling interest acquired		**(328)**	(328)
Employee stock purchase plan	*16*	**1,049**	1,049
Unrealized fair value gains on available-for-sale, or *AFS*, financial assets	*10*	**112**	105
Cumulative translation adjustments of subsidiaries and associates	*8*	**355**	389
Share in remeasurement adjustments on associates' retirement liabilities		**(20)**	–
Remeasurement adjustments on retirement and other post-employment liabilities		**1,302**	1,446
Treasury shares	*15*	**(11)**	(11)
Retained earnings:	*15*		
Appropriated		**11,000**	11,000
Unappropriated		**50,319**	46,197
Equity Attributable to Equity Holders of the Parent		**79,154**	75,162
Non-controlling Interests		**320**	173
Total Equity		**79,474**	75,335

(Forward)

Consolidated Statements of Financial Position

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

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Note	2014	2013	2012
		Years Ended December 31		
		(Amounts in millions, except per share data)		
REVENUES				
Sale of electricity	*23, 24 and 32*	**₱261,740**	₱294,849	₱282,991
Sale of other services	*23*	**4,596**	3,787	2,279
		266,336	298,636	285,270
COSTS AND EXPENSES				
Purchased power	*24 and 30*	**203,242**	238,198	232,068
Salaries, wages and employee benefits	*16, 25 and 26*	**11,008**	11,261	11,605
Provision for probable charges and expenses from claims	*19, 24 and 29*	**10,720**	10,749	9,226
Depreciation and amortization	*7, 9 and 10*	**6,093**	6,118	5,576
Contracted services		**4,292**	3,719	2,702
Taxes, fees and permits		**662**	539	403
Provision for doubtful accounts	*12*	**460**	504	832
Other expenses	*23 and 25*	**3,765**	3,398	3,750
		240,242	274,486	266,162
OTHER INCOME (EXPENSES)				
Interest and other financial charges	*7, 17, 18, 21 and 25*	**(1,439)**	(1,479)	(1,528)
Interest and other financial income	*25*	**770**	1,172	2,569
Equity in net earnings (losses) of associates and joint ventures	*8*	**295**	(259)	(15)
Foreign exchange gain (loss)		**8**	353	(4)
Derivative mark-to-market gains (losses)		**–**	(24)	40
Others	*2*	**740**	414	1,852
		374	177	2,914
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		**26,468**	24,327	22,022
PROVISION FOR (BENEFIT FROM) INCOME TAX	*28*			
Current		**9,961**	9,889	9,490
Deferred		**(1,624)**	(2,835)	(3,749)
		8,337	7,054	5,741
NET INCOME FROM CONTINUING OPERATIONS		**18,131**	17,273	16,281
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX		–	–	978
NET INCOME		**₱18,131**	₱17,273	₱17,259
Attributable To				
Equity holders of the Parent	*31*	**₱18,053**	₱17,211	₱17,117
Non-controlling interests		**78**	62	142
		₱18,131	₱17,273	₱17,259
Earnings Per Share Attributable to Equity Holders of the Parent	*31*			
Basic		**₱16.02**	₱15.27	₱15.19
Diluted		**16.02**	15.27	15.19
Earnings Per Share Attributable to Equity Holders of the Parent of Continuing Operations	*31*			
Basic		**₱16.02**	₱15.27	₱14.40
Diluted		**16.02**	15.27	14.40

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Equity Attributable to Equity Holders of the Parent															
	Common Stock (Note 15)	Subscriptions Receivable	Additional Paid-in Capital	Excess of Acquisition Cost Over Carrying Value of Non-controlling Interest Acquired	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains (Losses) on AFS Financial Assets (Note 10)	Unrealized Fair Value Gains (Losses) on AFS Financial Assets of Discontinued Operations	Share in Remeasurement Adjustments on Associates' Retirement Liabilities (Note 26)	Cumulative Translation Adjustments of Subsidiaries and Associates (Note 8)	Remeasurement Adjustments on Retirement and Other Post Employment Liabilities (Note 26)	Treasury Shares (Note 15)	Appropriated Retained Earnings (Note 15)	Unappropriated Retained Earnings (Note 15)	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests (Note 6)	Total Equity
	(Amounts in millions)															
At January 1, 2014	₱11,273	(₱69)	₱4,111	(₱328)	₱1,049	₱105	₱–	₱–	₱389	₱1,446	(₱11)	₱11,000	₱46,197	₱75,162	₱173	₱75,335
Net income	–	–	–	–	–	–	–	–	–	–	–	–	18,053	18,053	78	18,131
Other comprehensive income (loss)	–	–	–	–	–	7	–	(20)	(34)	(144)	–	–	–	(191)	–	(191)
Total comprehensive income (loss)	–	–	–	–	–	7	–	(20)	(34)	(144)	–	–	18,053	17,862	78	17,940
Collection of subscriptions receivable	–	61	–	–	–	–	–	–	–	–	–	–	–	61	–	61
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	(13,931)	(13,931)	69	(13,862)
	–	61	–	–	–	–	–	–	–	–	–	–	(13,931)	(13,870)	69	(13,801)
At December 31, 2014	₱11,273	(₱8)	₱4,111	(₱328)	₱1,049	₱112	₱–	(₱20)	₱355	₱1,302	(₱11)	₱11,000	₱50,319	₱79,154	₱320	₱79,474
At January 1, 2013	₱11,273	(₱211)	₱4,111	(₱328)	₱1,049	₱120	₱–	₱–	₱3	₱289	(₱11)	₱6,000	₱45,607	₱67,902	₱248	₱68,150
Net income	–	–	–	–	–	–	–	–	–	–	–	–	17,211	17,211	62	17,273
Other comprehensive income (loss)	–	–	–	–	–	(15)	–	–	386	1,157	–	–	–	1,528	–	1,528
Total comprehensive income (loss)	–	–	–	–	–	(15)	–	–	386	1,157	–	–	17,211	18,739	62	18,801
Collection of subscriptions receivable	–	142	–	–	–	–	–	–	–	–	–	–	–	142	–	142
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	(11,621)	(11,621)	(137)	(11,758)
Appropriation of unrestricted retained earnings	–	–	–	–	–	–	–	–	–	–	–	5,000	(5,000)	–	–	–
	–	142	–	–	–	–	–	–	–	–	–	5,000	(16,621)	(11,479)	(137)	(11,616)
At December 31, 2013	₱11,273	(₱69)	₱4,111	(₱328)	₱1,049	₱105	₱–	₱–	₱389	₱1,446	(₱11)	₱11,000	₱46,197	₱75,162	₱173	₱75,335
At January 1, 2012	₱11,273	(₱521)	₱4,111	(₱328)	₱915	₱85	₱14	₱–	₱12	(₱1,665)	(₱9)	₱6,000	₱42,269	₱62,156	₱4,713	₱66,869
Net income	–	–	–	–	–	–	–	–	–	–	–	–	17,117	17,117	142	17,259
Other comprehensive income (loss)	–	–	–	–	–	35	–	–	(9)	1,954	–	–	–	1,980	–	1,980
Total comprehensive income (loss)	–	–	–	–	–	35	–	–	(9)	1,954	–	–	17,117	19,097	142	19,239
Collection of subscriptions receivable	–	310	–	–	–	–	–	–	–	–	–	–	–	310	–	310
Share-based payments	–	–	–	–	134	–	–	–	–	–	–	–	–	134	–	134
Purchase of treasury shares	–	–	–	–	–	–	–	–	–	–	(2)	–	–	(2)	–	(2)
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	(9,129)	(9,129)	(15)	(9,144)
Deconsolidation of subsidiary through property dividend	–	–	–	–	–	–	(14)	–	–	–	–	–	(4,650)	(4,664)	(4,592)	(9,256)
	–	310	–	–	134	–	(14)	–	–	–	(2)	–	(13,779)	(13,351)	(4,607)	(17,958)
At December 31, 2012	₱11,273	(₱211)	₱4,111	(₱328)	₱1,049	₱120	₱–	₱–	₱3	₱289	(₱11)	₱6,000	₱45,607	₱67,902	₱248	₱68,150

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

2. Rate Regulations

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

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

Performance-Based Regulations or *PBR*

MERALCO

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

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

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years or *RY*s. An *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The third *RP* is from July 1, 2011 to June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end on June 30, 2019. *MERALCO* is to undergo the fourth *RP* reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its fourth *RP* reset application.

Maximum Average Price or *MAP for RY 2008 and RY 2009*

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

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

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals, or *CA*, questioning the decision and Order of the *ERC* on *MERALCO*'s rate translation application for *RY* 2008 and *RY* 2009. On January 29, 2010, the *CA* promulgated a decision denying the Petition. Consequently, the consumer groups brought the case to the Supreme Court or *SC*. Comments, responses and respective manifestations have been filed by both parties. As at February 23, 2015, a decision on this case is pending at the *SC*.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed an application for the approval of its *MAP* for *RY* 2012 and translation into rate tariffs by customer category. In an order dated October 3, 2011, the *ERC* provisionally approved the *MAP* for *RY* 2012 of ₱1.6012 per *kWh* and the rate translation per customer class was implemented starting October 2011. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda. As at February 23, 2015, the application is pending final approval by the *ERC*.

MAP for RY 2013

On March 30, 2012, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2013 and the translation thereof into rate tariffs by customer category. On June 11, 2012, the *ERC* provisionally approved the *MAP* for *RY* 2013 of ₱1.6303 per *kWh*, which was reflected in the customer bills starting July 2012. Hearings on this case have been completed. As at February 23, 2015, the application is pending final approval by the *ERC*.

MAP for RY 2014

On April 1, 2013, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2014 of ₱1.6510 per *kWh* and the translation thereof into rate tariffs by customer category. On June 10, 2013, the *ERC* provisionally approved the *MAP* for *RY* 2014 of ₱1.6474 per *kWh* and the rate translation per customer class. As at February 23, 2015, the application is pending final approval by the *ERC*.

MAP for RY 2015

On March 31, 2014, *MERALCO* filed its application for the approval of its *MAP* for *RY* 2015 of ₱1.5562 per *kWh* and the translation thereof into rate tariffs by customer category. On May 5, 2014, the *ERC* provisionally approved *MERALCO*'s *MAP* for *RY* 2015 of ₱1.5562 per *kWh* and the rate translation per customer class. As at February 23, 2015, the application is pending final approval by the *ERC*.

Capital Expenditure or CAPEX for RY 2016

The last year of *MERALCO's* third *RP* ends on June 30, 2015. The fourth *RP* for Group A shall commence on July 1, 2015 and end on June 30, 2019. *MERALCO* is to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its fourth *RP* reset application. *MERALCO* anticipates that there is not adequate time for it to file its fourth *RP* reset application and secure approval of its *CAPEX* forecast before the end of the third *RP*. In view thereof, and pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, *MERALCO*, on February 9, 2015, filed an application for approval of authority to implement its *CAPEX* program for *RY* 2016 (July 1, 2015 to June 30, 2016). As at February 23, 2015, the application is pending approval by the *ERC*.

CEDC

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

MAP for RY 2013

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

MAP for RY 2014

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

MAP for RY 2015

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

SC Decision on Unbundling Rate Case

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

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

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Order dated March 20, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a Motion for Reconsideration or *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's motion for reconsideration. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. As at February 23, 2015, further action of the case is pending at the *CA*.

Applications for the Recovery of Generation Costs and SL Charges

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

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

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

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

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

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities." These rules govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, *LFT* and business tax. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the system loss true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *DUs* in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter. On December 15, 2010, the *ERC* promulgated Resolution No. 23, Series of 2010 to govern the recovery of Senior Citizen Discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On March 31, 2011, *MERALCO* filed an application with the *ERC* to confirm its under- or over-recoveries accumulated from June 2003 to December 2010 in compliance with Resolution No. 16, Series of 2009, as subsequently amended by Resolution No. 21, Series of 2010. On December 8, 2011, *MERALCO* filed a Manifestation with Omnibus Motion praying, among other things, for the admission of the Supplemental Application, which was admitted by the *ERC* in an Order dated December 12, 2011. The filing includes net generation charge under-recoveries of ₱1,000 million, net transmission charge over-recoveries of ₱111 million, net lifeline subsidy under-recoveries of ₱9 million and net *SL* over-recoveries of ₱425 million, excluding proposed carrying charges. Hearings on this case have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On July 6, 2012, *MERALCO* filed an application with the *ERC* to confirm its under- or over-recoveries for the calendar year 2011. The filing includes net generation charge under-recoveries of ₱1,826 million, net transmission charge under-recoveries of ₱253 million, net lifeline subsidy under-recoveries of ₱39 million and *SL* over-recoveries of ₱445 million, excluding proposed carrying charges. Hearings on the application have been completed. As at February 23, 2015, the application is pending approval by the *ERC*.

On March 31, 2014, *MERALCO* filed an application with the *ERC* to confirm its under- or over-recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net Senior Citizen Discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply month were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. On February 2, 2015, *ERC* released an Order setting the application for initial hearing on March 11, 2015.

Application for the Recovery of Differential Generation Costs

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

Deferred Purchased Price Adjustment or PPA

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to customers ₱268 million of deferred *PPA* transmission line costs related to Quezon Power (Philippines) Limited Company or *QPPL* and deferred accounting adjustments or *DAA* incurred along with ₱184 million in carrying charges, or an equivalent of ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred *PPA* under-recoveries of ₱106 million, which does not represent the transmission line fee. On November 4, 2009, *MERALCO* filed a Motion for Reconsideration with the *ERC*. As at February 23, 2015, the motion for reconsideration is still pending resolution by the *ERC*.

Application for Recovery of LFT

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

In a Decision dated February 27, 2012, the *ERC* approved with modifications *MERALCO*'s application. The *ERC* approved the recovery of *LFT* amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the *ERC*, the recovery was reflected as a separate item in the *MERALCO* billing statement to its customers beginning April 2012. As at December 31, 2014, a total of ₱1,369 million *LFT* and carrying charges have been billed to affected customers. The amount recoverable within 12 months is included in the "Trade and other receivables" account while the long-term portion is included in the "Other noncurrent assets" account.

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

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

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. The refund is ongoing.

See *Note 20 – Customers' Refund*.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

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

Statement of Compliance

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

Basis of Consolidation

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

			2014		2013	
			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 or *IT* 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
Atimonan One Energy, Inc. (formerly Luzon Natural Gas Energy Corporation) [2]	Philippines	Power generation	**–**	**100**	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	**–**	**100**	–	100
MPG Asia Limited or *MPG Asia*	British Virgin Island	Holding company	**–**	**100**	–	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	–
Miescorrail, Inc. or *Miescorrail*	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	100	–
Meridian Atlantic Light Company Limited	Nigeria	Management of power distribution	**100**	**–**	100	–
Meralco Industrial Engineering Services Corporation or *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
CEDC	Philippines	Power distribution	**65**	**–**	65	–

[1] *Incorporated February 15, 2011 and has not started commercial operations as at December 31, 2014.*
[2] *Incorporated January 11, 2013 and has not started commercial operations as at December 31, 2014.*

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

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

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

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

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

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

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

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

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following amendments and improvements to existing standards, which were effective beginning January 1, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

Future Changes in Accounting Policies and Disclosures

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

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

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

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

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

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

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

Effective 2015

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

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to *PAS 19* are to be retrospectively applied for annual periods beginning on or after January 1, 2015. The *MERALCO Group* shall consider these amendments for future contributions from employees.

Annual Improvements to PFRSs (2010–2012 cycle)

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

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

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The *MERALCO Group* shall consider this amendment for future share-based payments.

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

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

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

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The *MERALCO Group* shall consider these amendments in future disclosures.

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

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

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

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

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The *MERALCO Group* shall consider this amendment in future transactions.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendment clarifies that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendment also clarifies that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The *MERALCO Group* shall consider this amendment in future disclosures.

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

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

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

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

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

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The *MERALCO Group* shall consider this amendment in future disclosures.

Annual Improvements to PFRSs (2011–2013 cycle)

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

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

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

PFRS 13, Fair Value Measurement - Portfolio Exception

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

PAS 40, Investment Property

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

Effective 2016

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

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

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

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

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

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

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

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

PAS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The *MERALCO Group* will consider these amendments in future transactions.

PFRS 14, Regulatory Deferral Accounts

PRFS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of *PFRS*. Entities that adopt *PFRS 14* must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. *PFRS 14* is effective for annual periods beginning on or after January 1, 2016. Since the *MERALCO Group* is an existing *PFRS* preparer, this standard would not apply.

Annual Improvements to PFRSs (2012–2014 cycle)

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

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

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

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

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

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

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

PAS 19, Regional Market Issue Regarding Discount Rate (Amendment)

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

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

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

Effective 2018

PFRS 9, Financial Instruments – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

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

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

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

PFRS 9, Financial Instruments (2014 or final version)

In July 2014, the final version of *PFRS 9, Financial Instruments*, was issued. *PFRS 9* reflects all phases of the financial instruments project and replaces *PAS 39, Financial Instruments: Recognition and Measurement*, and all previous versions of *PFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. *PFRS 9* is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of *PFRS 9* is permitted if the date of initial application is before February 1, 2015.

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

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

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under *IFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The *MERALCO Group* is currently assessing the impact of *IFRS 15* and plans to adopt the new standard on the required effective date once adopted locally.

Significant Accounting Policies

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

Utility Plant and Others

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

Land is stated at cost less any impairment in value.

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

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

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

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

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

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

Construction in Progress

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

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

Assets Funded by Customers

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

Investments in Associates and Interests in Joint Ventures

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

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

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

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

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

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

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

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

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

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

Business Combinations and Goodwill

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

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the provisional amounts of the items for which the accounting is incomplete are reported in the consolidated financial statements. During the measurement period, which is no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

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

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

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

Investment Properties

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

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

Financial Assets

Initial Recognition

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

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

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

The *MERALCO Group*'s financial assets include cash and cash equivalents, trade and non-trade receivables, advance payments to a supplier and quoted and unquoted equity securities.

Subsequent Measurement

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

Financial Assets at FVPL

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

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

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

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

Loans and Receivables

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

HTM Investments

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

AFS Financial Assets

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

Financial Liabilities

Initial Recognition

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

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

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

Subsequent Measurement

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

Financial Liabilities at FVPL

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

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

The *MERALCO Group* does not have financial liabilities designated as at *FVPL* as at December 31, 2014 and 2013.

Other Financial Liabilities

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

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

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

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

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

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

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

Offsetting of Financial Instruments

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

Amortized Cost of Financial Instruments

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

'Day 1' Profit or Loss

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

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

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

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

AFS Financial Assets

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

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

Assets Carried at Cost

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

Derecognition of Financial Instruments

Financial Assets

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

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

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

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

Financial Liabilities

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

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

Redeemable Preferred Stock

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

Inventories

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

Value Added Tax or VAT

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

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

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

Provisions

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

Retirement Benefits

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

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of the net defined benefit liability or asset

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

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

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

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

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

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

Termination Benefits

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

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

Employee Leave Entitlements

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

Long-term Incentive Plan

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

Equity

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

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

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

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

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

Employee Stock Purchase Plan or ESPP

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

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

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

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

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

Revenue Recognition

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

Sale of Electricity

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

Sale of Services

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

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

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

Interest Income

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

Dividends

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

Lease Income

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

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

Expense Recognition

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

Insurance Claim Cost Recognition

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when the insured events occur.

Leases

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

Company as Lessee

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

Company as Lessor

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

Foreign Currency-Denominated Transactions and Translations

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

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

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

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Earnings per Share

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

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

Contingencies

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

Events After the Reporting Date

Post reporting date events that provide additional information about the *MERALCO Group*'s financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post reporting date events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

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

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

Judgments

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

Determination of Functional Currency

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

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

Operating Lease Commitments

As Lessor

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

As Lessee

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

Arrangement that Contains a Lease

MERALCO's Purchased Power Agreements or *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 fees, and transmission line fees that form part of purchased power expense are accounted for similar to a lease.

Components of purchased power cost, which have been accounted for similar to a lease, amounted to ₱44,204 million, ₱46,170 million and ₱18,946 million in 2014, 2013 and 2012, respectively. These are recognized as "Purchased Power" in the consolidated statements of income.

See *Note 24 – Revenues and Purchased Power.*

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

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

Contingencies

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

See *Note 29 – Contingencies and Legal Proceedings.*

Estimates and Assumptions

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

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

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

The total depreciation and amortization expense of utility plant and others amounted to ₱5,778 million, ₱5,941 million and ₱5,474 million for the years ended December 31, 2014, 2013 and 2012, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱120,830 million and ₱112,586 million as at December 31, 2014 and 2013, respectively.

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

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

See *Note 7 – Utility Plant and Others, Note 9 – Investment Properties* and *Note 10 – Other Noncurrent Assets.*

Impairment of Nonfinancial Assets

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

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

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

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

Account	**2014**	2013
	(Amounts in millions)	
Utility plant and others	**₱120,830**	₱112,586
Investments in associates and joint ventures	**14,382**	13,422
Investment properties	**1,526**	1,526
Intangible assets	**2,336**	1,728
Receivable from the *BIR*	**181**	577
Goodwill	**36**	36

See *Note 7 – Utility Plant and Others, Note 8 – Investments in Associates and Interests in Joint Ventures, Note 9 – Investment Properties and Note 10 – Other Noncurrent Assets.*

Goodwill

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

Realizability of Deferred Tax Assets

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

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

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

See *Note 28 – Income Taxes and Local Franchise Taxes.*

Determination of Fair Values of Financial Assets and Financial Liabilities

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

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

Estimating Allowance for Doubtful Accounts

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

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

Total asset impairment provision for trade and other receivables and other current assets, net of recoveries, recognized in the consolidated statements of income amounted to ₱460 million, ₱504 million and ₱832 million for the years ended December 31, 2014, 2013 and 2012, respectively. Trade and other receivables, net of asset impairment, amounted to ₱30,629 million and ₱32,718 million as at December 31, 2014 and 2013, respectively.

See *Note 12 – Trade and Other Receivables* and *Note 14 – Other Current Assets.*

Estimating Net Realizable Value of Inventories

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

The carrying values of inventories amounted to ₱2,212 million and ₱2,750 million as at December 31, 2014 and 2013, respectively.

See *Note 13 – Inventories.*

Estimation of Retirement Benefit Costs

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The pension and other post-employment benefits expense amounted to ₱1,304 million, ₱1,434 million and ₱1,628 million for the years ended December 31, 2014, 2013 and 2012, respectively. The pension and other post-employment benefit liabilities as at December 31, 2014 and 2013 amounted to ₱2,584 million and ₱2,978 million, respectively.

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

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

See *Note 25 – Expenses and Income* and *Note 26 – Long-term Employee Benefits.*

Insurance Liabilities Arising from Insurance Contracts

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

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

As at December 31, 2014 and 2013, gross carrying values of insurance liabilities arising from insurance contracts, included in "Other noncurrent liabilities" account, amounted to ₱673 million and ₱725 million, respectively.

Provision for Asset Retirement Obligations

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

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

Provisions

The *MERALCO Group* is involved in various claims, assessments and cases as discussed in *Note 29 – Contingencies and Legal Proceedings*. The *MERALCO Group*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

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

The *MERALCO Group* recognized provisions on various claims and assessments amounting to ₱10,720 million, ₱10,749 million and ₱9,226 million for the years ended December 31, 2014, 2013 and 2012, respectively.

See *Note 19 – Provisions* and *Note 22 – Trade Payables and Other Current Liabilities*

Revenue Recognition

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

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

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

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

6. Segment Information

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

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

- Power

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

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

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

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

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

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

  See *Note 8 – Investments in Associates and Interests in Joint Ventures.*

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

- Other Services

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

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

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

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

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

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

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

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

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

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

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

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

7. Utility Plant and Others

The movements in utility plant and others are as follows:

		2014								
	Note	**Sub-transmission and Distribution**	**Land**	**Buildings and Improvements**	**Communication Equipment**	**Office Furniture, Fixtures and Other Equipment**	**Transportation Equipment**	**Others**	**Construction in Progress**	**Total**
						(Amounts in millions)				
Cost:										
Balance at beginning of year		**₱138,321**	**₱15,264**	**₱5,208**	**₱6,511**	**₱3,102**	**₱2,817**	**₱3,190**	**₱3,297**	**₱177,710**
Additions		**1,601**	**11**	**6**	**171**	**309**	**487**	**233**	**9,244**	**12,062**
Disposals/retirements		**(1,510)**	**–**	**(2)**	**(465)**	**(312)**	**(227)**	**(82)**	**–**	**(2,598)**
Transfers from construction in progress		**4,583**	**–**	**193**	**258**	**9**	**–**	**7**	**(5,050)**	**–**
Reclassification and others	*10*	**5,982**	**5**	**194**	**(4,322)**	**(272)**	**71**	**(201)**	**–**	**1,457**
Balance at end of year		**148,977**	**15,280**	**5,599**	**2,153**	**2,836**	**3,148**	**3,147**	**7,491**	**188,631**
Less accumulated depreciation and amortization:										
Balance at beginning of year		**52,596**	**–**	**2,176**	**4,644**	**2,083**	**1,828**	**1,797**	**–**	**65,124**
Depreciation and amortization		**4,779**	**–**	**147**	**140**	**286**	**255**	**171**	**–**	**5,778**
Disposals/retirements		**(1,510)**	**–**	**(2)**	**(465)**	**(312)**	**(227)**	**(82)**	**–**	**(2,598)**
Reclassification and others	*10*	**3,352**	**–**	**(55)**	**(3,402)**	**(298)**	**(86)**	**(14)**	**–**	**(503)**
Balance at end of year		**59,217**	**–**	**2,266**	**917**	**1,759**	**1,770**	**1,872**	**–**	**67,801**
Net book values		**₱89,760**	**₱15,280**	**₱3,333**	**₱1,236**	**₱1,077**	**₱1,378**	**₱1,275**	**₱7,491**	**₱120,830**

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

As at December 31, 2014 and 2013, the net book values of customer-funded assets included in "Utility plant and others" account amounted to ₱1,811 million and ₱1,568 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2014 and 2013 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

Construction in progress mainly pertains to on-going electric capital projects or *ECPs* and non-electric capital projects or *NEPs*. *ECPs* are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱182 million, ₱122 million and ₱127 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

8. Investments in Associates and Interests in Joint Ventures

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

			Percentage of Ownership	
	Place of Incorporation	Principal Activity	**2014**	2013
Associates				
RP Energy	Philippines	Power generation	**47**	47
FPM Power Holdings Limited or *FPM Power*	British Virgin Islands	Power generation	**40**	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	**22**	20
Joint Ventures				
SBPL	Philippines	Power generation	**51**	51
Indra Philippines, Inc. or *Indra Philippines*	Philippines	Management and *IT* consultancy	**50**	50
Rockwell Business Center	Philippines	Real estate	**30**	30

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

	2014	2013
	(Amounts in millions)	
Acquisition costs:		
Balance at beginning of year	**₱13,461**	₱1,563
Additions	**1,272**	11,898
Balance at end of year	**14,733**	13,461
Accumulated equity in net earnings (losses):		
Balance at beginning of year	**(421)**	249
Equity in net earnings (losses)	**295**	(259)
Dividends	**(554)**	(411)
Balance at end of year	**(680)**	(421)
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of year	**–**	–
Actuarial loss	**(20)**	–
Balance at end of year	**(20)**	–
Share in cumulative translation adjustments:		
Balance at beginning of year	**382**	3
Translation adjustments	**(33)**	379
Balance at end of year	**349**	382
	₱14,382	₱13,422

FPM Power

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

RP Energy

On July 22, 2011, *MGen* signed a Shareholders' Agreement with Therma Power, Inc. or *TPI*, and Taiwan Cogeneration International Corporation – Philippine Branch or *TCIC*, for the construction and operation of a 2 x 300 *MW CFB*, coal-fired power plant to be located in the Subic Bay Freeport Zone. The development and operations shall be undertaken by *RP Energy*, the joint venture entity.

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

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

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

SBPL

On August 29, 2013, *MGen* signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand or *EGCO*, for the development of a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon. *MGen*'s equity in the joint venture company, *SBPL*, is 51%, with the option to assign or transfer 2% thereof to a separate entity. On November 11, 2014, the *DENR* granted *SBPL* an *ECC* covering the 455 (net) coal-fired power plant. In October 2014, *SBPL* entered into *EPC* contracts covering the offshore and onshore components of the project. *SBPL* is also in advanced discussions with several banks for the financing of the project. On May 30, 2014, *MERALCO* signed a long-term Power Supply Agreement or *PSA* with *SBPL*, which is pending approval by the *ERC* as at February 23, 2015.

GBPC

On October 7, 2013, *MGen* executed a Share Sale and Purchase Agreement with First Metro Investment Corporation or *FMIC* for the sale by *FMIC* of a 20% equity interest in *GBPC* to *MGen*, and signed a related Shareholders Agreement on October 22, 2013. *GBPC* owns an aggregate of 709 *MW* (gross) of coal and diesel power plants in operation in the Visayas region. This includes an 82 *MW* (gross) coal-fired power plant in Toledo, Cebu, which began commercial operations in December 2014. A 150 *MW* (gross) coal power plant in Panay is under construction and is expected to be in commercial operation by 2016.

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

BPPC

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

In accordance with the Build-Operate-Transfer, or *BOT,* Agreement signed in 1993, First Private Power Corporation or *FPPC,* then parent company, constructed the 215 *MW* Bauang Power Plant or *Bauang Plant,* and operated the same under a 15-year Cooperation Period up to July 25, 2010.

The *Bauang Plant* has since been turned over to the National Power Corporation or *NPC,* without any compensation and free of any liens. In 2010, *SEC* approved the merger of *FPPC* and *BPPC,* with *BPPC* as the surviving entity. *BPPC* management continues to evaluate its investment options in power generation and allied industries.

GEPMICI

GEPMICI was established in 1979 together with General Electric Company of U.S.A., to serve the Philippine market for ANSI-type Watt-hour meters.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* supports *MERALCO's IT* requirements in the area of system development, outsourcing of Information Systems or *IS* and *IT* operations and management consulting.

Rockwell Business Center

The Rockwell Business Center is a joint venture between *Rockwell Land* and *MERALCO,* where *Rockwell Land* has constructed three (3) Business Process Outsourcing or *BPO*-enabled buildings on a non-regulatory asset base property of *MERALCO* over a pre-agreed cooperation period. Investment in Rockwell Business Center represents *MERALCO's* 30% interest in the joint venture, accounted for using the equity method. *Rockwell Land* owns 70% interest in Rockwell Business Center.

MERALCO and *Rockwell Land* share earnings before depreciation and amortization at 30:70 ratio, respectively, except from 2010 to 2014, where both agreed to apply share ratio on the basis of 20:80 in favor of *Rockwell Land.* However, sharing of depreciation and amortization is proportionate to their contributions.

The carrying values of investments in associates and interests in joint ventures follow:

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

The condensed statements of financial position of material associates follow:

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

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

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

	2014			2013			2012
	GBPC	***FPM Power***	***RP Energy***	*GBPC*	*FPM Power*	*RP Energy*	*RP Energy*
	(Amounts in millions)						
Revenues	**₱18,993**	**₱32,378**	**₱3**	₱2,824	₱262	₱11	₱8
Costs and expenses	**(14,182)**	**(34,642)**	**(31)**	(2,329)	(1,212)	(191)	(149)
Net income (loss)	**4,811**	**(2,264)**	**(28)**	495	(950)	(180)	(141)
Non-controlling interests	**(1,235)**	**736**	**–**	(172)	82	–	–
Net income (loss) attributable to equity holders of the parent	**3,576**	**(1,528)**	**(28)**	323	(868)	(180)	(141)
Other comprehensive income (loss)	**–**	**(84)**	**–**	–	378	–	–
Total comprehensive income (loss)	**₱3,576**	**(₱1,612)**	**(₱28)**	₱323	(₱490)	(₱180)	(₱141)
Dividends received	**₱400**	**₱–**	**₱–**	₱–	₱–	₱–	₱–

The reconciliation of the net assets of the foregoing material associates to the carrying amounts of the interest in these associates recognized in the consolidated statements of financial position is as follows:

	2014		
	GBPC	***FPM Power***	***RP Energy***
	(Amounts in millions, except % of ownership)		
Net assets of associates	**₱27,436**	**₱9,886**	**₱1,268**
Proportionate ownership in associates (%)	**22**	**40**	**47**
	6,036	**3,955**	**596**
Goodwill	**2,159**	**–**	**50**
	₱8,195	**₱3,955**	**₱646**

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

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

	2014	2013	2012
		(Amounts in millions)	
Share in net income	**₱30**	₱4	₱1
Share in other comprehensive income (loss)	**(1)**	1	–
Share in total comprehensive income	**₱29**	₱5	₱1
Dividends received	**₱–**	₱–	₱–

Joint Ventures

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

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

Current assets include cash and cash equivalents of ₱316 million and ₱594 million as at December 31, 2014 and 2013, respectively. Noncurrent assets represent substantially the two (2) *BPO* towers for lease and the costs of ongoing construction of the third building of Rockwell Business Center. Current liabilities represent trade payables.

The condensed statements of comprehensive income of Rockwell Business Center for the years ended December 31, 2014, 2013 and 2012 are as follows:

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

The foregoing condensed statements of comprehensive income include the following:

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

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

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

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

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

9. **Investment Properties**

The movements in investment properties are as follows:

		2014	
	Land	**Buildings and Improvements**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of year	**₱1,446**	**₱181**	**₱1,627**
Additions	**–**	**6**	**6**
Balance at end of year	**1,446**	**187**	**1,633**
Less accumulated depreciation:			
Balance at beginning of year	**–**	**101**	**101**
Depreciation	**–**	**6**	**6**
Balance at end of year	**–**	**107**	**107**
	₱1,446	**₱80**	**₱1,526**

		2013	
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
Cost:			
Balance at beginning of year	₱1,535	₱206	₱1,741
Disposals	(89)	(25)	(114)
Balance at end of year	1,446	181	1,627
Less accumulated depreciation:			
Balance at beginning of year	–	107	107
Depreciation	–	8	8
Disposals	–	(14)	(14)
Balance at end of year	–	101	101
	₱1,446	₱80	₱1,526

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties, some of which are being leased out.

The aggregate fair values of the investment properties as at December 31, 2014 and 2013 are as follows:

	2014	2013
	(Amount in millions)	
Land	**₱1,863**	₱1,863
Buildings and improvements	**137**	131

Land pertains primarily to properties where the *BPO* building and "Strip" mall are located and to other non-regulated asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱40 to ₱96,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used any of the following approaches:

a. Market Data or Comparative Approach

   Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the factors of location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

   This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Other Noncurrent Assets

This account consists of:

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

Unbilled Receivables

This account represents generation and other pass-through costs incurred by *MERALCO* and *CEDC* as *DUs*, which are still to be billed and which are covered by the approved recovery mechanism of the *ERC*. The balance also includes other unbilled generation and pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*.

Intangible Assets

The movements of intangible assets are as follows:

				2014	
	Note	**Software**	**Franchise**	**Land and Leasehold Rights**	**Total**
			(Amounts in millions)		
Cost:					
Balance at beginning of year		**₱2,401**	**₱49**	**₱–**	**₱2,450**
Additions		**514**	**–**	**–**	**514**
Reclassification	*7*	**552**	**–**	**431**	**983**
Balance at end of year		**3,467**	**49**	**431**	**3,947**
Less accumulated amortization:					
Balance at beginning of year		**722**	**–**	**–**	**722**
Amortization		**291**	**–**	**18**	**309**
Reclassification	*7*	**376**	**–**	**204**	**580**
Balance at end of year		**1389**	**–**	**222**	**1,611**
		₱2,078	**₱49**	**₱209**	**₱2,336**

		2013	
	Software	Franchise	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

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for in *RA* No. 9337 or *"EVAT Law"*, said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due.

AFS Financial Assets

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

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

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

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

11. **Cash and Cash Equivalents**

This account consists of:

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

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up to three (3) months depending on the *MERALCO Group*'s immediate cash requirements, and earn interest at the prevailing short-term investment rates.

12. **Trade and Other Receivables**

This account consists of:

	Note	**2014**	2013
		(Amounts in millions)	
Trade:			
Electricity:			
Billed		**₱23,095**	₱27,281
Unbilled	*10*	**4,082**	4,175
Service contracts		**2,662**	1,490
Insurance receivable		**102**	453
Cost and estimated earnings in excess of billings on uncompleted contracts		**718**	455
Nontrade		**3,397**	2,016
		34,056	35,870
Less allowance for doubtful accounts		**3,427**	3,152
		₱30,629	₱32,718

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

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

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

	2014			
	Balance at Beginning of Year	**Provisions (Reversals)**	**Write-offs**	**Balance at End of Year**
		(Amounts in millions)		
Billed trade receivables:				
Residential	**₱1,068**	**₱1,179**	**(₱441)**	**₱1,806**
Commercial	**1,165**	**(139)**	**(63)**	**963**
Industrial	**533**	**(217)**	**(25)**	**291**
Flat streetlights	**203**	**(55)**	**(1)**	**147**
	2,969	**768**	**(530)**	**3,207**
Other trade receivables	**181**	**37**	**–**	**218**
Nontrade receivables	**2**	**–**	**–**	**2**
	₱3,152	**₱805**	**(₱530)**	**₱3,427**

	2014						
	Residential	**Commercial**	**Industrial**	**Flat Streetlights**	**Other Trade Receivables**	**Nontrade Receivables**	**Total**
				(Amounts in millions)			
Individually impaired	**₱1,036**	**₱344**	**₱98**	**₱80**	**₱218**	**₱2**	**₱1,778**
Collectively impaired	**770**	**619**	**193**	**67**	**–**	**–**	**1,649**
	₱1,806	**₱963**	**₱291**	**₱147**	**₱218**	**₱2**	**₱3,427**

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

	2013						
	Residential	Commercial	Industrial	Flat Streetlights	Other Trade Receivables	Nontrade Receivables	Total
				(Amounts in millions)			
Individually impaired	₱763	₱123	₱298	₱31	₱181	₱2	₱1,398
Collectively impaired	305	1,042	235	172	–	–	1,754
	₱1,068	₱1,165	₱533	₱203	₱181	₱2	₱3,152

Trade Receivables – Electricity

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

Unbilled receivables represent electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period. This also includes the current portion of pass-through cost under-recoveries, net of over-recoveries, which are billed to the customers over the period approved by the *ERC*. *MERALCO*'s and *CEDC*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits.

See *Note 18 – Customers' Deposits* and *Note 27 – Financial Assets and Financial Liabilities*.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by *MIESCOR Group*, *e-MVI* and subsidiary, *CIS*, *Bayad Center*, *Miescorrail* and *MEI* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development and energy management services to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

13. Inventories

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

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

14. Other Current Assets

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

Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such deferred *VAT* to the generation companies is based on collection of billed receivables from the customers.

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

15. Equity

Common Stock

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

	2014	2013
	(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 46,586 and 46,409 shareholders of *MERALCO*'s common shares as at December 31, 2014 and 2013, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include undeclared accumulated earnings of subsidiaries, associates and joint ventures, and the balance of *MERALCO*'s revaluation increment in utility plant and others and investment properties carried at deemed cost and deferred tax assets amounting to ₱36,175 million and ₱34,684 million as at December 31, 2014 and 2013, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting years.

The following are the cash dividends declared on common shares in 2014, 2013 and 2012:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 28, 2014	August 25, 2014	September 18, 2014	₱5.91	₱6,661
March 17, 2014	April 15, 2014	May 8, 2014	6.45	7,270
July 29, 2013	August 27, 2013	September 20, 2013	4.10	4,621
February 25, 2013	March 26, 2013	April 24, 2013	6.10	6,875
July 30, 2012	August 29, 2012	September 24, 2012	4.00	4,508
February 27, 2012	March 23, 2012	April 23, 2012	4.10	4,621

MERALCO pays regular cash dividends equivalent to 50% of *CCNI* for the year, which may be supplemented by a special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the *SEC*.

Appropriated Retained Earnings

On February 22, 2010, retained earnings of ₱6,000 million were appropriated specifically for the *MERALCO Group*'s business expansion into power generation. The amount appropriated was increased by ₱5,000 million to cover certain new development projects and investments in power generation. The additional appropriation was approved on March 22, 2013 by the *BOD*. As at December 31, 2014, the development of the first project, a 2 x 300 *MW CFB* coal-fired plant through *RP Energy*, is ongoing. *MERALCO* also signed a Joint Development Agreement and Shareholders Agreement to develop a supercritical coal-fired power plant through *SBPL*, which has a target completion by the first quarter of 2019.

See *Note 8 – Investments in Associates and Interests in Joint Ventures.*

Treasury Shares

Treasury shares represent subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased. As at December 31, 2014 and 2013, a total of 172,412 shares were acquired from employees who have opted to cancel their participation in the *ESPP*.

16. Employee Stock Purchase Plan

MERALCO had an *ESPP*, which entitled participants to purchase *MERALCO's* common shares subject to certain terms and conditions during a nominated offer period. Movements in the number of common shares subscribed by employees under the *ESPP* are as follows:

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

	2013			
	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

MERALCO allotted a total of 55 million common shares for *ESPP* awards. As at December 31, 2014 and 2013, 12 million common shares are available for future offerings. There were no *ESPP* awards since October 2009.

The fair value of the offerings was estimated at the dates of the grant using the Black-Scholes Option Pricing Model.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

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

All of the redeemable preferred shares have been called for redemption as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2014 and 2013. Interest is no longer accrued when the preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	**2014**	2013
	(Amounts in millions)	
Bonds		
₱11.5 Billion 7-year Bonds	**₱11,500**	₱11,500
₱7.0 Billion 12-year Bonds	**7,000**	7,000
Fixed Rate Loans		
₱7.2 Billion Note Facility Agreement	**7,200**	–
₱5.0 Billion Note Facility Agreement	**–**	4,900
₱4.8 Billion Note Facility Agreement	**–**	3,417
₱3.0 Billion Note Facility Agreement	**–**	530

(Forward)

Description	2014	2013
	(Amounts in millions)	
Floating Rate Loans		
₱2.5 Billion Term Loan Facility	**₱2,463**	₱2,475
₱130 Million Term Loan Facility	**130**	–
₱3.0 Billion Term Loan Facility	–	600
Total long-term debt	**28,293**	30,422
Less unamortized debt issuance costs	**200**	207
	28,093	30,215
Redeemable Preferred Stock	**1,549**	1,562
	29,642	31,777
Less current portion	**1,899**	11,021
Long-term portion of interest-bearing financial liabilities	**₱27,743**	₱20,756

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

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

Bonds

₱18.5 Billion Fixed Rate Putable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, putable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, where *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

On December 12, 2013, the ₱11.5 billion fixed rate putable bonds due in 2020 and ₱7.0 billion fixed rate putable bonds due in 2025, were listed on the Philippine Dealing and Exchange Corporation.

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

Fixed Rate Loans

₱7.2 Billion Note Facility Agreement

In February 2014, *MERALCO* entered into a Fixed Rate Note Facility Agreement for its ₱7,200 million, 10-year note due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

₱5.0 Billion Note Facility Agreement

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

₱4.8 Billion Note Facility Agreement

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

₱3.0 Billion Note Facility Agreement

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

Floating Rate Loans

₱2.5 Billion Term Loan Facility

The ₱2,500 million, 7-year Floating Rate Term Loan Facility, was drawn in January 2011 from a local bank. Interest rate is repriced every six months based on 6-month *PDST-F* plus a spread. The principal is payable in nominal annual amortizations with a balloon payment on final maturity in January 2018.

₱130 Million Term Loan Facility

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

₱3.0 Billion Term Loan Facility

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

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

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

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

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.2 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2014 and 2013, *MERALCO* is in compliance with all covenants of the loan agreements.

Unamortized Debt Issuance Costs

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

The following presents the changes to the unamortized debt issuance costs:

	Note	**2014**	2013
		(Amounts in millions)	
Balance at beginning of year		**₱207**	₱82
Additions		**36**	186
Amortization charged to interest and other financial charges	*25*	**(43)**	(61)
Balance at end of year		**₱200**	₱207

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2014	2013
Balance at beginning of year	**156,189,168**	159,356,939
Redemptions	**(1,287,779)**	(3,167,771)
Balance at end of year	**154,901,389**	156,189,168

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. Customers' Deposits

This account consists of:

	2014			2013		
	Current Portion (see *Note 22*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 22*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱3,562**	**₱24,344**	**₱27,906**	₱6,130	₱21,600	₱27,730
Meter deposits	**501**	**–**	**501**	2,119	–	2,119
	₱4,063	**₱24,344**	**₱28,407**	₱8,249	₱21,600	₱29,849

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer in accordance with existing regulations.

As provided for under the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU* an amount equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be adjusted after one year based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three consecutive years may now apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one month from the termination of service, provided all bills have been paid.

On February 22, 2010, the amended *DSOAR*, which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR*, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines or *Land Bank*, or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*. Interest rate for bill deposits is 0.375% per annum starting January 1, 2013 and 0.250% per annum starting January 1, 2014.

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

The following are the movements of the bill deposits account:

	2014	2013
	(Amounts in millions)	
Balance at beginning of year	**₱27,730**	₱27,377
Additions	**5,209**	5,068
Refunds	**(5,033)**	(4,715)
Balance at end of year	**27,906**	27,730
Less portion maturing within one year	**3,562**	6,130
Noncurrent portion of bill deposits and related interests	**₱24,344**	₱21,600

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective June 17, 2004) and *DSOAR* (effective January 18, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers," or *Rules*, which required the refund of meter deposits from the effectivity of the said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

As at December 31, 2014 and 2013, total meter deposits refunded by *MERALCO* amounted to ₱2,595 million (inclusive of ₱1,347 million interest) and ₱977 million (inclusive of ₱503 million interest), respectively.

19. Provisions

Provisions consist of amounts recognized for probable costs, charges and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

	Note	2014	2013
		(Amounts in millions)	
Balance at beginning of year		**₱24,729**	₱19,411
Provisions		**5,665**	5,331
Settlements		**(1)**	(13)
Balance at end of year		**30,393**	24,729
Less current portion	*22*	**14,320**	–
Noncurrent portion of provisions		**₱16,073**	₱24,729

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which has not yet been claimed by customers.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO*'s motion in its Order dated February 7, 2011.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from various local banks. Annual interest rates ranged from 2.5% to 5.5% in 2014 and 1.5% to 3.9% in 2013 on peso-denominated loans.

Interest expense on notes payable amounted to ₱7 million and ₱73 million for the years ended December 31, 2014 and 2013, respectively.

See *Note 25 – Expenses and Income.*

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2014**	2013
		(Amounts in millions)	
Trade accounts payable	*23 and 25*	**₱32,101**	₱43,893
Provisions	*19 and 29*	**14,320**	–
Output *VAT* – net		**6,323**	5,508
Accrued expenses:			
Employee benefits		**2,271**	2,520
Taxes		**1,983**	2,199
Interest		**109**	269
Others		**1,713**	2,532
Current portions of:			
Bill deposits and related interests	*18*	**3,562**	6,130
Meter deposits and related interests	*18*	**501**	2,119
Deferred lease income		**693**	726
Refundable service extension costs		**1,852**	1,615
Dividends payable on:			
Redeemable preferred stock	*17*	**250**	250
Common stock	*15*	**188**	91
Payable to customers		**2,046**	779
Universal charges payable		**1,988**	1,547
Regulatory fees payable		**273**	205
Reinsurance liability		**74**	215
Other current liabilities		**3,377**	3,294
		₱73,624	₱73,892

Trade Accounts Payable

Trade accounts payable mainly represent obligations to *NPC*/Power Sector Assets and Liabilities Management Corporation or *PSALM*, power generating companies, National Grid Corporation of the Philippines or *NGCP*, and Philippine Electricity Market

Corporation or *PEMC*, for cost of power purchased and for cost of transmission. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which consist of transformers, poles, materials and supplies and, contracted services.

Trade payables are non-interest-bearing and are generally settled within the 15- to 60-day trade term. Other payables are non-interest-bearing and are due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions* and *Note 30 - Significant Contracts and Commitments.*

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities," requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective on April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset forms part of the rate base only at the time a refund has been paid out. Customer advances are non-interest-bearing.

As at December 31, 2014 and 2013, the noncurrent portion of refundable service extension costs of ₱7,006 million and ₱5,782 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges payable are charges passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC* and stranded contract costs of eligible contracts of distribution. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

23. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant financial years. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contracts with Philippine Long Distance Telephone Company or *PLDT*

MERALCO has a Pole Attachment Contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the Pole Attachment Contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups such as *PLDT*, *Metro Pacific*, *JG Summit* and San Miguel Corporation or *SMC* (up to 2013) and their respective subsidiaries, and affiliates for their facilities within *MERALCO*'s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s primary telecommunications carriers are *PLDT* for its wireline and SMART Communications, Inc. and Digitel Mobile Philippines, Inc., for its wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power to such affiliates.

Following is the summary of related party transactions for the years ended December 31, 2014, 2013 and 2012 and the outstanding balances as at December 31, 2014 and 2013:

	Amount of Transactions			Outstanding Receivable (Liability) as at December 31			
Category	**2014**	2013	2012	**2014**	2013	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
JG Summit Group	**₱3,263**	₱348	₱–	**₱289**	₱293	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**1,941**	2,599	2,936	**48**	160	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**179**	352	1,172	**7**	15	10-day; noninterest-bearing	Unsecured, no impairment
SMC Group	**–**	851	1,040	**–**	59	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**829**	658	423	**(1)**	(2)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices - *GEPMICI*	**312**	251	248	**(21)**	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**250**	212	206	**2**	–	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - *PLDT Group*	**58**	50	47	**–**	–	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

Advances to FPM Power

On March 22, 2013, *FPM Power* availed of a non-interest-bearing loan from *MPG Asia* amounting to US$110 million, which is payable on demand. The loan is outstanding as at December 31, 2014 and 2013.

See *Note 14 – Other Current Assets.*

Transaction with MERALCO Retirement Benefits Fund or Fund

The *MERALCO Group's* Retirement Benefits Fund, holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy.* The fair value of *RP Energy's* common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2014 and 2013, the fair value of the total assets being managed by the Fund amounted to ₱36.4 billion and ₱34.0 billion, respectively.

See *Note 26 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	2014	2013	2012
	(Amounts in millions)		
Short-term employee benefits	**₱538**	₱517	₱432
Long-term employee and retirement benefits	**45**	283	256
Share-based payments	**–**	–	31
Total compensation to key management personnel	**₱583**	₱800	₱719

Each of the directors is entitled to a per diem of ₱120,000 for every *BOD* meeting attended. Each member of the Audit and Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱20,000 for every committee meeting attended.

On March 22, 2013, the *BOD* approved the amendment of *MERALCO's* By-Laws which entitles all directors to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one percent of the income before income tax of *MERALCO* during the preceding year.

Consistent with the foregoing, the *BOD* approved the increase in the compensation of all members of the *BOD* up to a maximum of the pre-agreed amount per annum. The increase in compensation shall be through a stock grant based on a pre-approved number of shares for each director. The implementation of such plan was approved by the stockholders in the annual general meeting of stockholders on May 28, 2013.

As at December 31, 2014, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Sale of Electricity

Electricity revenues account for 98% of total revenue in 2014 and 99% in 2013 and 2012. Following is the breakdown of electricity revenues:

	2014	2013	2012
		(Amounts in millions)	
Generation charge	**₱159,281**	₱192,558	₱183,708
Distribution service charges	**56,373**	56,105	50,892
Transmission charge	**32,195**	29,191	31,971
System loss charge	**13,726**	17,138	16,411
Power Act Reduction adjustment	**–**	(9)	(25)
Interclass, lifeline subsidies and others	**165**	(134)	34
	₱261,740	₱294,849	₱282,991

Distribution service revenue accounted for 22%, 19% and 18% of total electricity revenues in 2014, 2013 and 2012, respectively. *VAT, LFT* and universal charges, which are also pass-through charges are billed and collected on behalf of the national and local governments and do not form part of total electricity revenues.

See *Note 6 – Segment Information.*

Purchased Power

The details of purchased power are as follows:

	2014	2013	2012
		(Amounts in millions)	
Generation cost	**₱169,033**	₱206,507	₱198,648
Transmission cost	**34,209**	31,691	33,420
	₱203,242	₱238,198	₱232,068

Purchased power costs are pass-through costs and are revenue-neutral to *MERALCO* and *CEDC*, as *DUs*.

Generation cost is inclusive of line rentals, market fees and must-run unit charges billed by *PEMC*.

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a* *lease"*. The total amounts billed by the suppliers presented as part of "Purchased power" account in the consolidated statements of income amounts to ₱44,204 million, ₱46,170 million and ₱18,946 million in 2014, 2013 and 2012, respectively. These also include the actual *SL* incurred which are within the *SL* cap of 8.5%. *MERALCO's* actual 12 months moving average *SL* rates are 6.49%, 6.92% and 7.04% in 2014, 2013 and 2012, respectively.

The details of purchased power follow:

	2014	2013	2012
		(Amounts in millions)	
First Gas Power Corporation or *FGPC* and FGP Corp. or *FGP*	**₱53,772**	₱55,360	₱58,592
SPPC	**36,344**	34,885	–
National Transmission Corporation or *TransCo/NGCP*	**34,016**	31,691	33,420
QPPL	**14,480**	14,251	15,147
SMEC	**12,979**	13,648	–
Masinloc Power Partners Co. Ltd. or *MPPCL*	**12,515**	12,905	–
Sem-Calaca Power Corporation or *Sem-Calaca*	**10,486**	10,673	–
Therma Luzon, Inc. or *TLI*	**9,334**	9,538	–
PEMC/WESM	**5,975**	40,600	28,401
NPC/PSALM (including NPC Successor Generating Companies or SGCs/Independent Power Plant Administrators)	**4,836**	11,531	96,375
Therma Mobile, Inc. or *TMO*	**3,987**	495	–
Trans-Asia Oil and Energy Development Corporation or *Trans-Asia*	**2,281**	2,043	–
1590 Energy Corp.	**1,359**	–	–
Others	**878**	578	133
	₱203,242	₱238,198	₱232,068

In March 2014, *MERALCO* received from *PEMC* a billing adjustment amounting to ₱9.3 billion for power purchases from *WESM* in December 2013 based on an order of the *ERC*.

Generation and transmission costs over/under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2014 and 2013, the total transmission cost and *SL* charge over-recoveries included in the "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱9,046 million and ₱6,358 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**2014**	2013	2012
			(Amounts in millions)	
Salaries, wages and related employee benefits		**₱9,704**	₱9,827	₱9,843
Pension	*26*	**1,186**	1,176	1,367
Other long-term post-employment benefits	*26*	**118**	258	261
ESPP	*16*	**–**	–	134
		₱11,008	₱11,261	₱11,605

Other Expenses

	Note	**2014**	2013	2012
			(Amounts in millions)	
Inventories	*13*	**₱820**	₱693	₱527
Rent and utilities		**718**	753	574
Advertising		**438**	309	179
Transportation and travel		**396**	360	386
Insurance		**327**	246	208
Communication	*23*	**101**	82	68
Others		**965**	955	1,808
		₱3,765	₱3,398	₱3,750

Interest and Other Financial Charges

	Note	**2014**	2013	2012
			(Amounts in millions)	
Interest expense on interest-bearing long-term financial liabilities, net of amount capitalized	*7 and 17*	**₱1,210**	₱1,038	₱1,202
Interest expense on bill deposits	*18*	**84**	82	91
Amortization of debt issuance costs	*17*	**43**	61	37
Interest expense on notes payable	*21*	**7**	73	5
Others		**95**	225	193
		₱1,439	₱1,479	₱1,528

Interest and Other Financial Income

	2014	2013	2012
		(Amounts in millions)	
Interest income on cash and cash equivalents	**₱720**	₱1,088	₱1,762
Carrying costs on *ERC*-approved under-recoveries	**42**	32	755
Others	**8**	52	52
	₱770	₱1,172	₱2,569

26. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2014	2013
	(Amounts in millions)	
Long-term incentives	**₱2,303**	₱1,205
Retirement benefits liability	**685**	1,186
Other long-term post-employment benefits	**1,899**	1,792
	₱4,887	₱4,183

Defined Benefit Retirement Plans

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account)

	2014	2013	2012
		(Amounts in millions)	
Current service costs	**₱1,101**	₱1,041	₱1,045
Net interest costs	**76**	130	319
Net retirement benefits expense	**₱1,177**	₱1,171	₱1,364

Retirement Benefits Liability

	2014	2013
	(Amounts in millions)	
Defined benefit obligation	**₱37,129**	₱35,225
Fair value of plan assets	**(36,444)**	(34,039)
Retirement benefits liability	**₱685**	₱1,186

Changes in the net retirement benefits liability are as follows:

	2014	2013
	(Amounts in millions)	
Retirement benefits liability at beginning of year	**₱1,186**	₱3,279
Net retirement benefits expense	**1,177**	1,171
Amounts recognized in *OCI*	**153**	(278)
Contributions by employer	**(1,831)**	(2,986)
Retirement benefits liability	**₱685**	₱1,186

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱35,225**	₱33,811
Interest costs	**1,601**	1,999
Current service costs	**1,101**	1,041
Benefits paid	**(1,840)**	(1,693)
Actuarial losses (gains) due to:		
Changes in financial assumptions	**506**	671
Experience adjustments	**536**	(604)
Defined benefit obligation at end of year	**₱37,129**	₱35,225

Changes in the fair value of plan assets are as follows:

	2014	2013
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱34,039**	₱30,532
Benefits paid	**(1,840)**	(1,693)
Interest income	**1,525**	1,869
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation	**889**	345
Contributions by employer	**1,831**	2,986
Fair value of plan assets at end of year	**₱36,444**	₱34,039

The Board of Trustees or *BOT*, which manages the *Fund*, is chaired by the chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BOT* are (i) an independent member of the *BOD*; (ii) a member of the *BOD* who represents the largest shareholder group; (iii) an executive member of the *BOD*; and (iv) three (3) senior executives.

The *Fund* follows a generally conservative investment approach where investments are diversified to minimize risks but ensures an increase in value of the Fund assets. Substantially all of the assets of the *Fund* are managed by four (4) trustee banks whose common objective is to maximize the long-term expected return of plan assets. As approved by the *BOT*, the plan assets are invested in a guided proportion of fixed income instruments, cash investments and equities.

Net carrying amount and fair value of the assets of the *Fund* as at December 31, 2014 and 2013 amounted to ₱36,444 million and ₱34,039 million, respectively. The major categories of plan assets are as follows:

	2014	2013
	(Amount in millions)	
Cash and cash equivalents	**₱3,606**	₱5,637
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	**2,635**	1,950
Electricity, energy, power and water	**1,585**	1,155
Food, beverages and tobacco	**1,068**	908
Telecommunication	**908**	607
Banks	**743**	713
Property	**585**	608
Transportation services	**345**	283
Gaming	**139**	75
Mining	**138**	66
Construction, infrastructure and allied services	**135**	82
Retail	**130**	44
Financial institution	**–**	81
Media	**–**	31
Hotel and leisure	**–**	15
Others	**461**	325
Quoted debt investments		
Government securities	**11,226**	11,385
"AAA" rated securities	**10,032**	7,399
Unquoted investments		
Receivables	**1,754**	1,721
Property	**954**	954
Fair value of plan assets	**₱36,444**	₱34,039

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks. The *Fund* does not have any direct equity interests in *MERALCO*.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account)

	2014	2013	2012
		(Amounts in millions)	
Interest costs	**₱79**	₱178	₱176
Current service costs	**36**	80	85
Actuarial loss	**3**	–	–
	₱118	₱258	₱261

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2014	2013
	(Amounts in millions)	
Balance at beginning of year	**₱1,792**	₱2,962
Interest costs	**79**	178
Current service costs	**36**	80
Benefits paid	**(73)**	(53)
Actuarial losses (gains) due to change in assumptions	**65**	(1,375)
Balance at end of year	**₱1,899**	₱1,792

Actuarial Assumptions

The principal assumptions used as at December 31, 2014 and 2013 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2014	2013
Annual discount rate	**4.5%**	4.5%
Future range of annual salary increases	**5.0%–8.0%**	6.0%–10.0%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by:

		Effect on Present Value of Defined Benefit Obligation	
	% Change	2014	2013
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱4,014)**	(₱3,801)
	-1.0%	**4,792**	4,720
Future range of annual salary increases	+1.0%	**1,139**	1,199
	-1.0%	**(1,047)**	(1,099)

Funding

MERALCO contributes to the *Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the Fund in a sound condition, subject to the provisions of the Plan.

The amount of the annual contributions to the *Fund* is determined through an annual valuation report performed by the actuary.

MERALCO expects to contribute ₱939 million to the *Fund* in 2015.

The following is the maturity profile of the undiscounted benefit obligation as at December 31, 2014:

	Amount
	(In millions)
Less than one (1) year	₱1,441
One (1) year up to five (5) years	7,456
More than five (5) years up to 10 years	9,911
More than 10 years up to 15 years	12,614
More than 15 years up to 20 years	11,536
More than 20 years	19,599

Risk

The *Fund* is exposed to the following risks:

Credit Risk
The *Fund*'s exposure to credit risk arises from its financial assets which comprise cash and cash equivalents, investments and rental receivable. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Fund*.

Share Price Risk
The *Fund*'s exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BOT*. The *BOT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk
Liquidity risk is the risk that the *Fund* is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

MERALCO Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental Retirement Benefit for employees hired beginning 2004, on a voluntary basis. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to the first 10% of the member's base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱9 million, ₱5 million and ₱3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account)

	2014	2013	2012
		(Amounts in millions)	
Expense recognized for defined benefit plans	**₱1,177**	₱1,171	₱1,364
Expense recognized for defined contribution plan	**9**	5	3
Retirement benefits expense	**₱1,186**	₱1,176	₱1,367

Long-term Incentive Plan or LTIP in millions)

MERALCO's *LTIP* covers qualified executives and is based on the *MERALCO Group*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three-year period as well as executives' attainment of a minimum level of performance rating. Executives invited to the Plan must serve a minimum uninterrupted period to be entitled to any pay-out.

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents and trade and nontrade receivables, which are generated directly from operations. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

The following table sets forth the financial assets and financial liabilities as at December 31, 2014 and 2013:

	Loans and Receivables	*HTM* Investments	Fair Value through Profit or Loss	Held-for-trading	*AFS* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
			(Amounts in millions)				
Assets as at December 31, 2014							
Noncurrent							
Other noncurrent assets	**₱619**	**₱121**	**₱–**	**₱–**	**₱172**	**₱–**	**₱912**
Current							
Cash and cash equivalents	**69,469**	**–**	**–**	**–**	**–**	**–**	**69,469**
Trade and other receivables	**26,547**	**–**	**–**	**–**	**–**	**–**	**26,547**
Advances to an associate	**4,998**	**–**	**–**	**–**	**–**	**–**	**4,998**
Total assets	**101,633**	**121**	**–**	**–**	**172**	**–**	**101,926**
Liabilities as at December 31, 2014							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	**–**	**–**	**–**	**–**	**–**	**27,743**	**27,743**
Customers' deposits - net of current portion	**–**	**–**	**–**	**–**	**–**	**24,344**	**24,344**
Refundable service extension costs - net of current portion	**–**	**–**	**–**	**–**	**–**	**7,006**	**7,006**
Current							
Notes payable	**–**	**–**	**–**	**–**	**–**	**400**	**400**
Trade payables and other current liabilities	**–**	**–**	**–**	**–**	**–**	**43,176**	**43,176**
Customers' refund	**–**	**–**	**–**	**–**	**–**	**5,937**	**5,937**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**–**	**–**	**–**	**1,899**	**1,899**
Total liabilities	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱110,505**	**₱110,505**
Assets as at December 31, 2013							
Noncurrent							
Other noncurrent assets	₱474	₱129	₱–	₱–	₱161	₱–	₱764
Current							
Cash and cash equivalents	59,851	–	–	–	–	–	59,851
Trade and other receivables	28,543	–	–	–	–	–	28,543
Short-term investments	4,841	–	–	–	–	–	4,841
Advances to an associate	4,884	–	–	–	–	–	4,884
Total assets	98,593	129	–	–	161	–	98,883
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

Fair Values

The fair values of the financial assets and financial liabilities are prices that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group*'s financial instruments as at December 31, 2014 and 2013.

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Loans and receivables -				
Advance payments to a supplier	**₱619**	**₱634**	₱474	₱522
AFS financial assets	**172**	**172**	161	161
HTM investments	**121**	**125**	129	135
	₱912	**₱931**	₱764	₱818
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing long-term financial liabilities	**₱29,642**	**₱30,439**	₱31,777	₱32,176

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Advances to an Associate, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 3.68% as at December 31, 2014 and 3.76% as at December 31, 2013.

AFS Financial Assets

The fair values were determined by reference to market bid quotes as at reporting date. The unquoted equity securities were carried at cost.

HTM Investments

The fair values were determined by discounting the expected future cash flows using the interest rate as at cut-off date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.51% to 4.56% as at December 31, 2014 and 0.52% to 4.29% as at December 31, 2013.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	December 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(Amounts in millions)							
Financial assets								
Advance payments to a supplier	**₱–**	**₱–**	**₱634**	**₱634**	₱–	₱–	₱522	₱522
AFS investments	**138**	**–**	**34**	**172**	124	–	37	161
HTM	**–**	**–**	**125**	**125**	–	–	135	135
	₱138	**₱–**	**₱793**	**₱931**	₱124	₱–	₱694	₱818
Financial liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱–**	**₱30,439**	**₱30,439**	₱–	₱–	₱32,176	₱32,176

For the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group's* exposure to the changes in market interest rates relate primarily to the long-term interest-bearing financial liabilities.

The *MERALCO Group's* policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. Approximately 91% and 90% of the borrowings bear fixed rate of interest as at December 31, 2014 and 2013, respectively.

The following table sets out the maturity profile of the financial instruments that are exposed to interest rate risk (exclusive of debt issuance costs):

	Within 1 Year	Over 1–2 Years	Over 2–3 Years	Over 3–4 Years	Over 4–5 Years	More than 5 Years	Total
	(Amounts in millions)						
2014	**₱13**	**₱25**	**₱36**	**₱2,449**	**₱70**	**₱–**	**₱2,593**
2013	612	13	13	12	2,425	–	3,075

Floating interest rate of bank loans is repriced at intervals of less than one year. The other financial liabilities of the *MERALCO Group* that are not included in the foregoing have fixed interest rate and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the *MERALCO Group*'s income before income tax as at December 31, 2014 and 2013 through the impact on floating rate borrowings. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statement of income.

	2014		2013	
	Increase (Decrease) in Basis Points	**Effect on Income before Income Tax**	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
		(Amounts in millions)		
Floating rate loans from various banks	**+100**	**(₱26)**	+100	(₱31)
	(100)	**26**	(100)	31

Interest expense of floating rate loans for the year is computed by taking into account actual principal movements, based on management's best estimate of a +/-100 basis points change in interest rates. There has been no change in the methods and assumptions used by management in the above analysis.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial portion of the *MERALCO Group*'s capital expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2014 and 2013, translated to Philippine peso at ₱44.72 and ₱44.395 to US$1, respectively.

	2014		2013	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$119**	**₱5,331**	$65	₱2,864
Trade and other receivables	**4**	**174**	3	148
Advances to an associate	**110**	**4,919**	110	4,884
Advance payments to a supplier	**14**	**610**	11	474
	247	**11,034**	189	8,370
Financial liabilities -				
Trade payables and other liabilities	**(10)**	**(447)**	(46)	(2,043)
	$237	**₱10,587**	$143	₱6,327

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group*'s obligations. Further, *PBR* assumes a forecast level of foreign currency movements in its calculation of the regulatory asset base and expenditures. *PBR* also allows for adjustment of the rates the *MERALCO Group* charges should there be significant deviations in the foreign exchange forecast from what is actually realized.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the years ended December 31, 2014 and 2013 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statement of income.

	2014		2013	
	Appreciation (Depreciation) of U.S. Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets	**+5**	**₱529**	+5	₱317
and financial liabilities	**–5**	**(529)**	–5	(317)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the year-end balances of *U.S.* dollar-denominated cash and cash equivalents, receivables and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in commodity prices. The exposure of *MERALCO* and *CEDC* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *CEDC*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that the *MERALCO Group* is exposed to as a result of its customers, clients or counterparties failing to discharge their contracted obligations. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one month's consumption to secure credit. Also, as a policy, disconnection notices are sent three days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

The *MERALCO* subsidiaries trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

Credit risk on other financial assets, which include cash and cash equivalents, trade and other receivables and short-term investments, arises from the potential default of the counterparty.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position as at December 31, 2014 and 2013. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2014	2013
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱5,676**	₱4,994
Cash equivalents	**63,548**	54,722
Trade and other receivables:		
Billed electricity	**19,888**	24,312
Service contracts	**2,444**	1,309
Insurance receivable	**102**	453
Cost and estimated earnings in excess of billings on uncompleted contracts	**718**	455
Nontrade receivables	**3,395**	2,014
Other current assets:		
Advances to an associate	**4,998**	4,884
Short-term investments	**–**	4,841
Other noncurrent assets:		
Advance payments to suppliers	**619**	474
HTM investments	**121**	129
	₱101,509	₱98,587

The credit quality of financial assets is managed by *MERALCO* using "High Grade", "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due as internal credit ratings. The following tables show the credit quality by asset class:

	2014					
	Neither Past Due nor Impaired				**Impaired**	
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱69,224**	**₱–**	**₱–**	**₱–**	**₱–**	**₱69,224**
Trade and other receivables:						
Billed electricity	**3,954**	**2,335**	**9,857**	**3,742**	**3,207**	**23,095**
Service contracts	**1,787**	**–**	**64**	**593**	**218**	**2,662**
Insurance receivable	**20**	**–**	**67**	**15**	**–**	**102**
Cost and estimated earnings in excess of billings on uncompleted contracts	**718**	**–**	**–**	**–**	**–**	**718**
Nontrade receivables	**2,628**	**3**	**483**	**281**	**2**	**3,397**
Other current assets:						
Advances to an associate	**–**	**4,998**	**–**	**–**	**–**	**4,998**
Other noncurrent assets	**–**	**–**	**740**	**–**	**–**	**740**
	₱78,331	**₱7,336**	**₱11,211**	**₱4,631**	**₱3,427**	**₱104,936**

	2013					
	Neither Past Due nor Impaired				Impaired	
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not 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 and estimated earnings in excess of billings on uncompleted contracts	455	–	–	–	–	455
Nontrade receivables	1,883	8	20	103	2	2,016
Other current assets:						
Short-term investments	4,841	–	–	–	–	4,841
Advances to an associate	–	4,884	–	–	–	4,884
Other noncurrent assets	–	–	603	–	–	603
	₱74,094	₱8,475	₱9,991	₱6,027	₱3,152	₱101,739

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks and cash equivalents to counterparties with good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

  Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

  Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

The following table shows the aging analysis of financial assets as at December 31, 2014 and 2013:

	2014					
	Neither Past Due nor Impaired	**Past Due But Not Impaired**			**Impaired Financial Assets**	
		31–60 Days	**61–90 Days**	**Over 90 Days**		**Total**
					(Amounts in millions)	
Cash and cash equivalents:						
Cash equivalents	**₱5,676**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,676**
Cash in banks	**63,548**	**–**	**–**	**–**	**–**	**63,548**
Trade and other receivables:						
Trade:						
Billed electricity	**16,146**	**1,171**	**453**	**2,118**	**3,207**	**23,095**
Service contracts	**1,851**	**24**	**13**	**556**	**218**	**2,662**
Insurance receivable	**87**	**2**	**2**	**11**	**–**	**102**
Cost and estimated earnings in excess of billings on uncompleted contracts	**718**	**–**	**–**	**–**	**–**	**718**
Nontrade receivables	**3,114**	**32**	**33**	**216**	**2**	**3,397**
Other current assets:						
Advances to an associate	**4,998**	**–**	**–**	**–**	**–**	**4,998**
Other noncurrent assets:						
Advance payments to a supplier	**619**	**–**	**–**	**–**	**–**	**619**
HTM investments	**121**	**–**	**–**	**–**	**–**	**121**
	₱96,878	**₱1,229**	**₱501**	**₱2,901**	**₱3,427**	**₱104,936**

	2013					
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	
		31–60 Days	61–90 Days	Over 90 Days		Total
					(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 an associate	4,884	–	–	–	–	4,884
Other noncurrent assets:						
Advance payments to a supplier	474	–	–	–	–	474
HTM investments	129	–	–	–	–	129
	₱92,560	₱2,095	₱518	₱3,414	₱3,152	₱101,739

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash and cash equivalents, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one institution.

The following table sets out the maturity profile of the financial liabilities based on contractual undiscounted payments plus future interest:

			2014		
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
			(Amounts in millions)		
Notes payable	**₱400**	**₱–**	**₱–**	**₱–**	**₱400**
Trade payables and other current liabilities	**37,260**	**–**	**–**	**–**	**37,260**
Customers' refund	**5,937**	**–**	**–**	**–**	**5,937**
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	**40**	**34**	**2,725**	**12**	**2,811**
Fixed rate borrowings	**418**	**229**	**3,110**	**5,666**	**9,423**
Bonds payable	**211**	**633**	**4,222**	**20,040**	**25,106**
Redeemable preferred stock	**1,549**	**–**	**–**	**–**	**1,549**
Customers' deposits	**815**	**3,248**	**4,880**	**19,464**	**28,407**
Refundable service extension costs	**106**	**1,746**	**2,673**	**4,333**	**8,858**
Total undiscounted financial liabilities	**₱46,736**	**₱5,890**	**₱17,610**	**₱49,515**	**₱119,751**

			2013		
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(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

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interest) of ₱3,562 million and ₱6,130 million will be refunded within the year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2014 and 2013, respectively.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2014	2013
	(Amounts in millions, except debt to equity ratio)	
Long-term debt	**₱28,093**	₱30,215
Redeemable preferred stock	**1,549**	1,562
Notes payable	**400**	1,814
Debt (a)	**30,042**	33,591
Equity attributable to the holders of the parent (b)	**79,154**	75,162
Debt to equity ratio (a)/(b)	**0.38**	0.45

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets (liabilities) as at December 31, 2014 and 2013 are as follows:

	Note	**2014**	2013
		(Amounts in millions)	
Deferred tax assets:			
Provisions for various claims	*19*	**₱14,223**	₱12,682
Accrued employee benefits	*26*	**1,244**	899
Unfunded retirement benefits cost and unamortized past service cost	*26*	**252**	480
Allowance for doubtful accounts	*12*	**961**	945
Allowance for excess of cost over net realizable value of inventories	*13*	**58**	61
Others		**117**	324
		16,855	15,391
Deferred tax liabilities:			
Revaluation increment in utility plant and others	*15*	**7,311**	7,389
Depreciation method differential		**929**	1,082
Capitalized interest		**753**	744
Capitalized duties and taxes deducted in advance		**634**	651
Net book value of capitalized/realized foreign exchange losses		**12**	22
Others		**132**	123
		9,771	10,011
		₱7,084	₱5,380

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2014	2013
Deferred tax assets - net	₱7,089	₱5,381
Deferred tax liabilities - net	(5)	(1)
	₱7,084	₱5,380

Provision for (benefit from) income tax consists of:

	2014	2013	2012
	(Amounts in millions)		
Current	**₱9,961**	₱9,889	₱9,490
Deferred	**(1,624)**	(2,835)	(3,749)
	₱8,337	₱7,054	₱5,741

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2014, 2013 and 2012, and provision for income tax as shown in the consolidated statements of income is as follows:

	2014	2013	2012
	(Amounts in millions)		
Income tax computed at statutory tax rate of:			
Continuing operations	**₱7,941**	₱7,298	₱6,607
Discontinued operations	**–**	–	318
	7,941	7,298	6,925
Income tax effects of:			
Nondeductible expenses	**454**	–	40
Interest income subjected to lower final tax rate	**(206)**	(314)	(521)
Nondeductible interest expense	**85**	130	213
Nontaxable income	**(55)**	(113)	(262)
Equity in net losses (earnings) of associates and joint ventures	**(84)**	78	5
Others	**202**	(25)	(576)
	8,337	7,054	5,824
Less provision for income tax of discontinued operations	**–**	–	83
	₱8,337	₱7,054	₱5,741

On December 18, 2009, the *BIR* issued Revenue Regulation, or *RR* No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions or *OSD*. Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2014, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter tax return.

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover amounting ₱1,105 million and ₱717 million as at December 31, 2014 and 2013, respectively.

NOLCO totaling to ₱1,105 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2012	December 31, 2015	₱193
December 31, 2013	December 31, 2016	402
December 31, 2014	December 31, 2017	510
		₱1,105

NOLCO amounting to ₱106 million expired in 2014.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related system loss charges.

The Implementing Rules and Regulations issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, *MERALCO* filed a claim on November 27, 2003 for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates or *TCCs*, proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2014 and 2013, the amount of unissued *TCCs* amounting to ₱181 million and ₱577 million, respectively, is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

See *Note 10 – Other Noncurrent Assets.*

MERALCO filed a Petition with the Court of Tax Appeals or *CTA*, assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001). In a decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue tax credit certificate in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On Motion for Reconsideration by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a Motion for Reconsideration of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*.

Overpayment of Income Tax Related to Change in Tax Basis

On February 4, 2008, the *SC* denied with finality a motion for reconsideration filed by the Commissioner of Internal Revenue or *CIR*, against *MERALCO*, with respect to the issue on excess income tax paid by the latter. The *SC* affirmed a *CA* decision and ordered the *CIR* to refund or issue a *TCC* in favor of *MERALCO* for ₱107 million representing overpaid income taxes for taxable years 1987 and 1988. The overpayment is in accordance with the effectivity of Executive Order No. 72, which subjected *MERALCO* to regular corporate income tax instead of 2% franchise tax based on gross receipts it was previously liable for. On February 5, 2013, *MERALCO* filed a Motion for Issuance of a Writ of Execution with the *CTA* to enforce the judgment of the *SC*. On February 14, 2013, the *CTA* promulgated a Resolution ordering the *CIR* and the Office of the Solicitor General or *OSG* to comment on the Motion filed by *MERALCO*. On March 14, 2013, the *CTA* promulgated a Resolution granting the Motion of

MERALCO and directed the issuance of corresponding Writ of Execution. In March 2014, *MERALCO* received the ₱107 million *TCC* from the *BIR*.

LFT Assessments of Municipalities

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

Real Property Tax or RPT Assessments

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

MERALCO also filed a case against the City of Manila before Regional Trial Court – Pasig branch or *RTC-Pasig*, to enjoin the collection of *RPT* on *MERALCO's TWIP* and nullify *RPT* assessments made thereon based on the argument that these are not within the ambit of the definition of real property under the *LGC*. The case is set for mediation after the City of Manila files its comments on *MERALCO's* petition.

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

Mediation with NPC

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

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity or *CSE*, with *NPC* to commence on January 1, 1995. The *CSE* and the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago–Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO's* good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement or *SA*, between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of *ERC*.

Subsequently, the *OSG* filed a "Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*." As a result, *MERALCO* sought judicial clarification with the *RTC-Pasig*. Pre-trials were set, which *MERALCO* complied with and attended. However, the *OSG* refused to participate in the pre-trial and opted to seek a Temporary Restraining Order or *TRO* from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig, MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a motion for reconsideration which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO's* Comment was filed on October 29, 2012.

Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the *OSG* with the *CA*, *MERALCO* filed a motion for the reception of its evidence ex-parte with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA*, independent of the pass-through for the settlement amount which is reserved for the *ERC*, valid and binding. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. As at February 23, 2015, the case is for further action or decision by the *SC*.

Sucat-Araneta-Balintawak Transmission Line

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

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City or plaintiffs, filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the plaintiffs' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought for by the plaintiffs. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed a decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230-kV line will result in widespread and rotating brownouts within *MERALCO's* franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors pay all damages, which the plaintiffs may incur as a result of the Writ of Preliminary Injunction.

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

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

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

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500kV Line 2 on June 22, 2008, and the 500kV 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo's* San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*-Time-of-Use or *TOU* rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the Transmission Line Costs billed to *MERALCO* by *NPC* for the Transition Supply Contract or *TSC* quantities to the extent of 2.98% loss factor, since the start of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions.

Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In said Order, the *ERC* likewise determined that the amount to be collected from the *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 *Sem-Calaca or SCPC*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGC*s.

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; 3) 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; 4) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; 5) Grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGC*s: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and 6) deny the respective Motions for Reconsideration filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against some of its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 23, 2015, *MERALCO*'s Manifestation and Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for Temporary Restraining Order or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its Motion for Reconsideration of the December 1, 2014 Decision of the *CA*. As at February 23, 2015, *PSALM*'s Motion for Reconsideration is pending action or decision by the *CA*.

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

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

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

PSALM versus PEMC and MERALCO

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

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

As at February 23, 2015, *PSALM's* Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC's* imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 23, 2015, the petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field or *Malampaya*, shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and the *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of sixty (60) days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* last December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month. In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC's* recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., Team Energy, Panasia Energy, Inc., and *SMEC*, have filed motions for reconsideration questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these motions for reconsideration.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of *ERC's* Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants an additional period of 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC's* adjusted *WESM* bills by the market participants.

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 23, 2015, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

Others

Liabilities for certain local business taxes amounting to ₱6,407 million and ₱6,050 million as at December 31, 2014 and 2013, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect the *MERALCO Group's* financial position and results of operations.

30. Significant Contracts and Commitments

Assignment of TSC Volume to SGCs

From 2008 to 2009, *NPC* privatized a number of its generating assets and Independent Power Plants or *IPP* contracts in favor of the successful bidders. As a result, the contracted energy volume under the original *TSC* between *MERALCO* and *NPC* was assigned by *NPC* to the respective new owners and Independent Power Producer Administrator or *IPPAs*. Following are the privatized plants and *IPP* contracts:

Year	Power Plant	Successor Owner/*IPPAs*	% of Total Volume
2008	Masinloc coal-fired power plant – 600 *MW*	*MPPCL*	21.3
2009	Tiwi-Makban geothermal power plants – 289 *MW*	*APRI*	8.1
	Pagbilao power plant –735 *MW*	*TLI*	25.0
	Sual coal-fired power plant – 1,000 *MW*	*SMEC*	8.6
	Coal-fired Calaca power plant – 600 *MW*	*Sem-Calaca*	10.4
2010	Combined cycle gas turbine, natural gas-fired Ilijan power plant – 1,200 *MW*	*SPPC*	15.2

NPC/PSALM remained the contracting party of record for the supply of power to *MERALCO*. Payments of the contracted volume are made based on the billing instructions from *NPC/PSALM* received by *MERALCO*.

Contracts for the Supply of Electricity or *CSE* and *PSAs with Privatized Plants* and *IPPAs*

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, separate *PSAs* with *TLI* and *SMEC* were executed on February 29 and June 26, 2012, respectively. These *PSA*s are for a period of seven (7) years, extendable for three years upon agreement of the parties. Thereafter, applications for approval of the *PSA*s were filed with the *ERC*.

MPower likewise signed separate *PSA*s with *SPPC*, *MPPCL*, *Sem-Calaca*, and *TLI* on December 12, 2011, March 16, 2012, June 25, 2012, October 10, 2012 and October 19, 2012, respectively.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSA*s of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *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 the *SPPC* and *Sem-Calaca* Motions for Reconsideration. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order and now await *ERC* resolution thereof.

Under the *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)*
2015	3,050	₱37,613
2016	3,080	39,635
2017	3,080	39,408
2018	3,335	47,625
2019 to 2021	3,825	58,207

FGPC and *FGP*

In compliance with the *DOE's* program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* was committed to contract 1,500-*MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *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 Transmission Line Agreement or *TLA* and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by *ERC*.

See *Note 10 – Other Noncurrent Assets.*

Committed Energy Volume to be Purchased

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

Year	MEQ	Equivalent Amount
	(In million kwh)	*(In Million)*
2015	15,312	₱22,537
2016	15,214	22,478
2017	15,213	22,665
2018	15,213	22,837
2019 to 2025	103,863	150,435

Montalban Methane Power Corporation or *MMPC*

MMPC operates an 8 *MW* (designed capacity of 11 *MW*) renewable energy generating facility, which utilizes landfill gas.

On May 13, 2009, *MERALCO* filed an application for the approval of the *CSE* with *MMPC* with the *ERC*. On June 9, 2009, *ERC* issued an order dated June 1, 2009 provisionally approving the *CSE* subject to the following conditions: (i) any amendments to the *CSE* shall be filed with the *ERC* for approval and the implementation shall be prospective; and (ii) in the event the rates approved are higher than the final rates, the amount corresponding to the excess shall be refunded by *MERALCO* to its customers by crediting the same in their electric bills.

After a series of negotiations, on May 23, 2011, *MERALCO* and *MMPC* signed a Letter Agreement extending the *CSE*. Said Agreement likewise contained minor amendments to the *CSE* that were intended to benefit the consumers. On June 3, 2011, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking the approval of the Letter Agreement, pursuant to the condition contained in the *ERC* Order dated June 1, 2009. On February 19, 2013, the *ERC* issued its Decision approving the application as well as the Letter Agreement. On June 6, 2013, *MERALCO* and *MMPC* signed a Letter Agreement extending the *CSE* for three (3) months from June 11, 2013 to September 11, 2013, and, thereafter, for a series of three (3)-month terms under the same terms and conditions. On June 11, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the June 6, 2013 Letter Agreement.

On June 2, 2014, *MERALCO* filed a new application with the *ERC* for approval of its new *PSA* with *MPPC*, executed by the parties on April 16, 2014, which has a term of two (2) years from *ERC* approval. Similar to the previous *CSE*, said *PSA* is a "take and pay" arrangement. However, under the new *PSA*, energy is no longer billed at the *ERC* approved *NPC TOU* rate but at a fixed contract price. On June 11, 2014, *MERALCO* received *MMPC's* motion to join *MERALCO* as co-applicant in the case. Upon approval by the *ERC* of the new *PSA*, the same shall replace the previous *CSE* executed between *MMPC* and *MERALCO*. Hearings on this case have been completed. On January 15, 2015, *MMPC*, with the conformity of *MERALCO*, terminated the *CSE*. *MERALCO* shall file a Manifestation informing the *ERC* of said termination.

Philippine Power and Development Company or *PPDC*

On May 15, 2014, *MERALCO* and *PPDC* executed a *PSA*. *PPDC* operates three (3) run-of-river hydro power plants, namely: (1) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (2) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (3) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *PPDC*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *PPDC* as measured by the latter's billing meter. Hearings on this case have been completed. The case is now submitted for decision by the *ERC*.

BEI

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a 4*MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

The terms of the *CSE* with *BEI* are similar to that signed with *MMPC*. Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application. The said case is pending decision by the *ERC*.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 16, 2015. On June 13, 2013, *MERALCO* filed a Manifestation with Motion seeking *ERC*'s approval of said extension. In its Order dated September 30, 2013, the *ERC* denied said Manifestation and Motion. On October 11, 2013, *MERALCO* filed a motion with the *ERC* seeking reconsideration of its September 30, 2013 Order. In its Order December 9, 2013, the *ERC* reversed its previous ruling and allowed the *CSE* to be extended until March 15, 2015.

Pangea Green Energy Philippines, Inc. or *PGEP*

On May 31, 2012, the *MERALCO* signed a *CSE* with Pangea Green Energy Philippines, Inc., or *PGEP*, a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas Landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* has a term of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013.

Therma Mobile, Inc. or *TMO*

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

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

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment covers the increase in the Maximum Monthly Capacity Factor to 60% provided that the .average capacity factor for a contract year shall not exceed 40%, additional outage allowances and Operation and Maintenance expenses. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. The *ERC* already issued an Order and Notice of Public Hearing, both dated February 2, 2015 setting the initial hearing to be held on March 31, 2015.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* (net) capacity and electrical output with *SBPL*. *SBPL* will be constructing the first supercritical highly fuel efficient, reliable and environmental friendly pulverized coal-fired power plant in the country. The *PSA* will be subject to the approval of the *ERC*.

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

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

Bacman Geothermal, Inc. or *BGI*

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019 extendible by an additional two (2) years upon mutual agreement of the parties. The *PSA* was submitted to the *ERC* for approval.

Interim Power Supply Agreements or *IPSAs*

On April 1, 2014, *MERALCO* signed two separate *IPSAs* with the wholly-owned subsidiaries of *GBPC*, namely: (1) Panay Power Corporation or *PPC* for a 27 *MW* firm output from its 72-*MW* diesel-fired power plant in La Paz, Iloilo City; and (2) Toledo Power Co. or *TPC* for a 28 *MW* firm and 9 *MW* non-firm output from its 40-*MW* diesel-fired power plant in Carmen, Toledo City. Both *IPSAs*, with the term of until on June 30, 2014, were filed for approval of the *ERC* on April 2, 2014. In its Decision dated June 2, 2014, the *ERC* approved the application with modification.

On June 20, 2014, *MERALCO* filed an Urgent Motion for Extension of the term of the *IPSAs*. On July 10, 2014, the *ERC* approved the extension of the *IPSA* with *PPC* and *TPC* until October 31, 2014, subject to the same condition provided in its June 2, 2014 Decision.

Considering that *MERALCO* still needs additional capacity for the period of January 26, 2015 to July 25, 2015, it executed again separate *IPSAs* with *PPC* for 27 *MW* and with *TPC* for 28 *MW* on firm basis and 9 *MW* on non-firm basis. The *IPSAs* with *PPC* and *TPC*, both dated November 14, 2014, were filed with the *ERC* for approval on January 8, 2015. Hearings on this case have been completed. *MERALCO* is awaiting the Decision of the *ERC* on the application.

On April 3, 2014, *MERALCO* signed an *IPSA* with 1590 Energy Corp. for the 140 *MW* output from the Bauang power plant – a 225-*MW* diesel-fired power plant in Bauang, La Union for a term of up to June 30, 2014. This *IPSA* became effective upon the Final Approval of the *ERC* in its Decision dated May 12, 2014.

On June 30, 2014, the *ERC* approved the extension of the *IPSA* with 1590 Energy Corp. until October 31, 2014. A *MOA* dated October 30, 2014 was executed with 1590 Energy Corp. extending the *IPSA* until July 25, 2015. Said *MOA* was filed with the *ERC* for approval on October 30, 2014. The *ERC* issued an Order dated December 15, 2014 approving the extension of the *IPSA* under the same terms as approved by the *ERC* in its Decision dated May 12, 2014.

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

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation or *Alternergy*

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for their 90 *MW* Wind Farm Renewable Energy plant in Pililla, Rizal, which is an interconnection at *MERALCO*'s Malaya-Teresa 115kV line. *Altenergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO's* Malaya-Caliraya 115 kV line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line.

Interconnection Agreement with Maibarara Geothermal, Inc. or *MGI*

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for their 20*MW* (with max capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which is an interconnection at *MERALCO*'s FPIP - Los Baños 115*kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115*kV* line connecting its generating facility to *MERALCO*'s system.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. or *ATN*

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

Technical Services Agreement with Integrated Energy Distribution and Marketing or *IEDM*

MERALCO provides technical and management services for the operations of Ibadan Electricity Distribution Company and Yola Electricity Distribution Company in Nigeria. In consideration, *MERALCO* receives fixed monthly fees, subject to adjustment annually in accordance with the provisions of the Technical Services Agreement.

Technical Services Agreement with Comstech Integration Alliance, Inc. or *Comstech*

On February 12, 2014, *MERALCO* signed a Technical Services Agreement with *Comstech* whereby *MERALCO* shall provide technical services to support *Comstech* in the execution of the Investment and Management Agreement with Pampanga Electric Cooperative II or *PELCO II*.

Comstech secured the approval of the majority of the *PELCO II* membership to be the investment and management partner in electricity and distribution of *PELCO II*.

Agreement and Registration with Philippine Economic Zone Authority or *PEZA*

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement with a term of 25 years, whereby *MERALCO* has been contracted to operate the distribution system of Cavite Economic Zone or *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Trans-Asia* for the sale of power to *CEZ* and its locators beginning January 26, 2013.

On November 7, 2014, *MERALCO* filed an application to *PEZA* as an Economic Zone Utilities Enterprise, pursuant to the Concession Agreement between *MERALCO* and *PEZA* dated May 26, 2014, whereby *MERALCO* has been contracted to manage and operate the *PEZA* electrical distribution system in *CEZ*.

On November 12, 2014, the *PEZA* Board approved *MERALCO*'s application, subject to *MERALCO*'s signing of a Supplemental Agreement with *PEZA* under standard registration terms and conditions, through Resolution No. 14-620.

On December 19, 2014, upon compliance with the pre-registration condition under said Board Resolution, as well as the payment of application and registration fees, *MERALCO* has submitted its duly signed and notarized Supplemental Agreement with *PEZA*.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the Cavite Economic Zone.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2014	2013	2012
	(In millions, except per share data)		
Net income attributable to equity holders of the Parent (a)	**₱18,053**	₱17,211	₱17,117
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱16.02**	₱15.27	₱15.19

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2014, 2013 and 2012. Basic and diluted earnings per share attributable to equity holders of the Parent of continuing operations of ₱14.40 in 2012 is based on net income attributable to equity holders of the Parent of continuing operations of ₱12,748 million.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

Revised SL Caps

On December 8, 2008, the *ERC* promulgated resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting their January 2010 billing. Said cap is one percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme or *PIS* under the *PBR*.

On December 8, 2009, *MERALCO* filed a Petition to amend said Resolution with an urgent prayer for the immediate suspension of the implementation of the new *SL* cap of 8.5% starting January 2010. The proposed amendment is aimed at making the Resolution consistent with the provisions of *RA No. 9136* and *RA No. 7832*, by increasing the *SL* cap to not less than 9%. The hearings on this case have been completed. As at February 23, 2015, this Petition is pending decision by the *ERC*.

Benefit-Sharing Scheme to Lower System Loss

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

On December 11, 2012, the *ERC* posted on its website the second draft of the *Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities*. As at February 23, 2015, the Joint Petition is pending further action or decision by the *ERC*.

Retail Competition and Open Access or *RCOA*

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

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the *CRB* and Reportorial Requirements. The resolution mandates all *DUs* to submit to the *ERC* and *CRB* information on end-users with (1) monthly average peak demand of at least 1 *MW* for the preceding 12 months; and (2) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information in issuing the certificates of contestability.

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

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average Generated Weighted Average Price or *GWAP* of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or Secondary Cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (1) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (2) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such Resolution; and (3) extend the effectivity of the Secondary Cap mechanism for a period of 120 days from August 10, 2014 or until the establishment by the *ERC* of a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given an additional period until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure to apply in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a Cumulative Price Threshold or *CPT* amounting to an average spot price of ₱9,000 per *MWh* over a rolling day 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association or *PIPPA* in the *RTC* of Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the Secondary Cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment-in-Intervention. The *RTC-Pasig* admitted *MERALCO's* intervention and comment in its Order dated October 28, 2014. The case had already been submitted for decision. However, in a Motion for

Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. As at February 23, 2015, *MERALCO* has filed a comment on the motion and the motion is deemed submitted for resolution.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and "Guidelines for the Supply of Electric Power in Ecozones". Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DUs* at the *RTC*-Pasig.

Purchase of Subtransmission Assets or *STAs*

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO's* joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *Transco* filed a Motion for Partial Reconsideration and Motion for Reconsideration, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TranCo's* Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a motion for reconsideration of the May 5, 2014, *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO's* position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015. During the hearing, *NGCP* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

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

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

MERALCO's Peak/Off Peak or *POP Program*

On November 15, 2012, *MERALCO* filed an application with the *ERC* for the approval of its revised Time of Use or *TOU* rates program, also known as the *POP* Program. The *POP* is a rate program being offered by *MERALCO* to customers whose load characteristics can benefit from *TOU* rates as well as to those that can shift their loads from peak to off-peak hours. The proposed revised *POP* Rate aims to provide better savings to 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. *MERALCO* started implementing the program on February 1, 2013.

Feed-in-Tariff or *FIT*

Pursuant to Republic Act No. 9513, or the Renewable Energy Act of 2008 or *RE* Act, the *ERC* issued Resolution No. 16, Series of 2010, Adopting the Feed-in-Tariff or *FIT* Rules, on July 23, 2010. As defined under the *FIT* Rules, the *FIT* system is as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

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

To fund the *FIT* payments to eligible *RE* developers, a *FIT*-Allowance or *FIT*-All charge will be imposed on all end-users. The *FIT*-All will be established by the *ERC* upon petition by the *TransCo*, which had been designated as the *FIT* Fund Administrator.

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

On July 30, 2014, *TransCo* filed its Application for Approval of the *FIT*-All for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FIT*-Allowance of ₱0.0406 per *kwh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or Writ of Preliminary Injunction, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FIT*-Allowance, the *FIT* Rules and *FIT* Guidelines; and (ii) the annulment of the *FIT* Rules and *FIT* Guidelines. As at February 23, 2015, *MERALCO* is awaiting the action of the *SC* on this matter.

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

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FIT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. The *ERC* has yet to promulgate its resolution on the *FIT* Rate for the additional solar capacity.

Net Metering Program

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

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the Interconnection Standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the *ERC* in due course. In the meantime, the *DUs*' blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The rules took effect on July 24, 2013. As at December 31, 2014, *MERALCO* has already energized 41 Net Metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

Interruptible Load Program or *ILP*

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

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

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

33. **Subsequent Event**

On February 23, 2015, the *BOD* of *MERALCO* approved a final cash dividend of ₱8.49 per share to all shareholders of record as at March 23, 2015, payable on April 15, 2015.

Glossary of Terms

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.

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).

DISTRIBUTION CHARGE is the tariff component that 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.

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.

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.

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.

ELECTRIC POWER INDUSTRY PARTICIPANT refers to any person or entity engaged in the generation, transmission, distribution or supply of electricity as defined in Chapter I, Section 4 (s) of the EPIRA.

ENERGY is the integral of the active power with respect to time, measured in watt- hour or multiples thereof.

ENERGY REGULATORY COMMISSION (ERC) is the independent, quasi-judicial regulatory body that was created pursuant to Section 38 of the EPIRA.

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.

FEED-IN-TARIFF (FIT) 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.

FLAT STREETLIGHTING SERVICE (FS) is the rate class applicable to customers who wish to avail of public street lighting at a monthly rate per lamp. Street lamps for this service are installed by Meralco on existing distribution poles in accordance with company specifications for equipment, installation, maintenance and operation.

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.

GENERAL SERVICE B is the rate class applicable to non-industrial and industrial customers with a connected load of five to less than 40 kilowatts.

GENERATION CHARGE is the tariff component that covers 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).

GENERATOR WHEELING 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.

GIGAWATT is the unit of electric power equal to 1,000,000,000 watts.

GIGAWATTHOUR (GWh) is the unit of electric energy equal to 1,000,000,000 watt-hours.

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 institutions.

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 (c) of the EPIRA.

INDEPENDENT POWER PRODUCER (IPP) is an existing power-generating entity not owned by the NPC.

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.

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.

LIFELINE DISCOUNT/LIFELINE SUBSIDY is a socialized pricing mechanism under Section 73 of the EPIRA as amended in R.A. 10150, to benefit marginalized/low income 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.

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.

LOCAL FRANCHISE TAX is levied by Local Government Units or LGUs (provinces and cities) from businesses enjoying a franchise 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.

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.

LUZON GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities located in the island of Luzon.

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.

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.

METERING CHARGE is the tariff component that 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.

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.

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. This system of distributed generation shall not exceed one hundred kilowatts (100 kw) in capacity as defined in R.A. 9513.

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.

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.

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.

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 is the average of the instantaneous power over one period of the electrical wave, measured in watts or multiples thereof.

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.

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.

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.

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.

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.

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.

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.

RULES GOVERNING THE AUTOMATIC COST ADJUSTMENT AND TRUE-UP MECHANISMS AND CONFIRMATION PROCESS FOR DISTRIBUTION UTILITIES is the set of Rules promulgated by ERC under Resolution 16, Series of 2009, as amended by Resolution 21, Series of 2010. This establishes the procedure for the automatic recovery or refund of pass-through costs and the confirmation process that would govern the automatic cost adjustment and true-up mechanisms for Generation Charge, Transmission Charge, System Loss Charge, Lifeline Subsidy Charge, Local Franchise Tax and Local Business Tax.

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 is the tariff component that refers to the cost of rendering service to customers such as billing, collection, customer assistance and other associated services.

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 LOSS CHARGE is the tariff component that 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.

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

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.

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.

TRANSMISSION CHARGE is the tariff component that 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 a tax on consumption levied on the sale of electricity and related services through all stages of generation, transmission, and distribution. As an indirect tax, the VAT imposed on each sale transaction in all the stages mentioned may be shifted or passed on to the final consumer.

WATT is the amount of usable (effective) power delivered or consumed.

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.

Awards and Recognition

50th Anvil Awards

Gold Anvil

- One Meralco School Electrification Community Launches
- One Meralco School Electrification Program
- One Meralco Typhoon Yolanda Disaster Response

Silver Anvil

- Lighting Up Engagement: The Meralco SPARK
- Meralco Kuryente Load: Driving the nation to a more energized future with prepaid electricity
- 3rd Philippine Electric Vehicle Summit
- One Meralco Household Electrification Program
- One Meralco' Energizing Schools in the Countryside Video
- Determined to Serve: Makabayan Volunteerism Program

Philippine Quill Awards

First Runner up Company of the Year
Excellence Awards – 15
Merit Awards – 14

- Meralco as a Friend: Using Meralco Advisory to Empower Customers and the Media with Information
- Turning the Tide: Meralco's Communication Efforts Vindicate Company in the Face of Record High Rates
- Lighting up engagement: The Meralco SPARK
- Meralco e-Bulletin: Sparking Information in the Digital Realm
- Liwanag sa Panahon ng Unos: Images of Meralco's Typhoon Yolanda and Glenda Power Restoration
- Understanding the Philippine Power Supply Chain, at bakit wala kaming kuryente eh hindi naman binayo ang poste (sa tapat ng bahay) namin
- Meralco Lineman's Rodeo Branding and Collaterals
- 2014 Football for Peace Friendship Games in Manila
- One Meralco Typhoon Yolanda Disaster Response
- One Meralco School Electrification
- Project 9 Mornings: Meralco employees sharing the Spirit of Christmas with Typhoon Yolanda Survivors
- Typhoon Yolanda Power Restoration
- One Meralco's Energizing Schools in the Countryside Video
- One Meralco School Electrification Community Launches
- 2014 MVP Academic Assistance Awards
- Determined to Serve: The One Meralco Foundation Makabayan Volunteerism Program
- Meralco 25th Linemen's Rodeo: Pagtulong at Pag-iingat, Kabalikat sa Pag-angat
- Sampu (Angat sa Isang Dekadang Pag-iingat)
- Meralco Corporate Partners Microsite
- More Power to the Meralco Customers with MoVE!
- Typhoon Watch - Handa TVC: Ensuring the Filipino Family's Safety During Times of Calamity
- Bright Ideas: A fresh new meaning to the age-old saying Home is where the heart us
- Meralco Kuryente Load: Making Lives Lighter and Brighter with Prepaid Electricity
- Special Power-Up Forum: Interruptible Load Program
- The 3rd Philippine Electric Vehicle Summit
- Power Up Forum Series
- Gaining a New Outlook: Engaging Employees and Enhancing Communication through Exchange
- PSWITCH: Transforming a Utility's Customer Service Mindset
- Alabaster Program: Crafted to Raise, Increase and Accelerate Employees' Capabilities

Corporate Governance Awards

4th Asian Excellence Recognition Awards (Hong Kong)

- Asia's Best CEO (Philippines) - Oscar S. Reyes
- Best Investor Relations Company in the Philippines
- Best Investor Relations Officer in the Philippines - Rafael L. Andrada
- Asia's Best CFO (Philippines) - Betty C. Siy-Yap
- Best Corporate Social Responsibility - Jeffrey O. Tarayao

4th Integrity Summit (Philippines)

- One of 12 Philippine companies in the Advanced Level for mainstream and best integrity practices

10th Corporate Governance Asia Recognition Awards 2014 (Hong Kong)

- Asia's Icon on Corporate Governance
- Asian Corporate Director of the Year – Oscar S. Reyes

People Manager of the Year Award

Ramon B. Segismundo
Personnel Management Association of the Philippines

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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.

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Corporate Communications - Meralco
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9 Lives Gloss is a high quality 55% recycled paper with excellent environmental attributes. Its 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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ONE MERALCO
FOUNDATION

POWER OF HOPE

ONE MERALCO FOUNDATION
ANNUAL REPORT 2014

Contents

About this Report

This report presents the 2014 accomplishments of One Meralco Foundation for its main advocacy pillars namely, Community Electrification, Energy Education, Youth Development, Emergency Preparedness and Disaster Response, and Employee Volunteerism. We also present the financial results of the Foundation.

To protect our integrity as a social development institution, we exercised utmost transparency in preparing this report, making sure that our benefactors and beneficiaries are provided clear and factual information about our accomplishments and financial performance in accordance with generally accepted accounting principles.

About the Cover

Our next movers and shakers could not have lived at a better time. The Foundation's dedication to make a nation thrive in a changing world comes with the power to ensure that each face radiates a smile of hope—with the promise of a brighter future smiling back.

2014 **Performance Review**

39,122 families
directly benefiting from our various programs

5,300 households
in the franchise area energized

40
remote public schools energized

11,436 students
with improved learning through school electrification

301 schools
inspected for electrical safety

2,541
Youth and Sports programs participants

2,552
employee volunteers

48,631
volunteer hours

13,601 families
benefitting from disaster response and rehabilitation projects

79 community
relations projects in the Meralco franchise area

P191.6M funds
utilized for various programs

To our Fellow Filipinos,

Energized by the **Power of Hope**

After experiencing the powerful earthquake in the Visayas and the wrath of super typhoon Yolanda (international name: Haiyan) in 2013, our country started to pick up the pieces and began moving forward in 2014. Social discussions shifted from stories of grief and loss to resilience and optimism. Every dark cloud has a silver lining, indeed. It is that silver lining that inspired One Meralco Foundation to share the power of hope to thousands of Filipinos.

While 'hope' can be an abstract idea, it is made tangible in a lot of ways. For poor families which did not have electricity until recently, when their homes were energized by the Foundation's household electrification program, 'hope' is what keeps their homes bright at night and what now powers their appliances to be productive. For the thousands of students in remote, off-grid schools, 'hope' is the electricity that now flows to their classrooms and to their multimedia equipment so they can learn better. For underprivileged school children who dream of attaining higher education, 'hope' rests in a scholarship grant or in a game of football. For a community in Capiz whose livelihood was destroyed by a strong typhoon, 'hope' means a raft taking tourists on a river cruise that provides income for their families. For a Meralco employee who devotes time and effort to protect his environment, 'hope' is a full-grown tree or a breath of fresh air. Hope means a lot of things to many people and empowers us to move forward.

From the Calayan Islands in the north to the Sarangani Province in the south, the social development programs of the Foundation have brought this power of hope to more than 39,000 marginalized families across the country in 2014.

Throughout the year, we energized households and schools, taught future leaders to become responsible energy consumers, delivered immediate relief to victims of calamities and rehabilitated their livelihood, developed the youth by honing their talents and skills, and engaged Meralco employees to volunteer in various causes.

Hope for Productive Families

In the Meralco franchise area, electricity has finally found its way to the homes of some 5,300 urban poor families, through the household electrification program in partnership with the various local government units (LGUs). Families now enjoy the benefits of safe, reliable and affordable electricity. Street lighting was also installed in many of these communities' dark alleys making the residents feel more secure from lawless elements.

The household electrification program also extends support to resettlement villages that were put up in disaster areas. For example, 257 concrete houses were energized in the MVP Village in Davao Oriental devastated by Typhoon Pablo two years ago. Today, the typhoon survivors are beginning to live a normal life anew, getting ready to explore the myriad of opportunities ahead of them.

Hope for Better Learning

Continuing its mission to improve the learning condition of students in off-grid schools through electrification, the Foundation energized 40 public schools in Rizal, Quezon, Palawan, Romblon, Northern and Western Samar, Leyte, Calayan Islands and South Cotabato — all by way of solar photovoltaic technology. By the end of the year, the program already benefited a total of 15,597 elementary and high school students enrolled in 70 public schools around the country. Now, students are more engaged in various classroom activities since multi-media assisted learning has been powered up by electricity. Eight of the schools energized are attended by students belonging to indigenous tribes namely, the T'bolis of South Cotabato and the B'laans of Sarangani.

The school electrification program was complemented by an energy education program to create a wider and better understanding of this precious but limited resource. Teachers and students learn through "energy flash cards" on how energy is produced, consumed, reused and conserved so that they become more responsible end-users. These cards may be incorporated in various subjects such as Science and Technology, Mathematics, English, Social Studies and Home Economics in both public and private schools.

Hope for an Engaged Youth

The Foundation's advocacy for youth development through sports and the arts continues. For four years, the Meralco Basketboys Program has engaged thousands of underprivileged children in marginalized communities to improve their basketball skills and become better team players in their schools and communities. Similarly, we continued to help the Football for Peace Program, which attracts children in conflict areas in Mindanao to be trained by our Loyola Meralco Sparks

These students of a public elementary school in Rizal benefited from the Foundation's school electrification program in 2014. Their school also received a multimedia learning package donated by Meralco employees.

Football team so they can focus on their football skills rather than be drawn into armed conflict. Over 150 youth from the Autonomous Region of Muslim Mindanao participated in this program, in partnership with the Philippine Marines.

Young Filipinos with the passion for the performing arts, specifically, a cappella singing, have another avenue to showcase their talents and polish them under the annual "Akapela Open" competition. After being exposed to various Meralco customers, the finalists have now used their singing talents to earn extra income by performing in corporate and community events as well as festivals.

Hope in Times of Need

The Foundation's emergency preparedness and disaster response program provided holistic support to 13,601 families affected by typhoons and fires in the past year. Through a three-step approach in disaster response: [1] immediate relief, [2] power restoration and [3] community rehabilitation, the Foundation is able to provide support that addresses fundamental needs of victims, rescue organizations and the local governments leading the rehabilitation.

In typhoon-hit areas where electric services came to a halt as a result of downed power lines, the Foundation sent volunteer Meralco engineers and linemen to assist the local electric cooperatives in immediately restoring power. The Meralco Power Restoration teams were a big contributor to the speedy restoration of power in Leyte (Typhoon Yolanda), and in Albay and Sorsogon (Typhoon Glenda).

2014 also saw the complete rehabilitation and construction of Typhoon Yolanda-damaged schools which the Foundation committed to its donors in 2013. It constructed 18 typhoon-resistant classrooms, benefiting 7,757 students and 257 teachers. Further, the Foundation participated in the continuous rebuilding efforts in these areas, particularly the construction of community chapels together with Caritas Manila and the PLDT-Smart Foundation. Apart from these, a fishing community in Capiz also revived their livelihood through the Foundation's donation of motorboats and a tourist raft which the community now uses as a floating restaurant taking tourists for a cruise along the Palina River in Roxas City. The project has since promoted the natural beauty of the river, attracting more local and foreign tourists, resulting to an increased income for the community.

Hope for Empowered Communities

Closer to home, the Foundation worked on 40 community projects with the various business centers of Meralco to help in the development of social services delivery in the areas of education, health, law enforcement, livelihood and enterprise development. These community programs also engaged more than 2,500 employees to volunteer in various activities that bring hope to many families in the areas where Meralco operates.

With Meralco's corporate values driving our commitment to social responsibility, we have been steadfast in our mission in the Foundation to make an even greater impact in the years to come. At the end of 2014, we paused and reflected on the many challenges that stand out for us in the work of nation building against the backdrop of today's increasingly complex, fast changing and information driven environment. This review strengthened our commitment to making a sustainable, measureable difference in the communities in which we work and live. We believe profoundly that a company's business purpose is most powerful when it aligns with the company's potential for broader societal impact.

We would like to express our gratitude to the Foundation's board of trustees, management and staff, donors, partners and volunteers for their deep sense of service and unwavering commitment to seeing through these programs. Through their leadership, the Foundation's ability to challenge itself, raise its performance standards and ask the necessary questions result in delivering initiatives that make an even bigger impact to both business and society.

As we continue this journey, may we all be a shining light of hope for Filipinos who truly deserve a much brighter tomorrow.

MANUEL V. PANGILINAN
Chairman

OSCAR S. REYES
Vice Chairman

JEFFREY O. TARAYAO
President

KACSA President Ana Fe Bayogbog's dream for her community to have electricity was finally realized in 2014 when KACSA was energized through the Foundation's household electrification program.

Making communities *safer with power*

Ana Fe Bayogbog, 37, and a mother of two, earns a living by selling beauty and wellness products. She has been doubling her efforts to feed her family after she became a single parent barely a year ago. Her husband, Simeon, was mercilessly gunned down by still unidentified people, and Ana believes that the murder of her husband is linked to the latter's aspiration to secure the tenure of the more than 300 residents of their community who have been promised relocation after they were driven away from their previous settlements — in flood prone areas in Rizal. *"Pinangakuan kami na ililipat kami sa pabahay na gagawin ngunit hindi kami inilipat. Sad to say, napabayaan kami,"* she said.

Ana says her husband did not die in vain. Today, their neighborhood, the "Kasiglahan Creekside Association" or KACSA is accredited by the local government and is recognised as a legitimate neighborhood community. Finally, being KACSA's president, Ana had only one more problem left to solve — electricity.

For four years, KACSA did not have access to electricity due to legal and financial challenges. For a time, they fell victim to the abuse of residents in nearby communities which allowed them

64% increase

The number of households energized in 2014 compared with the previous year

Since the electrification of their community, several KASCA residents became entrepreneurs, opening small businesses like this internet shop.

61
communities
benefited by the household electrification program

23
city and municipal government partners

25 ***Meralco Business Centers***
participated in the project

to tap into their power supply and collected fees which were way higher than the kilowatt-hour price offered by Meralco. Learning about the plight of the residents of KACSA, Meralco and the Foundation stepped in in 2014 and saw the possibility of energizing the community through the household electrification program.

Also known as Relocatees and Informal Settlers Electrification or RAISE, the program is designed to encourage informal settlers and relocatees to gain legal and safe access to Meralco's power distribution grid. The Foundation provides assistance especially in the initial requirements for electrification. *"Pag dating talaga ng Meralco sa aming lugar, sobrang saya namin dahil sa wakas, magkakaroon na ng solusyon ang aming problema. Malaking tulong ito lalo na't marami sa amin maliliit lang ang hanap-buhay,"* Ana explained.

The community leader said, among other things, the high rate of crime was one of the biggest problems she faced. *"Sobrang hirap talaga noon kasi medyo madilim kaya mataas ang crime rate dito sa lugar namin at yung ilang mga kabataan nakakagawa ng mga kalokohan dahil walang ilaw,"* recalled Ana.

KACSA celebrated their electrification with a simple yet meaningful community launch in November 2014. Officers from the partner organizations and the local government unit graced the lighting up ceremony.

"Malaki na ang ipinagbago ng aming lugar mula nang magkaroon kami ng kuryente. Unang una, kung dati madalim ang aming mga kalye, ngayon ay sobrang liwanag na. Nagkaroon kasi kami ng kasunduan na lahat ng mga bahay sa tabi ng kalye ay maglalagay ng ilaw sa labas para magsilbi na ring street light. Kaya nabawasan ang insidente ng krimen at ilegal na droga dito sa amin," observed Ana. *"Mas mura na rin ang binabayaran namin na kuryente. Dati ang binabayaran ko ay P1,500 bawat buwan, ngayong sa Meralco na talaga diretsong nanggagaling ang aming kuryente ang binabayaran ko na lang ay nasa P400-P500,"* she added. *"Sobrang mahalaga ang kuryente sa panahon natin*

Now that electricity flows into their home, KACSA officer Primitivo Catubao and his family spend more quality time at home after a day's work.

To celebrate KACSA's electrification, a community launch was held in November. It was attended by residents of the community and their officers, local government officials, and representatives from Meralco and One Meralco Foundation.

ngayon dahil katulad dito sa amin, naging malaki ang papel ng kuryente upang mas maging ligtas ang pamumuhay namin dito. Ikalawa 'yung mga batang mag-aaral namin dito ay nakakapag-aral na rin sa gabi dahil may ilaw na sa mga kani-kanilang bahay."

Through the RAISE program, the Foundation energized 5,300 households in Metro Manila, Rizal, Bulacan, Cavite, Laguna and Quezon.

The household electrification program also energised 257 households in the MVP Village for Typhoon Pablo victims in Davao Oriental.

T'boli student Alex Labi of Kibang National High School in Lake Sebu, South Cotabato hopes electricity will finally bring progress to his school and community.

T'boli students perform a native dance during the school electrification community launch in Kibang National High School. The solar panels installed by One Meralco Foundation are visible in the background.

Illuminating dreams
of students in remote schools

"Gusto kong maging teacher... kasi gusto kong makatulong sa aking mga kapwa katutubo. Sa aming tribo kasi marami pang hindi nakakapagaral dahil sa kahirapan," shared 15-year old Alex Labi, a T'boli from the remote upland Barangay Ned in Lake Sebu, South Cotabato.

The Grade 9 student of Kibang National High School has been consistently topping his class and has also been very active in co-curricular activities. With his skills, he could easily go places, but he is determined not to go anywhere but here, in this lowly community, which many generations of T'bolis have called their home for decades.

Labi's school has a 200 student population that is composed of T'bolis, Aklanons, Ilonggos, Manobos, Bisaya (Cebuanos) and B'laans. Among them, the T'bolis form the majority, although an increasing number come from the intermarriage between pure T'bolis and other indigenous groups, usually the Manobos.

The diversity of the school's student population is a reflection of the colorful blend of cultures in the community surrounding it. But progress in this part of the country is coming at a snail's pace.

"Sa totoo lang po, yung iba naming mga kasamahan ay medyo ignorante pa sa iba't ibang mga bagay. Kaya gusto ko pong matuto para makatulong ako sa kanila," Labi added.

Just like many school children in his community, Alex has always dreamed of learning how to use new gadgets such as desktop computers which students from progressive schools in the town proper use. Unfortunately, this dream remained elusive for years because in fact, his school and the entire community did not have access to electricity.

One of Alex's teachers, Joven Oro, first gained teaching experience after graduating from college in a private school in Tacurong City, Sultan Kudarat. As multimedia instructor there, he used to teach his students how to create slideshow presentations, use word processors and show them movie clips and animations explaining complex science topics. Upon passing the board exams, he left the private school in search of much greener pastures, something he found, quite literally, in Barangay Ned.

"I intentionally came over two days in advance to assess the place. When I arrived, I was shocked to learn the place didn't have electricity. But I thought it was a very beautiful place: the breeze is cool and the students seemed really eager to learn. And so I stayed. I've been teaching here for four years now, and although there are job opportunities in the city, I chose to stay because I feel that my students need me," shared Teacher Joven.

Until recently, the teachers at Kibang National High School relied on a small solar panel installed by the local government to charge their cellular phones during the day. Because of the limited output of the panels, Teacher Joven couldn't get enough charge for his small netbook.

He intended to use the device to introduce technological concepts to his students, but since the power in its battery is always never enough to last a whole day, he scrapped the idea and reverted to traditional visual aides instead.

"At first, I was really frustrated because as much as I wanted to introduce new things to my students, because there is no electricity, I couldn't. I saw how hungry they are for technology but I couldn't do something about it; I felt so powerless," he explained.

Teacher Joven and his students didn't have to wait any longer. In 2014, the Foundation considered the school as candidate for energization under its School Electrification Program.

"Kibang National High School, as with three other schools in South Cotabato, was on the Department of Education's (DepEd) list of unenergized schools and so we sent a team to determine the feasibility of installing solar photovoltaic equipment there and whether the school and community officials would be willing to cooperate to sustain the project," explained Rainier Manguiat, One Meralco Foundation Program Officer for School Electrification.

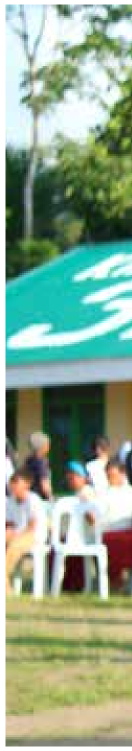
Having passed the assessment, the school was set for energization. Weeks later, engineers from the Foundation's partner, Meralco Energy, Inc. (MSERV), installed a one kilowatt peak solar photovoltaic system in the school. The equipment is able to provide power to LED bulbs installed in classrooms and other low wattage devices.

Meralco employees also donated a school multimedia learning package composed of a laptop computer, printer, LED TV and DVD player through the Meralco Employees Fund for Charity, Inc. (MEFCI). This is the employees' counterpart donation to every school energized by the Foundation.

"At first, I couldn't believe it because I know Meralco is an electric company servicing primarily Metro Manila. I wonder why would a Luzon-based company help us in Mindanao," said Teacher Joven. "When the Meralco engineers finally installed the solar photovoltaic systems, that's when reality finally sank in," he added.

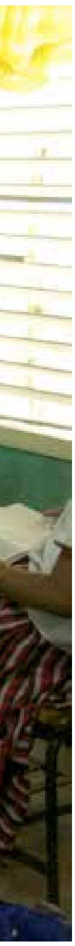
Today, Kibang National High School teachers use the OMF-donated equipment in preparing reports, presentations and other visual aides of their respective subjects. It is also now easier for Teacher Joven to submit the registry of students to DepEd's online database since he could encode the long list at school and only go to the town proper to access the internet (There is no mobile data coverage in Brgy. Ned).

"Before, the simple task of submitting our student registration to DepEd's online facility would take me three days. I would spend almost a day to travel downtown and charge my netbook. I would start encoding the list and transmit the file on the second day, and travel back to school on the third day. But now, I can do the encoding here at school and go to the downtown just to send the data," he explained.



From the farthest mountains to isolated islands, the Foundation brings power to schools in the form of solar photovoltaic systems. Teachers of Cabul-an National High School, an island school in Buenavista, Bohol, are now able to use modern learning tools in class.

Teacher Joven Oro of Kibang National High School in Lake Sebu, South Cotabato hopes electricity will open doors of opportunities for his students.



The students, on the other hand, are happier. Now that they have electricity in their classrooms, they may explore ICT tools and concepts using their school's laptop computer and watch educational videos using the multimedia equipment.

The same was felt by students of Proper Ned National High School, Lubol Integrated School and Pulo Subong Integrated School in the municipality of Surallah.

Joy, excitement and heartfelt gratitude also greeted the Foundation when it energized three public schools in Sarangani province which were attended by students belonging to the B'laan, also an indigenous tribe. These are Danao Integrated School, Nian Integrated School, Lamlabong Integrated School, and Tangali Integrated School.

Since its inception in 2011, the Foundation's School Electrification Program has already energized a total of 70 remote public schools all over the country, 40 of which were energized in 2014. These schools are located either in the mountains or in island communities within and outside of the Meralco franchise area.

One Meralco Foundation targets the electrification of not fewer than 50 schools in 2015.

SCHOOLS ENERGIZED IN 2014

South Cotabato
- Proper NED National High School
- Lubol Integrated School
- Kibang National High School
- Pulo Subong Integrated School

Calayan Islands, Cagayan
- Camiguin National High School
- Calayan High School Dibay Extension
- Dilam High School
- Calayan National High School

Sarangani
- Danao Integrated School
- Nian Integrated School
- Tangali Integrated School
- Lamlabong Integrated School

Southern Leyte
- Limasawa National High School

Quezon
- Cagbalete I Elementary School
- Cagbalete II Elementary School
- Cagsiay III Elementary School Annex
- San Jose Elementary School
- Rosario Elementary School
- Remedios II Elementary School
- Sto. Nino Elementary School

Rizal
- Sto. Nino High School
- MagataManggahan High School

Palawan
- Sta. Teresita National High School
- Tagusao National High School
- Candawaga National High School
- Speaker Ramon Mitra, Jr. National High School
- Caruray National High School
- Casian National High School

Romblon
- Concepcion National High School Annex
- Concepcion National High School Main
- Tungonan National High School
- Banton National High School
- Mabini National High School
- Corcuera National High School

Northern Samar
- Marubay National High School
- Batad National High School

Western Samar
- Villa Hermosa National High School
- Almagro National High School
- Sto. Nino National High School
- Cabunga-an National High School

Pioneering in
school safety and energy education

It is undeniable that in today's age, electricity is the lifeblood of industry. From manufacturing to digital computing and communications, electricity provides power to keep things and data moving around the globe. As our insatiable thirst for more power grows, so should our understanding and appreciation of this valuable resource.

This is the principle behind the Foundation's energy education program. Launched in 2014, its goal is to develop learning materials on energy that could be adopted in academic institutions. These materials are intended to explain various technical concepts related to electricity in a way that can be easily understood by both students and consumers.

As a first step, the Foundation partnered with the Coalition for Better Education (CBE) to conduct a three-day teachers' camp and develop 350 energy learning resource kits that can be easily integrated by educators in teaching Science, Technology, English, Mathematics and Social Studies. To ensure seamless integration, the materials were aligned with the Department of Education's (DepEd) K to 12 curriculum.

Each kit contains infographic flash cards, project-based learning modules, and an easy-to-use user's guide for teachers and for students.

Thirty-seven teachers from various public schools all over the country participated in the camp held in Cebu City. The learning materials were pilot-tested and validated in public schools in Albay, Leyte and Zamboanga City.

Aside from the development of energy kits, the Foundation also sponsored the Department of Environment and Natural Resources' (DENR) nationwide search for eco-friendly schools. The Foundation confers the Meralco Energy Leadership Award to schools that implement projects on energy efficiency and conservation.

To advocate electrical safety in schools, the Foundation also launched the "Safe ang School Ko!" campaign as part of its participation in DepEd's annual "Brigada Eskwela" program. Volunteer Meralco employees and engineers inspected electrical fixtures in schools including service drop wires, lighting and service outlet connections and circuit breakers, among others.

In 2015, the Foundation will roll out more energy learning resource materials and expand its school safety assessment program to include institutions outside the Meralco franchise area.

Meralco engineers check the electrical connections in a school in Valenzuela City before classes opened in June. The activity was part of the Foundation's "Safe Ang School Ko!" campaign.

One Meralco Foundation's
"Safe Ang School Ko!"
campaign implemented in
301
schools
in the Meralco franchise area in 2014

The learning cards developed by the Foundation's energy education program are designed to help educators teach complex energy concepts to their students in an easy-to-understand way.

Participants of the Foundation's Energy Camp for Teachers develop energy learning cards which will soon be distributed to schools nationwide.

Developed a set of
350
energy learning resource cards
aligned with DepEd's K to12 curriculum

Giving peace
a fighting chance

One sunny afternoon in 2011, Lt Col Stephen L Cabanlet and his fellow members of the Philippine Marine Corps stationed in Sulu decided to play football in a field just outside of their detachment. Intrigued by the "new sport," the local children gathered around them to observe.

After a while, the soldiers took a break and intentionally left the ball on the field. But when they returned, they saw the children playing with the ball, imitating the way they played the game. The children were so ecstatic that the soldiers couldn't retrieve their ball. And then, an idea popped out from the mind of Lt Col Cabanlet. If a simple round ball could capture the interest of these young people, then maybe the same could lead them away from armed conflict and instead, aspire for a better life. "Football for Peace" was born.

Apart from football, the Foundation also helps develop the values, skills and talents of future leaders through basketball and chess clinics, performing arts competitions and educational grants.

- 2,541 Youth and Sports Programs Participants
- 296 Meralco dependents (children/siblings) were awarded the MVP Academic Achievement Awards (MVPAAA)
- “Akapela Open” provided opportunities for youth groups to earn additional income.

"Football for Peace" participants engage in a friendly game after their clinic with the Loyola Meralco Sparks and the Meralco Football Club.

Lt Col Cabanlet and his comrades began teaching football to their eager "students" almost everyday since, but they made sure to set certain conditions before the children are allowed to play.

"This is our way to somehow instill values in them," explained Lt Col Cabanlet. "Once you give them the ball, they will just play and not care about the rules. But if you use the ball to get them to obey certain rules, you are imparting in them one of the biggest lessons a person can learn-- discipline."

Beginning with one small team, the soldiers managed to expand the training and organized inter-barangay tournaments. Then other marine detachments from nearby provinces joined in with their own teams which competed with those in Sulu. To formally launch "Football for Peace," a one-day competition among the teams was held in Zamboanga City in 2011.

Inspired by the advocacy of Lt Col Cabanlet and his peers, the Foundation began supporting "Football for Peace" starting with the donation of 500 balls in 2011. In the following years, the Philippine Marines brought the festival to Manila to give the participants a different kind of experience and show them how peace can pave the way for progress. The Foundation, for its part, sponsored a football clinic led by the Loyola Meralco Sparks Football Club and the Meralco Football Club.

In 2014, 150 children from Sultan Kudarat, Cotabato, Misamis Oriental, Sulu, Zamboanga, Tawi-Tawi and Palawan participated in the clinic at the Emperador Stadium in Taguig City.

In preparation for their match, the children underwent training by the pros. The Sparks and Meralco FC players helped them gain an advantage over their more experienced and well trained competitors from Metro Manila.

"It is a great honor for us to be chosen by the Philippine Marine Corps as their partner in this inspiring initiative. Our shared belief of building the skills of our young people to become responsible, productive and peace-loving citizens will hopefully lead us to a better country. The Foundation's participation in

Once you give them the ball, they will just play and not care about the rules. But if you use the ball to get them to obey certain rules, you are imparting in them one of the biggest lessons a person can learn -- discipline.

the Football for Peace program is a concrete expression of our commitment to youth development through sports," said One Meralco Foundation President Jeffrey O. Tarayao.

Aside from the football activities, the children also embarked on a series of educational tours within Metro Manila.

"We, at the Philippine Marine Corps, are optimistic that 'Football for Peace' will help bring long-term peace to these conflict areas. By giving them a chance to experience how it is to live in a peaceful society and how peace opens doors of opportunities for progress, we hope that they will be inspired to work towards achieving that goal," explained Major General Romeo T Tanalgo, Commandant of the Philippine Marine Corps.

While it is true that there is not a single solution to the complex and long standing armed conflict in Mindanao, "Football for Peace" is helping change the situation for the better, one ball at a time.

Students of Loctugan Elementary School in Roxas City, Capiz who were affected by Typhoon Yolanda no longer have to hold classes in makeshift classrooms after the Foundation turned over new classrooms built through contributions from Meralco employees.

Hope to rebuild
communities

Principal Jopet Lirazan of the Puente Bunglas Elementary School in Ajuy, Iloilo, did not realize how much damage his school incurred until he went out of his house and saw the bits and pieces scattered about. Typhoon Yolanda's powerful winds claimed thousands of lives and brought down homes and buildings, including their school.

"Wala talagang natira sa mga bubong ng walo naming classroom," recalled Mr. Lirazan adding that the typhoon carried some parts of the roof and ceiling several meters away from the classrooms.

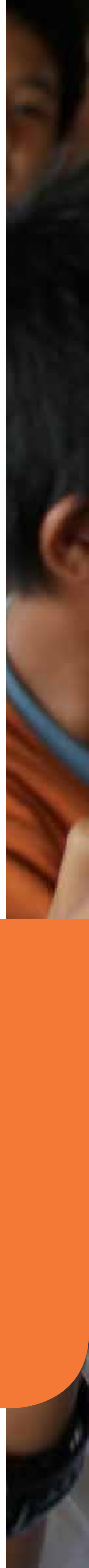
Judging by the extent of the damage, Mr. Lirazan knew that it will take a lot of time and money to rebuild the damaged classrooms -- something that the school didn't have.

When classes resumed, the students had to make do with whatever was left.

"Pag umuulan, nababasa yung aming mga estudyante at kung mainit naman, wala silang masisilungan," he shared.

Students of Capagao Elementary School in Capiz also suffered the same fate. Here, almost all of the school's textbooks were rendered unusable by the typhoon. The teachers and students tried to salvage some of them but to no avail.

"Kawawa talaga 'yung mga bata. Halos isang buwan kaming nagtiis na trapal lang ang bubong ng mga classroom namin," recalled Grade 6 teacher Ms. Conielyn Dapugo whose classroom was almost unrecognizable.



Immediately after the typhoon hit, the Foundation sent Meralco power restoration teams to help local electric cooperatives bring back power in Leyte, Iloilo, Capiz and Aklan.

In the course of fulfilling their mission, Meralco engineers and linemen came across badly damaged public school buildings in their assigned areas. Moved by the heart-rending condition of the students, they turned to the Foundation for help.

The Foundation staff immediately made an assessment and determined the priority areas based on the amount of devastation incurred by the school.

To engage more employees to help, Meralco launched the "1 Day 2 Give" campaign to help fund the classroom rehabilitation project. Employees were encouraged to give at least a day's worth of their pay to the cause.

Construction of the 18 classrooms began in the first quarter of 2014. By October, the following schools received their new classrooms:

- Puente Bunglas Elementary School (Ajuy, Iloilo)
- Salcedo Elementary School (Sarah, Iloilo)
- Loctugan Elementary School (Roxas City, Capiz)
- Councilor Nicolas Dais Memorial School (Pontevedra, Capiz)
- Capagao Elementary School (Panitan, Capiz)
- Palo National High School (Palo, Leyte)
- Isabel Central School (Isabel, Leyte)
- Ormoc City SPED Center in (Ormoc City, Leyte)
- New Washington Elementary School (New Washington, Aklan)

Each classroom is equipped with orbit fans, LED lights, monoblock arm chairs, a teachers' table and a chalkboard donated by the Meralco Employees Fund for Charity (MEFCI).

To ensure that the classrooms will not suffer the same fate as the ones they replaced should a typhoon of Yolanda's scale come around, the Foundation opted for the use of heavy duty materials, which were prefabricated before they were shipped and assembled on-location.

"I was teary-eyed when I learned that the funds used for the construction of our classrooms came from the pockets of the employees. It is not everyday that we meet people who are willing to set aside a portion of their pay just to meet the needs of other people especially in the education sector," shared Felisa Beriong, Assistant Schools Division Superintendent of Capiz who also graced the turnover ceremonies in the province.

Ms. Beriong personally visited the schools under her supervision days after the typhoon and saw the amount of devastation it caused. Many of the text books were washed away and students spent the first few days after the resumption of classes drying their text books under the sun.

To somehow make up for the loss, the Foundation also donated books and other learning materials aligned with the K to 12 curriculum to all of the 18 schools.

The Foundation's school rehabilitation project owes its success to the generosity of Meralco and its employees who did not hesitate to draw from their own pockets to bring back normalcy in the lives of school children affected by Typhoon Yolanda.

- **Immediate relief provided to 6,200 typhoon survivors and 1,701 fire victims.**
- **5,700 families benefited from the Meralco Rice Bucket Challenge**
- **95 Meralco engineers and linemen deployed to typhoon affected areas, namely Leyte, Albay and Sorsogon corrected 572 electrical poles and reconnected 993 spans of electrical wires.**
- **Helped raise P23.63 million for the rebuilding of churches destroyed by the Bohol quake and Typhoon Yolanda through the "RISE: Rebuilding from the Ruins" benefit concert.**
- **Supported the Meralco Typhoon Watch initiative by launching "Salbabote," the improvised flotation device project in partnership with the Philippine Red Cross, Philippine Coast Guard Auxillary, PepsiCo International and Clorox International Philippines, Inc.**


MERALCO

The dawning of a new morning
for Yolanda victims

Located only about five kilometers from the city proper, the Palina Greenbelt Eco-Park River Cruise has become a recent favorite destination among tourists wanting to get intimate with nature. The beautiful mangrove trees and other scenic views along the banks of the river are the main attractions in this burgeoning eco-tourism industry in Capiz.

Tourists board a "cabana," an open nipa hut placed on top of a bamboo raft which is slowly tugged by a motorboat. A sumptuous meal (mostly seafood) is served to the guests throughout the two-hour cruise while local talents serenade them with the distinct melody of Visayan folk songs.

The 29 families, who depend on the river cruise, were once a fishing community but were offered an alternative livelihood by the local government because many of them constructed illegal fishing structures along the river that were damaging its ecosystem.

Fortunately, the community's new source of living fetched a greater income compared with their fishing activities, and it seemed that the future for them was bright until super Typhoon Yolanda changed everything. Despite being among the last provinces in the path of the typhoon, it suffered just as hard a blow as Leyte where the typhoon first landed.

Salvacion dela Cruz, Treasurer of the association, could not forget how Typhoon Yolanda destroyed everything that they had worked very hard to build.

"Lahat ng mga gamit namin niligpit na namin bago pa dumating ang bagyo. Yung mga raft namin dinala namin sa gitnang bahagi ng ilog para hindi masira. Ngunit sa lakas ng hagupit ng hangin, nasira lahat. Yung malaking function house namin na bagong renovate sirang-sira rin," she tearfully recalled.

"Pagdaan ng bagyo, nadatnan na lang namin yung mga balsa

namin na sa itaas na ng mga mangrove kasi tumaas din ang tubig sa ilog. Wala nang natira sa apat na balsa namin. Pati ang mga motorboat namin sira lahat," Ms. dela Cruz added.

Feeling the need to resolutely bounce back from the disaster, the association's members gathered every piece of wood and bamboo that could be used to build at least one cabana. "Kaya pagkatapos ng Yolanda, isang cabana na lang ang gamit gamit namin," she said.

Thankfully, help was just around the corner. After learning that the Palina River community was in dire straits, the Foundation, together with TV5's Alagang Kapatid Foundation and PLDT-Smart Foundation, donated four cabanas and four motorboats to the group.

"Nagpapasalamat po kami dahil napaka-laki ng tulong na ibinigay sa amin ng One Meralco Foundation. Tuwing naaalala ko ang aming sinapit kay Bagyong Yolanda, naiiyak ako dahil ang hirap talaga nang pinagdaanan namin," expressed Ms. dela Cruz. *"Kaya naman sobrang saya namin na sa gitna ng paghihirap namin, may mga mabubuti ang loob na hindi nakalimot tumulong sa amin,"* she added.

It may be hard to totally forget the devastation caused by Typhoon Yolanda to this part of the archipelago but the survivors of the strongest typhoon ever recorded in Philippine history are determined to look past the disaster and begin life anew. After all, just like their beloved river, there is no other way to go or "flow" but forward.

Sharing hope
through volunteerism

Throughout the year, the Foundation initiated projects, which offered Meralco employees opportunities to reach out to their less fortunate fellowmen by sharing their time, effort and talents -- embodying the corporate values of "malasakit" (genuine concern for others) and "makabayan" (patriotism). A total of 2,552 Meralco employees rendered 48,631 volunteer hours in 2014.


MERALCO
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FOUNDATION
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School Safety Assessment

More than 1,000 engineers from Meralco business centers and sector offices volunteered in the Foundation's "Safe ang School Ko!" campaign. The volunteers assessed electrical safety in schools within the Meralco franchise area before the start of classes in June. The campaign is Meralco's contribution to the annual "Brigada Eskwela" program of the Department of Education.

Disaster Response and Rehabilitation

When Typhoon Glenda hit in July, 811 employees of Meralco took turns in repacking relief goods that were immediately deployed to typhoon victims. Meralco Power Restoration teams also helped typhoon-affected local electric cooperatives restore power in their respective franchise areas.

Environment Protection and Preservation

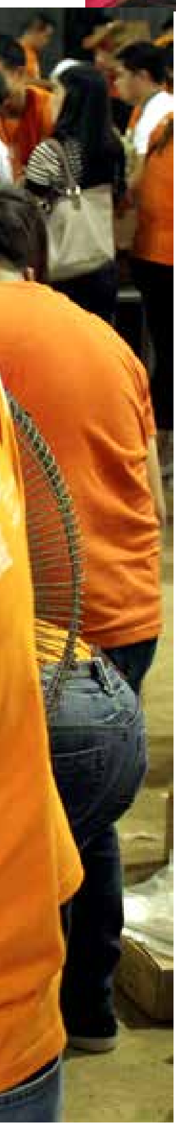
The Foundation supported various volunteering initiatives of Meralco's Network Sectors, Business Centers and Corporate Partners focused on the protection of the environment and the preservation of its natural resources. These projects include a coastal clean-up in Tanza, Navotas; mangrove and tree-planting activities in various Meralco business areas and Metro Pacific Investments Corporation's "Shore It Up" activity in Bohol.

Youth Development through Sports

Employees from the basketball, football and chess clubs within Meralco shared their skills with students from public schools, young aspiring athletes from poor communities and children from conflict areas in the ARMM and Palawan through the Foundation's Youth and Sports Development Program. At the end of the year, the volunteers trained a total of 2,541 of the program's participants.

Support for Learning

In support of the Foundation's community and school electrification programs, employees and engineers of Meralco's business centers, sectors and subsidiary, MServ, volunteered as resource speakers in orientations designed to impart knowledge about energy efficiency to community members, teachers and students. Volunteers also helped pack sets of textbooks that were donated to schools which the Foundation helped rehabilitate after Typhoon Yolanda.



Through the Foundation, Meralco and its employees continue to be true to their mission to be a partner in nation building. It is their shared belief that no community is far enough, no typhoon powerful enough, no challenge huge enough to stifle the desire to serve the Filipino people.

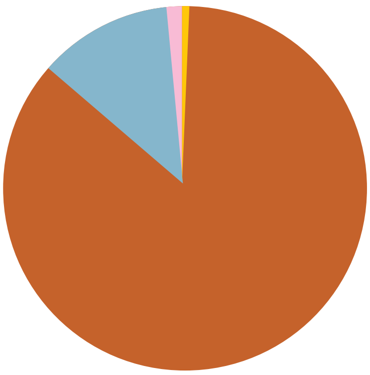
2014 *Financial Review*

One Meralco Foundation is committed to contribute lasting impact in the lives of individuals and communities benefiting from its various social development programs. It ensures that its programs are not only effective but also sustainable by constantly engaging its stakeholders and carefully managing its resources through the highest level of financial management.

By setting financial management guidelines, ensuring accuracy and transparency in reporting and exercising sound financial judgment, the Foundation continued to hold a healthy financial position in 2014 as it:

- Increased donations by 67% from P131M in 2013 to P219M.
- Spent 99% or P190M of the total expenses for program implementation.
- Spent around 40% or P24M of the total project costs in community electrification projects, its core program.
- Increased spending for emergency preparedness and disaster response by 190% from P8M in 2013 to P25M in 2014. The significant increase is attributable to major rehabilitation programs such as rebuilding of public school and churches and support to livelihood development for Typhoon Yolanda victims.
- Managed its general and administrative expenses at 1% of both the total donations received and total expenses incurred, well below the 30% and 20% cap set by the Philippine Council for NGO Certification (PCNC) and the Department of Social Welfare and Development (DSWD), respectively.

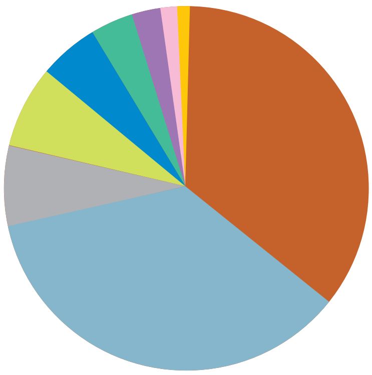
The Foundation's Board of Trustees (BOT) approves programs and operational budgets every year. The approved programs are funded primarily through a grant from Meralco. Donations and contributions received may either be in cash or in kind. All donations and contributions received by the Foundation may be spent in any of its social development program pillars unless otherwise restricted by the donors for use in specific projects.



FUNDS BY SOURCE

- ***Php191.3M*** Meralco Donation
- ***Php26.2M*** Other Companies
- ***Php2.0M*** Interest Income & Others
- ***Php1.9M*** Meralco Group Offices and Employees

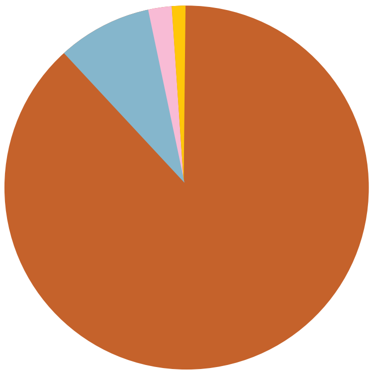
Php221.4M
TOTAL



FUND UTILIZATION GRANT OPERATING

- ***Php24.5M*** Emergency Prepareness and Disaster Response
- ***Php24.4M*** Community Electrification
- ***Php5.0M*** Youth and Sports Advocacy
- ***Php4.9M*** Project Support Expenses
- ***Php3.6M*** Grassroots Partnerships
- ***Php2.5M*** Energy Education Program
- ***Php1.7M*** General and Administrative Expenses
- ***Php0.9M*** Makabayan Volunteerism Program
- ***Php0.8M*** Special Projects and Others

Php68.3M
TOTAL



FUND UTILIZATION GRANT MAKING

- ***Php108.8M*** Youth and Sports Advocacy
- ***Php10.2M*** Sponsorship and Others
- ***Php2.4M*** Emergency Prepareness and Disaster Response
- ***Php2.0M*** Grassroots Partnerships

Php123.4M
TOTAL

Recognition
from the community

Most Socially Responsible Company in Asia
Asia Corporate Excellence and Sustainability (ACES) Awards
Singapore
**Meralco is the top winner during the award's inaugural year.*

Best CSR
Corporate Governance Asia
Hongkong
**Recognized for three consecutive years.*

Philippine Quill Awards 2014
International Association of Business Communicators (IABC) Philippines

Awards of Excellence
- One Meralco School Electrification Launches
- One Meralco's Energizing Public Schools in the Countryside Video
- Project 9 Mornings
- One Meralco Typhoon Yolanda Disaster Response

Awards of Merit
- Football for Peace Friendship Games in Manila
- MVPAAA Awards Program
- One Meralco Power Restoration Program
- Determined to Serve: Makabayan Volunteerism Program
- One Meralco School Electrification Program

Anvil Awards 2014
Public Relations Society of the Philippines (PRSP)

Gold Anvil
- One Meralco School Electrification Community Launches
- One Meralco School Electrification Program
- One Meralco Typhoon Yolanda Disaster Response

Silver Anvil
- One Meralco Household Electrification Program
- One Meralco' Energizing Schools in the Countryside Video
- Determined to Serve: Makabayan Volunteerism Program

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Finance Manager

RHEA B. FERNANDEZ
Administrative Officer

RONALD B. APOLONIO
Project Assistant

RAYMOND A. BUENAVENTURA
Administrative Assistant

Statement of Management's Responsibility for Financial Statements

The management of One Meralco Foundation, Inc. (the "Foundation") is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 Trustees reviews and approves the financial statements and submits the same to the members.

R.G. Manabat & Co., the independent auditors appointed by the members, has audited the financial statements as at and for the years ended December 31, 2014 and 2013 of One Meralco Foundation, Inc. in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.

MANUEL V. PANGILINAN
Chairman of the Board

JEFFREY O. TARAYAO
President

ANNA MARIE C. LERMA
Treasurer

Signed this March 31, 2015

Report of Independent Auditors

R.G. Manabat & Co.
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The Board of Trustees
One Meralco Foundation, Inc.
Lopez Building, Meralco Center
Ortigas Avenue, Ugong, Pasig City

Report on the Financial Statements

We have audited the accompanying financial statements of One Meralco Foundation, Inc., which comprise the statements of assets, liabilities and fund balances as at December 31, 2014 and 2013, and the statements of revenues and expenses, statements of changes in fund balances and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Report of Independent Auditors

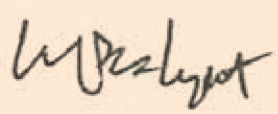
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of One Meralco Foundation, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.



ENRICO E. BALUYUT
Partner
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Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-26-2014
Issued September 26, 2014; valid until September 25, 2017
PTR No. 4748099MC
Issued January 5, 2015 at Makati City

March 31, 2015
Makati City, Metro Manila

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

Statements of Assets, Liabilities and Fund Balances

December 31, 2014 and 2013

		December 31	
	Note	**2014**	2013
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5	**P193,059,385**	P180,528,619
Advances to program officers	6	**546,586**	704,749
Other current assets	4, 7	**635,209**	238,425
Total Current Assets		**194,241,180**	181,471,793
Noncurrent Assets			
Held-to-maturity investments	4, 8, 15	**11,000,000**	6,000,000
Property and equipment - net	9	**2,115,450**	2,608,899
Total Noncurrent Assets		**13,115,450**	8,608,899
		P207,356,630	P190,080,692
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued expenses	4, 10	**P7,864,100**	P20,315,943
Fund Balances	14	**199,492,530**	169,764,749
		P207,356,630	P190,080,692

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

Statements of Revenues and Expenses

December 31, 2014 and 2013

		Years Ended December 31	
	Note	**2014**	2013
REVENUES			
Donations and contributions	11, 15	**P219,460,925**	P130,907,128
Interest income	5, 8	**1,825,313**	2,675,901
Fund raising activities			100,200
Other income		**134,678**	74,655
		221,420,916	133,757,884
EXPENSES			
Program costs	12	**190,011,671**	114,789,893
General and administrative expenses	13	**1,681,464**	2,548,514
		191,693,135	117,338,407
EXCESS OF REVENUES OVER EXPENSES		**P29,727,781**	P16,419,477

See Notes to the Financial Statements.

Statements of Changes in Fund Balances

December 31, 2014 and 2013

	Note	**Restricted Fund**	**General Fund**	**Corpus Fund**	**Total**
Balance at January 1, 2013		P2,008,924	P31,607,748	P119,728,600	P153,345,272
Excess of revenues over expenses		8,636,352	7,783,125	-	16,419,477
Transfer of funds during the year	14	-	(9,000,000)	9,000,000	-
Balance at December 31, 2013		10,645,276	30,390,873	128,728,600	169,764,749
Excess (deficiency) of revenues over expenses		(4,192,974)	33,920,755	-	29,727,781
Balance at December 31, 2014		**P6,452,302**	**P64,311,628**	**P128,728,600**	**P199,492,530**

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

Statements of Cash Flows

December 31, 2014 and 2013

		Years Ended December 31	
	Note	**2014**	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses		**P29,727,781**	P16,419,477
Adjustments for:			
Depreciation	9, 12	**669,509**	488,286
Interest income	5, 8	**(1,825,313)**	(2,675,901)
Unrealized foreign exchange gain		**(95,173)**	(25,731)
Excess of revenues over expenses before changes in working fund		**28,476,804**	14,206,131
Changes in operating assets and liabilities			
Decrease (increase) in:			
Advances to program officers		**158,163**	(411,692)
Other current assets		**(350,987)**	(101,653)
Increase (decrease) in accounts payable and accrued expenses		**(12,451,843)**	9,315,006
Net cash generated from operations		**15,832,137**	23,007,792
Interest received	5, 7, 8	**1,779,516**	2,696,010
Net cash provided by operating activities		**17,611,653**	25,703,802
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	9	**(176,060)**	(2,079,001)
Placement on a held-to-maturity investment	8	**(5,000,000)**	(6,000,000)
Net cash used in investing activities		**(5,176,060)**	(8,079,001)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**95,173**	25,731
NET INCREASE IN CASH AND CASH EQUIVALENTS		**12,530,766**	17,650,532
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5	**180,528,619**	162,878,087
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	**P193,059,385**	P180,528,619

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

Notes to the Financial Statements

1. Corporate Information

One Meralco Foundation, Inc. (the "Foundation") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 2002 as a non-stock, non-profit organization. It is the corporate social responsibility (CSR) arm of Manila Electric Company (Meralco) whose thrusts are towards: (i) community electrification; (ii) energy education; (iii) grassroots partnerships; (iv) youth and sports advocacy; (v) emergency preparedness and disaster response.

On March 6, 2012, the Philippine Council for Non-Government Organization (NGO) Certification approved the renewal of the Foundation's application as a registered donee institution. This certification is valid for five (5) years up to March 5, 2017, unless revoked earlier, or withdrawn.

As a non-stock, non-profit organization, the Foundation is exempt from payment of income tax on income received by it pursuant to Section 30(G) of the Tax Code of 1997, and therefore, need not file an income tax return for such income.

The Foundation was recognized by the Department of Social Welfare and Development (DSWD) for its efforts to contribute to the upliftment of the poor, vulnerable and disadvantaged sectors of society. As such, the Foundation is included in the Registry of Social Welfare and Development Agencies of the DSWD from October 20, 2011 to October 19, 2014. As of December 31, 2014, the Foundation's renewal for certification is in progress.

The registered office address of the Foundation is Lopez Building, Meralco Center, Ortigas Avenue, Ugong, Pasig City.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

The financial statements of the Foundation were approved and authorized for issuance by its Board of Trustees (BOT) on March 31, 2015.

Basis of Measurement
The financial statements of the Foundation have been prepared using the historical cost basis.

Functional and Presentation Currency
The financial statements are presented in Philippine peso, which is the Foundation's functional currency. All financial information presented in Philippine peso has been rounded-off to the nearest peso, except when otherwise indicated.

Use of Judgments and Estimates
The preparation of the Foundation's financial statements in conformity with PFRS for SMEs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in preparing the financial statements are based on management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in a period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Judgments
In the process of applying the Foundation's accounting policies, management has made the judgments below, apart from those involving estimations, which has the most significant effect on the financial statements.

Determining Functional Currency
The Foundation considers factors, including but not limited to, the currency in which revenues and expenses from the operating activities are usually made. Based on the economic substance of the underlying circumstances relevant to the Foundation, the functional currency has been determined to be the Philippine peso.

Classification of Held-to-Maturity (HTM) Investments
The Foundation follows the guidance in PAS 39, Financial Instruments: Recognition and Measurement, on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making such judgment, the Foundation evaluates its intention and ability to hold such investment to maturity. If the Foundation fails to keep these investments to maturity other than for the specific circumstances, for example, selling more than an insignificant amount close to maturity, the entire portfolio shall be reclassified as available-for-sale (AFS) financial asset and would therefore be measured at fair value and not at amortized cost.

As at December 31, 2014 and 2013, the Foundation classified its investments amounting to P11,000,000 and P6,000,000, respectively, as HTM investments.

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation and uncertainty as at reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating Impairment Loss on HTM Investments
The Foundation assesses at each reporting date whether there is any objective evidence that the HTM investments are impaired as a result of one or more loss events that has an impact on the estimated future cash flows of the investments. Determining the future cash flows requires the Company to make estimates and assumptions that can materially affect the financial statements. The recognition of impairment loss would increase the recorded expenses and decrease noncurrent assets. As at December 31, 2014 and 2013, the Foundation's HTM investments amounted to P11,000,000 and P6,000,000, respectively (see Note 8). No impairment loss was recognized on the Foundation's HTM investments for the years ended December 31, 2014 and 2013.

Estimating Useful Lives of Property and Equipment
The Foundation estimates the useful lives of property and equipment based on the period over which the property and equipment are expected to be available for use. The estimated useful lives (EUL) of the property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the EUL of the property and equipment would increase the recorded expenses and decrease the balance of noncurrent assets.

The carrying amount of property and equipment amounted to P2,115,450 and P2,608,899 as at December 31, 2014 and 2013, respectively (see Note 9).

Estimating Impairment Losses on Property and Equipment
The Foundation assesses the carrying amount of property and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, and require the Foundation to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Foundation to conclude that property and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the Foundation's financial position and financial performance.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Foundation believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Foundation's assessment of recoverable amount and may lead to future additional impairment charges.

No impairment loss was recognized on property and equipment for the years ended December 31, 2014 and 2013.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements unless otherwise indicated.

Financial Instruments

The Foundation adopted the recognition and measurement provisions of PAS 39, Financial Instruments: Recognition and Measurement and the disclosure requirements of Sections 11 and 12 of the PFRS for SMEs to account for all its financial instruments.

Date of Recognition. The Foundation recognizes a financial asset or a financial liability in the statement of assets, liabilities and fund balances when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using trade date accounting.

Initial and Subsequent Recognition of Financial Instruments. Financial instruments are recognized initially at the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

Subsequent to initial recognition, the Foundation classifies its financial instruments in the following categories: financial assets and liabilities at FVPL, HTM investments, AFS financial assets, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2014 and 2013, the Foundation has no financial assets and liabilities at FVPL and AFS financial assets.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables are recognized as part of "Interest income" account in statements of revenues and expenses on an accrual basis.

The Foundation's cash and cash equivalents, interest receivable and refund from supplier are included in this category.

Cash includes cash on hand and in banks, which are stated at face value. Cash equivalents are short-term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Foundation's management has the positive intention and ability to hold to maturity. Where the Foundation sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Foundation's investments in fixed rate bonds in 2014 and 2013 are included under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as "at FVPL". After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction cost that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Foundation's accounts payable and accrued expenses.

Impairment of Financial Assets
The Foundation assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have 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.

For assets carried at amortized cost such as loans and receivables and HTM investments, the Foundation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Foundation includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions, indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of 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) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is immaterial. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in statements of revenue and expenses, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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 rights to receive cash flows from the asset expired;
- the Foundation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Foundation has transferred its rights to receive cash flows from the asset and either: (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.

When the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation'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 the original carrying amount of the asset and the maximum amount of consideration that the Foundation could be required to repay.

Financial Liability. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the carrying amount of the original liability and the recognition of a new liability at fair value, and any resulting difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statements of assets, liabilities and fund balances if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the statements of assets, liabilities and fund balances.

Advances to Program Officers
Advances to program officers are carried at cost and subsequently recognized as an expense upon liquidation of incurred project costs.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. When assets are sold or retired, their costs and accumulated depreciation and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of revenues and expenses.

The useful life of each of the property and equipment is estimated based on the period over which the asset is expected to be available for use.

Depreciation is computed on a straight-line method over the EUL of the assets as follows:

	Number of Years
Transportation equipment	5
Computer and office equipment	3-5
Emergency equipment	5

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, if there is an indication of significant change since the last reporting date.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of revenues and expenses in the year the item is derecognized.

Impairment of Non-financial Assets
The Foundation assesses as at reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Foundation makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. A cash-generating unit is the smallest identifiable asset group that generates cash flows and largely independent from other assets of the Foundation. Where the carrying amount of an asset exceeds it recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the statements of revenues and expenses in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of revenues and expenses unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Foundation and the amount of the revenue can be measured reliably. The Foundation measures revenue at the fair value of the consideration received.

Donations and Contributions and Fund Raising Activities

Donations and contributions are recognized upon receipt, except for those received in relation to the Foundation's fund raising activities, which are recognized upon the occurrence of the event and the right to receive the asset is established.

Donations and contributions received can either be cash or in kind. Donations and contributions received in kind are valued at either the fair value of asset received or at the acquisition cost of the donee, whichever is available. Fair value is usually determined based on the current market price of the donations received in kind. All donations and contributions received are considered as available for general use unless otherwise restricted by donors for use in specific projects.

Interest Income

Interest income is recognized as it 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. Interest income is recognized net of applicable taxes.

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in the fund balance. Program costs and general and administrative expenses are recognized in the statements of revenues and expenses upon utilization of the service or when incurred.

Program Costs

Program costs refer to the donations to charitable institutions and costs incurred in the projects carried out by the Foundation and are generally recognized when the services are rendered or the expenses are incurred.

General and Administrative Expenses

General and administrative expenses represent costs incurred related to the direction and general administration of day-to-day operations of the Foundation and are generally recognized when the services are rendered or the expenses are incurred.

Provisions and Contingencies

A provision is recognized if, as a result of a past event, the Foundation has a present legal or constructive obligation that can be estimated reliably, and it is probable that a transfer of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Foundation does not recognize a provision for future operating losses.

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

Events After the Reporting Date

Post-year-end events up to the date of approval of the financial statements by the BOT that provide additional information about the Foundation's financial position at reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Categories of Financial Assets and Financial Liabilities

	Note	**2014**	2013
Financial Assets			
Financial assets that are debt instruments measured at amortized cost	*5, 7, 8*	**P204,197,058**	P186,734,870
		P204,197,058	P186,734,870
Financial Liabilities			
Financial liabilities measured at amortized cost	*10*	**P7,282,010**	P20,126,788
		P7,282,010	P20,126,788

The Foundation's non-derivative financial assets consist of cash and cash equivalents, refund from supplier and accrued interest receivable under "other current assets" account and HTM investment. Non-derivative financial liabilities include accounts payable and accrued expenses, excluding withholding taxes payable.

5. Cash and Cash Equivalents

This account consists of the following:

	2014	2013
Petty cash fund	**P4,000**	P4,000
Cash in banks	**33,512,704**	25,023,394
Short-term investments	**159,542,681**	155,501,225
	P193,059,385	P180,528,619

Cash in banks pertains to deposits held at call with banks, which earns interest at their respective bank deposit rates. Short-term investments are made for varying maturity periods of up to three (3) months, depending on the immediate cash requirements of the Foundation, and earn interest ranging from 0.88% to 1.25% in 2014 and from 0.87% to 1.37% in 2013.

Total interest income earned on cash and cash equivalents amounted to P1,503,008 in 2014 and P2,664,274 in 2013.

The Foundation's cash and cash equivalents include cash donations which are restricted for projects as specified by the donor. Total donor-restricted funds included in cash and cash equivalents amounted to P8,807,990 and P7,557,958 as at December 31, 2014 and 2013, respectively.

Corpus fund as at December 31, 2014 and 2013 consists of the following:

Cash in banks	**P2,290,857**
Short-term investments	**126,437,743**
	P128,728,600

6. Advances to Program Officers

These advances relate to the following projects:

	2014	2013
Youth and Sports Advocacy Projects	**P119,500**	P300
Grassroots Partnership	**89,350**	1,500
Community Electrification Program	**77,500**	54,858
Makabayan Volunteerism Program	**56,880**	58,480
Energy Education	**26,600**	8,784
Emergency Preparedness and Disaster Response	**21,068**	564,271
Sponsorships and Special Projects	**155,688**	16,556
	P546,586	P704,749

Advances are provided to program officers to settle project costs incurred during implementation (see Note 12). Such advances are liquidated within 60 days after the project is completed. The Foundation's uncompleted projects as at December 31, 2014 and 2013 are expected to be completed within the subsequent fiscal year.

7. Other Current Assets

	2014	2013
Project inventory	**P379,524**	P -
Accrued interest receivable	**137,673**	91,876
Prepaid insurance	**61,126**	22,040
Refund from supplier	**-**	114,375
Others	**56,886**	10,134
	P635,209	P238,425

Project inventory represents supplies and materials from various donors to be used in the Foundation's projects and programs.

Accrued interest receivable represents interest earned from cash equivalents deposited in banks and HTM investments but not yet been credited to the Foundation's bank account.

8. HTM Investments

This account consists of:

	Note	2014	2013
Investments in bonds issued by:			
Meralco	*15*	**P6,000,000**	P6,000,000
Manila North Tollways Corporation			
(MNTC)		**5,000,000**	-
		P11,000,000	P6,000,000

The investment in Meralco represents a peso denominated 7-year fixed rate bond issued with coupon of 4.375% which the Foundation intends to hold through maturity until December 12, 2020 (see Note 15). Interest income earned from this investment (net of applicable taxes) amounted P210,000 and P11,627 in 2014 and 2013, respectively.

The investment in MNTC represents a peso denominated 7-year fixed rate bond issued with coupon of 5.070% which the Foundation intends to hold through maturity until March 31, 2021. Interest income earned from this investment amounted to P112,305 in 2014.

9. Property and Equipment

The movements for each class of property and equipment are as follows:

	Transportation Equipment	**Computer and Office Equipment**	**Emergency Equipment**	**Total**
Gross Carrying Amount				
As at January 1, 2013	P708,000	P248,782	P179,000	P1,135,782
Acquisitions	1,510,000	-	1,168,385	2,678,385
As at December 31, 2013	2,218,000	248,782	1,347,385	3,814,167
Acquisitions	-	176,060	-	176,060
As at December 31, 2014	**2,218,000**	**424,842**	**1,347,385**	**3,990,227**
Accumulated Depreciation				
As at January 1, 2013	660,800	54,322	1,860	716,982
Depreciation for the year	173,033	83,333	231,920	488,286
As at December 31, 2013	833,833	137,655	233,780	1,205,268
Depreciation for the year	302,000	98,032	269,477	669,509
As at December 31, 2014	**1,135,833**	**235,687**	**503,257**	**1,874,777**
Carrying amount as at December 31, 2013	P1,384,167	P111,127	P1,113,605	P2,608,899
Carrying amount as at December 31, 2014	**P1,082,167**	**P189,155**	**P844,128**	**P2,115,450**

Depreciation expense is included under program costs (see Note 12).

10. Accounts Payable and Accrued Expenses

	Note	**2014**	2013
Accounts payable		**P6,788,931**	P13,954,555
Withholding taxes payable		**582,090**	189,155
Due to Meralco	*15*	**332,443**	5,727,854
Accrued expenses		**160,636**	444,379
		P7,864,100	P20,315,943

Accounts payable includes unpaid liabilities to various suppliers which are noninterest-bearing and are payable within 15 to 60 days from the invoice date.

The amount due to Meralco in 2013 represents proceeds from the sale of the centennial book of Meralco for which the Foundation acted as the collecting agent and custodian. The amount due to Meralco in 2014 represents rentals of Meralco's theater and cash advances for transportation costs incurred by the Foundation.

11. Revenues

Donations and contributions received either in cash or in kind are considered available for general use unless otherwise restricted by the donor to be used for specific projects. Restricted and unrestricted donations and contributions received are as follows:

	Note	**2014**	2013
Restricted			
Youth and Sports Advocacy Projects		**P110,886,695**	P40,855,100
Emergency Preparedness and Disaster Response		**14,121,872**	12,852,130
Grassroot Partnership		**1,000,000**	2,500,353
Community Electrification		**-**	545,946
		126,008,567	56,753,529
Unrestricted		**93,452,358**	74,153,599
	15	**P219,460,925**	P130,907,128

12. Program Costs

Program costs consist of:

	Note	**2014**	2013
Donations and charitable contributions		**P123,438,778**	P58,253,593
Project costs		**61,702,350**	50,612,488
Events and marketing expenses		**2,525,631**	3,671,431
Salaries, wages and employee benefits		**834,221**	742,353
Depreciation	*9*	**669,509**	488,286
Transportation and travel		**399,367**	261,112
Office meetings and supplies		**216,481**	39,184
Professional fees		**94,914**	591,746
Entertainment and representation		**72,552**	63,149
Communications		**32,936**	41,699
Insurance		**24,932**	24,852
		P190,011,671	P114,789,893

Donations and charitable contributions were made by the Foundation to various charitable institutions under the following programs:

	2014	2013
Youth and Sports Advocacy	**P108,832,000**	P48,112,500
Emergency Preparedness and Disaster Response	**2,402,066**	2,610,317
Grassroots Partnership	**2,047,900**	2,544,266
Makabayan Volunteerism Program	**250,000**	-
Energy Education Program	**137,106**	-
Sponsorships and Special Projects	**9,769,706**	4,986,510
	P123,438,778	P58,253,593

Project costs comprise direct expenses related to the following programs:

	2014	2013
Emergency Preparedness and Disaster Response	**P24,505,939**	P8,446,972
Community Electrification	**24,448,620**	24,765,772
Youth and Sports Advocacy	**4,979,934**	4,926,263
Grassroots Partnership	**3,641,887**	6,906,093
Energy Education Program	**2,483,664**	3,375,921
Makabayan Volunteerism Program	**891,958**	1,957,693
Sponsorships and Special Projects	**750,348**	233,774
	P61,702,350	P50,612,488

The following are the programs undertaken by the Foundation:

Emergency Preparedness and Disaster Response
The program provides support and assistance by lending the Foundation's experience and resources in emergency and disaster preparedness to other utility companies and communities to further improve response to major emergency situations, natural calamities and disasters.

Community Electrification
The program develops feasible electrification alternatives through workable socialized schemes for various types of community beneficiaries in partnership with Local Government Units (LGUs), NGOs, and other community institutions.

Youth and Sports Advocacy
The program promotes the development of sports among youth in various communities not only to enhance their fitness, well-being and health, but also to develop leadership, character and discipline that will ultimately make them productive citizens of the country.

Energy Education Program
The program aims to build an energy awareness society by providing learning and teaching materials on energy to students and teachers.

Makabayan Volunteerism Program
The program provides opportunities for employees of Meralco and its subsidiaries and affiliates to do their share in nation-building by volunteering in the community. Through a structured volunteer program, volunteers now have unlimited options and opportunities where they can participate and share their time, talent and contribute to uplifting the lives of communities located in their work areas.

Grassroots Partnerships
The program promotes responsible stewardship among residents that spurs growth and development in communities.

Sponsorships and Special Projects
This consists of Meralco's "Maliwanag Ang Pasko" event, Aksyon Semana Santa, National Teachers Month Celebration and participation in various corporate social responsibility and public communication events.

13. General and Administrative Expenses

The details of general and administrative expenses incurred in 2014 and 2013 are as follows:

	2014	2013
Salaries, wages and employee benefits	**P866,685**	P1,230,875
Professional fees	**360,812**	292,500
Dues and fees	**148,884**	279,933
Office meetings, communications and supplies	**123,656**	92,567
Transportation and travel	**46,718**	485,105
Entertainment and representation	**38,654**	80,139
Repairs and maintenance	**37,868**	19,916
Taxes, permits and licenses	**8,512**	9,983
Bank charges	**4,257**	4,041
Seminars and trainings	**500**	32,963
Others	**44,918**	20,492
	P1,681,464	P2,548,514

14. Fund Balances

Restricted Fund
Restricted Fund represents the accumulated excess of revenues over expenses pertaining to donations and contributions received for specific projects, net of related expenses.

General Fund
General Fund represents the accumulated excess of revenues over expenses pertaining to donations and contributions received for general use, net of related expenses.

Corpus Fund
The BOT approved the creation of a Corpus Fund, which serves as seed money to ensure the sustainability of the Foundation. The principal amount shall remain intact until such time that the BOT deems it necessary to use said fund. The interest earned from the placement of the funds may be used for the projects of the Foundation and for any operational expenses.

On June 7, 2013, the BOT approved an additional transfer from the General fund to the Corpus fund of P9,000,000.

15. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes relationship that exists between and/or among entities, which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel or trustees.

Significant transactions and outstanding balance of the Foundation with Meralco as at December 31, 2014 and 2013 are as follows:

Transaction	Year	*Note*	Amount of Transaction	Outstanding Balance Due from Meralco	Outstanding Balance Due to Meralco	Terms / Conditions
• **Donations and contributions**	**2014**	11	**P191,312,809**	**P -**	**P -**	
	2013		112,315,517	-	-	
• **Investment in fixed rate bond**	**2014**	8	-	**6,000,000**	-	Due on a fixed date; interest-bearing
	2013		6,000,000	6,000,000	-	
• **Cash advances**	**2014**	10	**512,622**	-	**19,241**	Payable on demand; non-interest-bearing
	2013		-	-	-	
• **Theater rentals**	**2014**	10	**221,247**	-	**313,202**	Payable on demand; non-interest-bearing
	2013		-	-	-	
• **Proceeds received on behalf of Meralco**	**2014**	10	-	-	-	Payable on demand;
	2013		-	-	5,727,854	non-interest-bearing
TOTAL	**2014**			**P6,000,000**	**P332,443**	
TOTAL	2013			P6,000,000	P5,727,854	

The Foundation's program officers are employees of Meralco who volunteered and provided their services without compensation.

16. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS for SMEs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year based on Revenue Regulations No. 15-2010. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS for SMEs. The following are the tax information / disclosures required for the taxable year ended
December 31, 2014:

A. Withholding Taxes

Withholding tax - expanded	**P1,038,069**
Tax on compensation and benefits	**260,340**
	P1,298,409

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes, permits and licenses" account under General and Administrative Expenses	
Local	
Business permits	**P7,502**
Community tax certificate	**510**
National	
BIR annual registration fee	**500**
	P8,512

Information on the amount of output value added tax, custom duties and tariff fees paid or accrued and the amount of excise taxes are not applicable since there are no transactions that the Foundation entered into that resulted in the payment or accrual of such taxes.

As at December 31, 2014, the Foundation has no pending tax cases nor tax assessment notice from the BIR.

2014 **List of Donors**

Manila Electric Company

Meralco Officers and Employees

Meralco's Various Departments

Meralco's Employee Organizations
- Meralco Employees Retirees Association (MERA)
- Meralco Chess Club Meralco

Meralco Subsidiaries and Affiliates
- CIS Bayad Center, Inc.
- Meralco Energy, Inc.
- Meralco Power Generation Corporation
- Miescor Builders Inc.
- Radius Telecoms, Inc.
- Republic Surety & Insurance Company, Inc.

Partner Donors
- A.C. Quick Electrical Services
- Centerpoint Condominium Unit Owners
- Deli Mondo Food Specialties, Inc.
- Dina & Kristine Fashion Creation
- Godmac Corporation
- Laro Lapis At Libro Center For Learners
- Manila North Tollways Corporation
- Maybank ATR Kim Eng Securities Inc.
- Maynilad Water Services, Inc.
- Metro Pacific Investment Corporation
- Philippine Vending Corporation
- Sandford Marketing Corporation
- Studio 5 Designs, Inc.
- Tollways Management Corporation

Food Concessionaires
- Al Navarro Casseroles
- CVJ Food Catering
- Kusina ni Kambal Catering Services
- Queen J Catering & Food Services
- Resty's Canteen
- Sallimel's Canteen & Catering Services
- Yayang's Canteen & Catering Services

and all the generous individuals and anonymous donors who helped the Foundation, in one way or another, in spreading the light of hope wherever it is most needed.

One Meralco Foundation is the social development arm of Meralco. It is a donee institution accredited by the Philippine Council of NGO Certification, a registered social welfare and development agency under the Department of Social Welfare and Development, and a member of the Philippine Business for Social Progress, Philippine Business for the Environment and the League of Corporate Foundations.

For more information on One Meralco Foundation's programs and activities, please visit www.onemeralcofoundation.org. You may also call (632) 632-8301
or e-mail onemeralcofoundation@meralco.com.ph.

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Post-consumer Recovered Fiber

9 Lives Gloss is a high quality 55% recycled paper with excellent environmental attributes. Its 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.

ONE MERALCO FOUNDATION

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