

FINANCIAL HIGHLIGHTS

Net Income (Loss)

The company registered a net income of P532 million for the first quarter of 2007. This was a turnaround from a net loss of P748 million in the same period in 2006. Provisioning for probable losses was stopped starting January 2007 with the favorable Supreme Court decision on the unbundling rate case on December 8, 2006.

Had there been no provisions made for probable losses amounting to P1.43 billion in the first quarter of 2006, net income for that period would have been P179 million. Compared to that level, net income this year would still be higher by 197% or by P353 million.

The other factors that improved the bottom line were:

- 3.7% sales growth to 6,039 gWh;
- 49.1% decrease in unrecoverable purchased power to P494.46 million.

Unappropriated retained earnings continued to improve, recovering from a deficit of P2.12 billion in the first quarter of 2006 to a positive balance of P10.92 billion in 2007.

Revenues

On the robust electricity volume growth of 3.7%, revenues increased by 15.8% from P41.61 billion last year to P48.20 billion this year.

Expenses (Income)

Total expenses increased by 10.7% to P47.40 billion, caused by the rise in purchased power cost and operations and maintenance expenses by 16.0% and 20.7%, respectively.

However, these increases were offset by declines in other expense items such as interest and other financial charges by 30.1%; taxes other than income tax by 56.4%; depreciation and amortization by 2.4%; and, provision for disallowed receivables by 6.3%.

Purchased power cost increased to P42.72 billion, the components of which were:

- Recoverable purchased power cost (cost up to the 9.5% system loss cap) - increased by 17.7% from P35.87 billion in 2006 to P42.23 billion in 2007.
- Unrecoverable purchased power cost (system loss in excess of the cap) – dropped by 49.1% from P 971.63 million to P 494.46 million this year.

Operations and maintenance costs increased to P 2.83 billion mainly due to additional pension provisions from P301.28 million in 2006 to P813.76 million in 2007.

Net Income (Loss) Per Share

As a result of the net income in the first quarter of 2007, net income per common share (excluding depreciation on appraisal increase) reached P0.533. This was an improvement of 171.2% from a net loss per common share of P0.749 last year.

Capital Expenditures

In the first quarter of 2007, Meralco invested Php1.29 billion in capital expenditures, 22.5% more than the P1.06 billion last year. These investments were primarily used to address customer growth, correct overloaded facilities, meet customer service requirements, and reduce system loss.

OPERATIONAL HIGHLIGHTS

Energy Sales

Energy sales for the first quarter of 2007 increased 3.7% to 6,039 gWh compared to the same period last year. Sales rose despite lower humidity (72.66% in 2007 vs. 77.43% in 2006) and shorter average billing days (89.50 days in 2007 vs. 89.98 days in 2006) compared to last year.

Significant increases in energy sales by the Commercial segment of 6.1% to 2,294 gWh and Industrial segment of 4.1% to 1,761 gWh were the main catalysts of this overall growth. Energy consumption of the Residential segment modestly grew by 0.7% to 1,949 gWh, reversing declines in three consecutive quarters.

Commercial sales accounted for 38% of total energy sales in 2007, up from 37.1% in the previous year. The share of Industrial sales also increased to 29.16% from 29.05%, while that of Residential sales went down to 32.28% in 2007 from 33.23% in the previous year.

Sales growth in the Commercial segment was driven by the real estate sub-segment which expanded by 12.1%. This was followed by private services at 6.7% and retail trade at 3.6%.

Real estate growth was largely attributed to the consumption of new buildings operating since the last quarter of 2006. For the first quarter of this year, a total of 11 new real estate developments with loads of 500 KW and above (e.g. Cyberzone in Filinvest Corporate City; Serendra & HSBC in Bonifacio Global City) were energized. The buildings, with an aggregate applied capacity of 9.5MW, are expected to contribute an estimated 5.5 gWh upon their full operation.

Business Process Outsourcing (BPO), which includes call centers, also continued to fuel the expansion in this subsegment as five newly energized call centers in 2006 contributed 5.1 gWh in the first quarter of 2007. A total of 17 new BPO projects in our franchise with an aggregate applied load of 24.5 MW are expected to further increase sales.

Growth in private services was due to the increased consumption of business services and private educational institutions, which rose by 12.5% and 12.2%, respectively.

Retail trade growth, on the other hand, was spurred by the full operation of newly opened malls (SM Mall of Asia, SM Supercenter, SM Hypermart, Robinsons Malls at Novaliches and Cainta).

As of the end of the first quarter of 2007, a total of 76 major shopping malls (with at least 1MW in demand) operated within the Meralco franchise. These malls accounted for 312 gWh or 13.6% of the total Commercial sales for the quarter.

Industrial sales posted a 4.1% increase from last year. Food manufacturing, plastic products, and fabricated metals were the main drivers of this growth, rising by 7.8%, 4.1%, and 23.1% respectively. Although fabricated metals posted the highest increase, its contribution to total industrial sales is only 3.7%, vs. 15.9% for food and 14.6% for plastic products.

The increase in food manufacturing was mainly due to the increased operations of core customers, notably Ajinomoto Phils.; Nestle, Inc.; Monde Nissin and Zesto Corporation with an aggregate increase of 10.4 gWh. The fabricated metals sub-segment's growth was the result of increased consumption by steel companies such as Midland Steel and Sonic Steel, with a combined increase in consumption of 4 gWh.

Residential sales increased in the first quarter of 2007 despite the rise in residential rates due to the full removal of the interclass subsidy in November 2006. A higher average temperature in the first quarter of 2007 at 26.61 degrees celsius compared to 26.46 degrees in 2006 contributed to this segment's higher energy consumption.

Average Retail Rate

Rates by Customer Class

The average retail rate for the month of March 2007 went down to P7.75/kWh from P8.03/kWh in the same period of 2006. On a per customer class basis, the average retail rates for the month of March 2007 compared to March 2006 were:

Customer Class	March 2006 Average Rate (P/kWh)	March 2007 Average Rate (P/kWh)
Residential	8.73	8.70
Lifeline	5.80	6.01
Non-Lifeline	9.21	9.15
Commercial	8.18	7.70
GS, Small and Medium	8.77	8.43
Large	7.87	6.69
Very Large	7.37	6.79
Industrial	7.00	6.71
Small and Medium	8.37	8.14
Large	7.36	6.93
Very Large	6.82	6.32
Extra Large	6.41	6.09
TOTAL	8.03	7.75

Rates by Unbundled Components (P/kWh)

	March 2006 Average	March 2007 Average	Average Residential	Average Commercial	Average Industrial
Generation	4.91	4.58	4.62	4.56	4.56
Transmission	0.74	0.92	0.91	1.04	0.78
Meralco Charges	1.07	0.96	1.82	0.70	0.31
System Loss	0.63	0.61	0.75	0.60	0.47
Subsidies	0.02	-0.01	-0.23	0.09	0.09
Taxes/Universal Charge	0.67	0.69	0.85	0.72	0.50
Total	8.03	7.75	8.71	7.70	6.71

The reduction in overall rates was largely due to the 6.7% decrease in the average generation charge from P4.91/kWh in March 2006 to P4.58/kWh in March 2007. The reduction was mainly a result of the delay in the adjustment of generation rates following the Supreme Court Decision in August 2006 disallowing automatic adjustments, and the capping of the recovery of generation costs at a certain level under ERC's provisional approvals.

The reduction in combined Meralco charges from P1.07/kWh last year to P0.96/kWh in March 2007 was mainly due to the suspension of the collection of the Currency Exchange Rate Adjustment or CERA starting January 2007, following the conversion of Meralco's foreign loans to local currency as a result of our P12 billion refinancing in December 2006.

These rate reductions were partly offset by the increase in transmission charges in June 2006, resulting to the adjustment in average transmission charges from P0.74/kWh in March 2006 to P0.92/kWh in March 2007.

Power Sourcing and Transmission Charges

Overall average generation cost for the first quarter of the year stood at P4.96/kWh. A breakdown by supply source is shown in the following table.

Generation Cost (₱/kWh)

Period	Overall	Wholesale Electricity Spot Market (WESM)	NPC	Independent Power Producers (IPPs)
January 2007	4.64	3.88	5.75	4.41
February 2007	4.85	5.27	5.96	4.19
March 2007	5.39	6.87	5.98	4.47
1 st Qtr 2007 Average	4.96	5.34	5.91	4.35

- Under WESM, Meralco IPPs were able to significantly improve dispatch levels to a capacity factor of 83.0% in the first quarter of 2007. This contributed to a reduction in

IPP generation costs. For the same period last year, the average capacity factor of the IPPs was only 71.4%.

- On the other hand, purchases from NPC were mainly at peak periods resulting to relatively high prices. While the cost of purchase from the WESM was only P3.88 per kwh in January, this has escalated to as much as P6.87 per kwh in March 2007.
- Total energy purchases reached 6,544 gWh* in the first quarter of 2007. To minimize exposure to the price volatility of the WESM, particularly during peak periods, Meralco sourced about 28% of its requirements during the first quarter of 2007 from NPC.

The details of Meralco's energy sourcing mix are found below.

Energy Sourcing Mix* (% share to total purchases)

Period	WESM	NPC	IPPs
January 2007	19.5	24.6	55.9
February 2007	15.7	27.8	56.5
March 2007	19.2	30.3	50.6
1 st Qtr 2007	18.1	27.6	54.3
Average			

*excludes energy purchases for special programs

Transmission Costs

The implementation of the 2006 revised Open Access Transmission Service (OATS) Rules in the February 2007 bill month increased transmission service rates of TransCo. The new Power Delivery Service (PDS), System Operation (SO) and Metering charges resulted to an average transmission cost of P1.05/kWh in the first quarter 2007 compared to P0.91/kWh in the same period in 2006.

System Reliability

Meralco continued its intensified line and substation maintenance activities in the first quarter of 2007. This was to ensure continuous electricity supply in the upcoming May elections and accommodate the expected increase in demand in the summer months.

The maintenance activities began in December last year to detect and correct latent defects created by the series of strong typhoons in 2006.

Since the maintenance activities necessitated the temporary de-energization of most facilities the Interruption Frequency Rate, which is a measure of the number of interruptions experienced by the average customer, increased slightly to 2.44 times in the first quarter of 2007 compared to 2.22 times in the same period last year.

Likewise, the Cumulative Interruption Time, which is a measure of the average duration of the interruption experienced by a customer, was up slightly at 1.83 hours in the first quarter of 2007 from 1.75 hours in the same period last year.

Meralco expects to complete its intensified maintenance work program early in the second quarter of 2007.

System Loss

Meralco's enterprise-wide effort to bring down system losses continued to show positive results with the 11.04% system loss level for the first quarter of 2007. This was a 1.05 percentage point reduction from the 12.09% system loss for the same period last year. With this improvement, Meralco was able to lower its bulk energy purchases by 72 million kWh estimated to be worth around P434 million.

In its unrelenting drive against electricity pilferers, Meralco was able to apprehend 10,656 entities involved in illegal connections and meter tampering. This represented an 8% increase in the number of apprehensions over the first quarter of the 2006. Local and national police agencies helped in these apprehensions.

As a result of these efforts, Meralco was able to recover a total of 25.5 million kWh from these violators. These recoveries will benefit Meralco customers through a P 0.03/kWh discount in generation charges.

Also helping reduce system loss was the 1.02 percentage points increase in the energy share of bulk energy users from 29.37% in the first quarter of 2006 to 30.39% in 2007. The increase in the share of large customers in the energy sales mix tends to lower system losses since the losses inherent in serving these customers are much lower.

However, challenges remain. On January 31 this year, Meralco submitted to ERC its proposal for new levels of recoverable distribution system losses. The proposed system loss caps take into account the effects of load density, sales mix, cost of service, voltage and other technical considerations. With this submission, Meralco hopes to open a discussion with ERC to find solutions that would be fair to electric consumers and promote a more sustainable electric power distribution industry.

REGULATORY UPDATES

Meralco continues to provide options for large electricity consumers to manage their generation charges, the single largest component of the electric bill.

- † Last April 16, 2007, Meralco re-filed with the ERC its retail time-of-use (TOU) application.
 - The company proposed to utilize four pricing blocks (Peak/Off-Peak for Monday to Saturday and Peak/Off-Peak for Sunday) and to initially make the program available to Non-Industrial & Industrial Service (NIS/IS) customers with a minimum demand of 750 kW and residential customers with a minimum consumption of 2,000 kWh.
 - Meralco asked ERC for a provisional authority to implement the proposed tariffs.
- † On February 28, 2007, ERC provisionally approved Meralco's proposed tariffs for the Customer Choice Program (CCP).

- The provisionally authorized tariffs defined the generation, transmission, system loss, distribution, supply, and metering charges for participating customers under the CCP.
- ERC approved the Memorandum of Agreement between the National Power Corporation (NPC) and Meralco on the implementation of the CCP on November 15, 2006.

As of April 20, 2007, Meralco has seven pending petitions at the ERC to recover generation costs incurred during the months of September 2006 to February 2007.

- † In an Order dated February 1, 2007, ERC said that Meralco should not have updated the Generation Charge in the November and December 2006 billing months to P4.7096/kWh, following a provisional approval of a Generation Charge at that level. Instead, the ERC said that the Generation Charge should have remained at P4.4290/kWh. Thus, ERC directed Meralco to return the difference of P0.2806/kWh collected for November and December 2006 to affected customers and to propose a refund scheme to the ERC.
- † On March 5, Meralco filed a motion asking ERC to reconsider its February 1 Order. The Motion for Reconsideration is still pending and Meralco has not submitted a refund scheme to the ERC.
- † In an Order dated March 19, 2007 (and docketed March 23) on an application to recover November 2006 generation costs, ERC provisionally authorized Meralco to impose a generation charge of P4.4290/kWh and a differential amount of P0.2614/kWh for the April 2007 billing cycle. These were the same rates that Meralco was allowed to use for March 2007.
- † The ERC, on behalf of the Department of Energy (DoE), asked the public to comment on proposed amendments of the implementing rules of the Electric Power Industry Reform Act of 2001 (EPIRA).
 - The proposed changes would clarify the kind of rate adjustments that would not have to undergo full-blown regulatory proceedings and hopefully address the regulatory lag currently being experienced by Meralco in recovering pass-through generation costs.
 - The proposed amendments were posted on the DoE's and ERC's websites on March 29, 2007 and the deadline for submission of comments was on April 16, 2007. Upon consideration of the submitted comments, the DoE is expected to promulgate the amendments and endorse the same to the Joint Congressional Power Commission for its approval.

For further questions:
Meralco Investor Relations
Tel. Nos. (632) 16222450, (632) 6328323

COMPARISON OF KILOWATT-HOUR SALES			
For the first quarter ended March 31, 2007 and 2006 (In million kWh)			
Customer Class	2007	2006	% Change
Residential	1,949.16	1,935.11	0.7
Commercial	2,294.12	2,161.83	6.1
Industrial	1,760.91	1,691.50	4.1
Streetlights	34.51	35.27	(2.2)
TOTAL	6,038.69	5,823.71	3.7

COMPARATIVE STATEMENTS OF INCOME			
For the first quarter ended March 31, 2007 and 2006 (Amounts in Million Pesos)			
	2007	2006	% Change
REVENUES	48,199	41,614	15.8
EXPENSES (INCOME)			
Purchased power	42,724	36,837	16.0
Operations and maintenance	2,833	2,347	20.7
Provision for probable losses	-	1,426	(100.0)
Depreciation and amortization	1,038	1,063	(2.4)
Interest and other financial charges - net	646	924	(30.1)
CERA II revenues	-	(349)	(100.0)
Foreign exchange losses - net	-	349	(100.0)
Interest and other financial income	(195)	(275)	(28.9)
Present value impact on customers' refund	274	378	(27.5)
Provision for disallowed receivables	51	55	(6.3)
Taxes other than income tax	32	72	(56.4)
	47,402	42,827	10.7
INCOME (LOSS) BEFORE INCOME TAX	797	(1,213)	165.7
Provision for (benefit from) income tax	265	(465)	(157.0)
NET INCOME (LOSS)	532	(748)	(171.1)

Manila Electric Company
First Quarter 2007 Financial and Operating Results – Parent Only



COMPARATIVE BALANCE SHEETS			
As of March 31, 2007 and 2006 (Amounts in Million Pesos)			
	2007	2006	% Change
ASSETS			
Noncurrent Assets			
Utility Plant and others-net	93,796	92,372	1.5
Investments in subsidiaries, associates and joint ventures	1,505	966	55.8
Investment properties	906	841	7.7
Deferred pass-through fuel costs	6,954	7,714	(9.8)
Other noncurrent assets	26,745	18,202	46.9
Total Noncurrent Assets	129,906	120,095	8.2
Current Assets			
Cash and cash equivalents	3,793	11,912	(68.2)
Trade and other receivables	20,535	16,160	27.1
Inventories	964	1,143	(15.7)
Other current assets	1,800	1,828	(1.5)
Total Current Assets	27,092	31,043	(12.7)
TOTAL ASSETS	156,999	151,138	3.9

STOCKHOLDERS' EQUITY AND LIABILITIES			
	2007	2006	% Change
Stockholders' Equity	45,585	31,906	42.9
Noncurrent Liabilities			
Interest-bearing loans and other borrowings - net of current portion	13,887	17,841	(22.2)
Customers' deposits	19,665	18,529	6.1
Provisions	12,961	28,274	(54.2)
Customers' refund - net of current portion	10,195	11,263	(9.5)
Deferred income tax	7,502	3,693	103.2
Liability arising from deferred pass-through fuel costs - net of current portion	2,746	3,978	(31.0)
Other noncurrent liabilities	33	423	(92.3)
Total Noncurrent Liabilities	66,989	84,000	(20.3)
Current Liabilities			
Trade and other payables	27,736	24,165	14.8
Customers' refund - current portion	3,800	4,495	(15.5)
Notes payable	2,000	-	100.0
Interest-bearing loans and other borrowings - current portion	1,013	2,828	(64.2)
Income tax payable	3,014	80	3683.2
Other current liabilities	6,862	3,664	87.3
Total Current Liabilities	44,425	35,232	26.1
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	156,999	151,138	3.9

COMPARATIVE CASH FLOW STATEMENTS			
For the first quarter ended March 31, 2007 and 2006 (Amounts in Million Pesos)			
	2007	2006	% change
CASH BALANCE, BEGINNING (Jan. 1)	4,960	13,722	(63.9)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating and other income	1,997	1,580	26.4
Depreciation and amortization	1,038	1,063	(2.4)
Increase (decrease) in other assets and liabilities	(2,290)	(998)	129.4
Net Cash from Operations	745	1,645	(54.7)
Add : Equity issues	-	-	-
Short-term borrowings	2,000	-	-
Long-term borrowings	-	-	-
TOTAL SOURCES OF FUNDS	2,745	1,645	66.8
Less : Short-term debt service	250	-	100.0
Long-term debt service	0.9	285	100.0
Other interest expense	851	1,122	(24.2)
Total Debt Service	1,102	1,408	(21.7)
Unrecoverable purchased power	494	972	(49.1)
Capital expenditures	1,295	1,057	22.5
Preferred equity redemptions	13	13	3.5
Refund to customers	0.4	6	(93.7)
Dividends - common	1,006	-	100.0
TOTAL USES OF FUNDS	3,911	3,455	13.2
NET DECREASE IN CASH	(1,166)	(1,810)	(35.6)
CASH BALANCE, END (March 31)	3,793	11,912	(68.2)

COMPARATIVE STATEMENTS OF RETAINED EARNINGS (DEFICIT)			
For the first quarter ended March 31, 2007 and 2006			
(Amounts in Million Pesos)			
	2007	2006	% Change
BALANCE, Beginning	11,484	(1,312)	975.3
Add:			
Net Income (Loss)	532	(748)	171.1
Realized revaluation surplus	104	140	(25.9)
	12,119	(1,920)	731.3
Deduct			
Appropriated retained earnings, beginning	1,200	200	500.0
Transfer from/(to)			
Unappropriated retained earnings	-	-	
BALANCE	10,919	(2,120)	615.1
Deduct			
Cash dividends declared	-	-	-
Stock dividends declared	-	-	-
BALANCE, Ending	10,919	(2,120)	615.1