



**Manila Electric Company**

**OPERATING &  
FINANCIAL RESULTS**

**Yearend 2007 &  
1st Quarter ending March 31, 2008**

**Investors' Briefing &  
Teleconference**

May 5, 2008, 3:00 pm  
14<sup>th</sup> Floor, Pasig Room, Lopez Building

# Outline of Presentation

- **Yearend 2007 & 1<sup>st</sup> Quarter 2008 Operating Highlights**
  - **Jesus P. Francisco, President**
- **Energy Sales, Average Rates, Purchase Power Cost, System Loss and System Performance**
  - **Roberto R. Almazora, FVP & Head, Customer Retail Services**
- **Financials**
  - **Daniel D. Tagaza, EVP & Head, Finance**
- **Regulatory Updates**
  - **Ivanna G. Dela Peña, VP & Head, Utility Economics**



# 2007 & 1Q 2008 Operating Highlights

## ■ Financials (Parent Income)

- 2007: Net income of P3.61 billion
  - down by 73.0% from P13.38 billion (with provision for probable losses)
  - up by 14.2% from P3.16 billion (without provision for probable losses)
- 1Q 2008: Net income of P655 million, a 23.2% increase from P532M in 2007



# 2007 & 1Q2008 Operating Highlights

## ■ Energy Sales

- 2007: Increase of 4.6% to 26,219gwh compared to 1.1% in 2006
- 1Q 2008: Growth of 1.9% to 6,156gwh compared to 3.7% in 2007

## ■ System Loss

- 2007: Improvement from 10.10% in 2006 to a single-digit level of 9.65%, lowest in 27 years
- 1Q 2008:
  - YTD level of 10.79% vs 11.09% in 2007
  - 12MMA level of 9.93% vs 10.13% in 2007



# 2007 & 1Q2008 Operating Highlights

## ■ Quality of Service

### ➤ 2007:

- System reliability improved by 19.5% to 12.08 times from 15 times in 2006
- System availability drastically improved by 81.2% to only 9.89 from 52.58 hours in 2006

### ➤ 1Q 2008:

- ✓ System reliability fell to 2.59 times from 2.44 times in 2007
- ✓ System availability notably better at 1.35 from 1.83 hours in 2007



# 2007 & 1Q2008 Operating Highlights

## ■ Average Retail Rate

- December 2006: P8.08/kwh
- March 2007 : P7.75/kwh
- December 2007: P7.43/kwh
- March 2008 : P7.51/kwh



# 2007 & 1Q2008 Operating Highlights

## ■ Power Sourcing

- The average purchased power cost or PPC (generation & transmission costs) of Meralco IPPs were lower compared to NPC's.

✓ 2007:

✓ IPPs' PPC : P4.82/kwh

✓ NPC's PPC : P6.97/kwh

✓ 1Q 2008:

✓ IPPs' PPC : P4.91/kwh

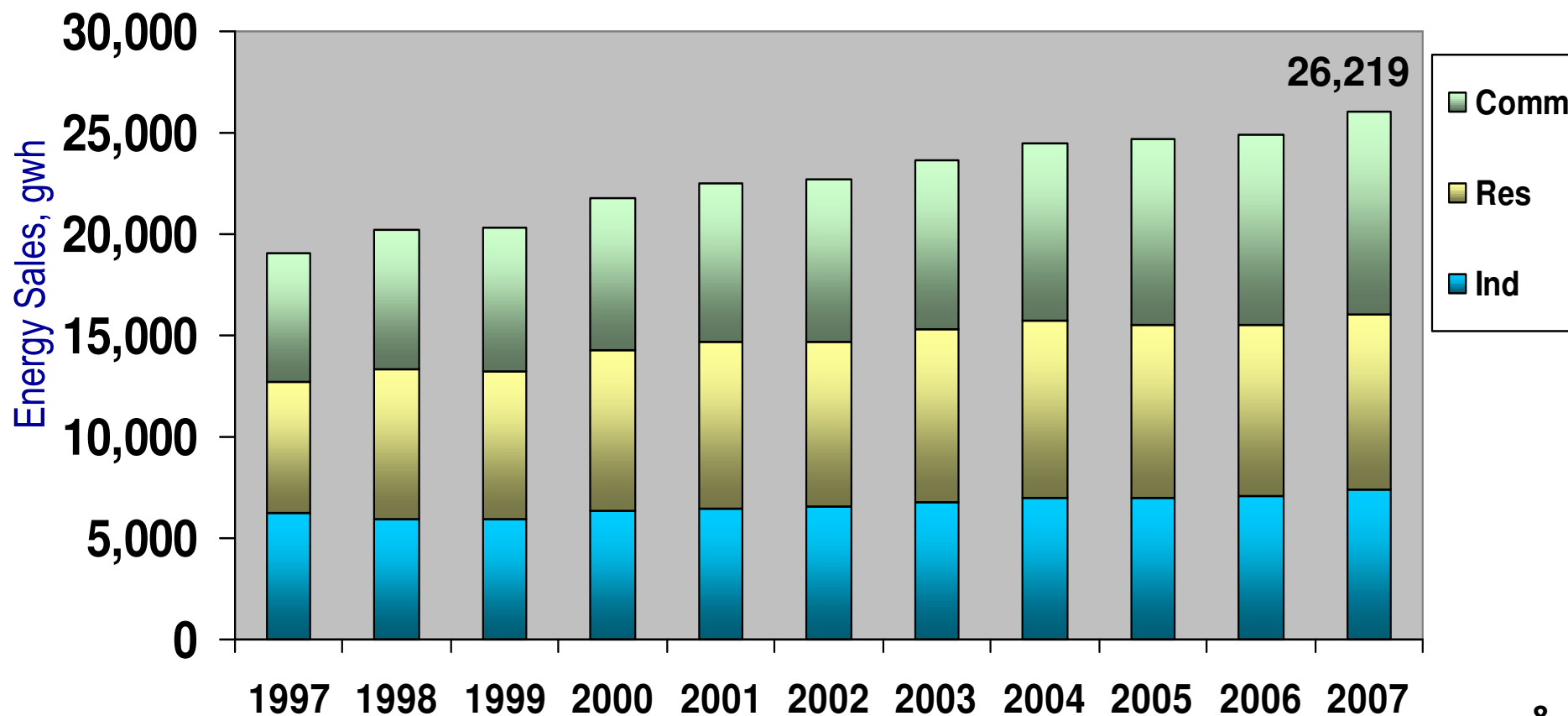
✓ NPC's PPC : P6.25/kwh



# 2007 Energy Sales

**Energy sales in 2007 increased by 4.6% to 26,219 gwh , higher than its 2006 growth of 1.1%**

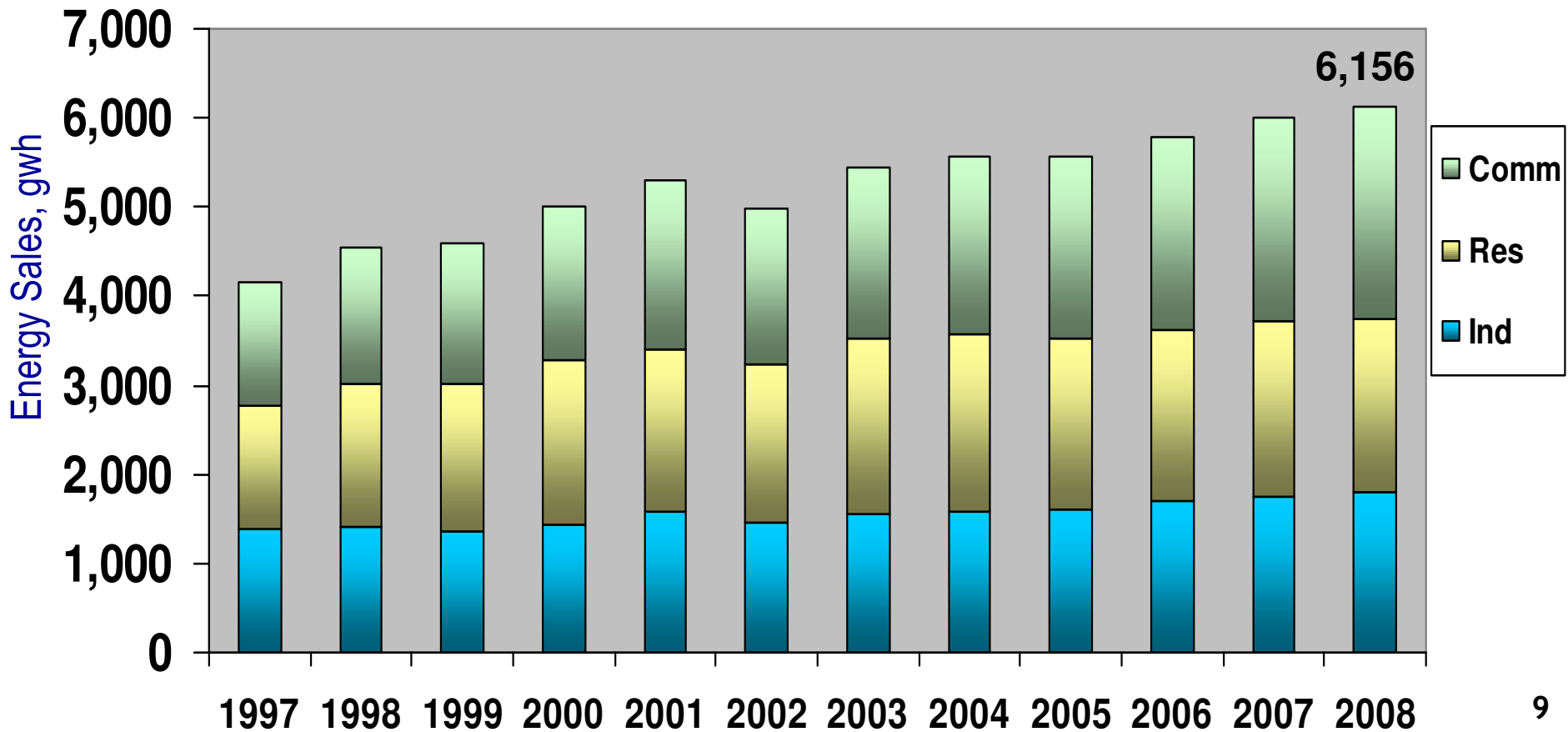
Segment	% Sales Growth	
	2006	2007
Commercial	3.96%	6.00%
Industrial	1.21%	4.20%
Residential	(2.04%)	3.30%
<b>TOTAL</b>	<b>1.10%</b>	<b>4.60%</b>



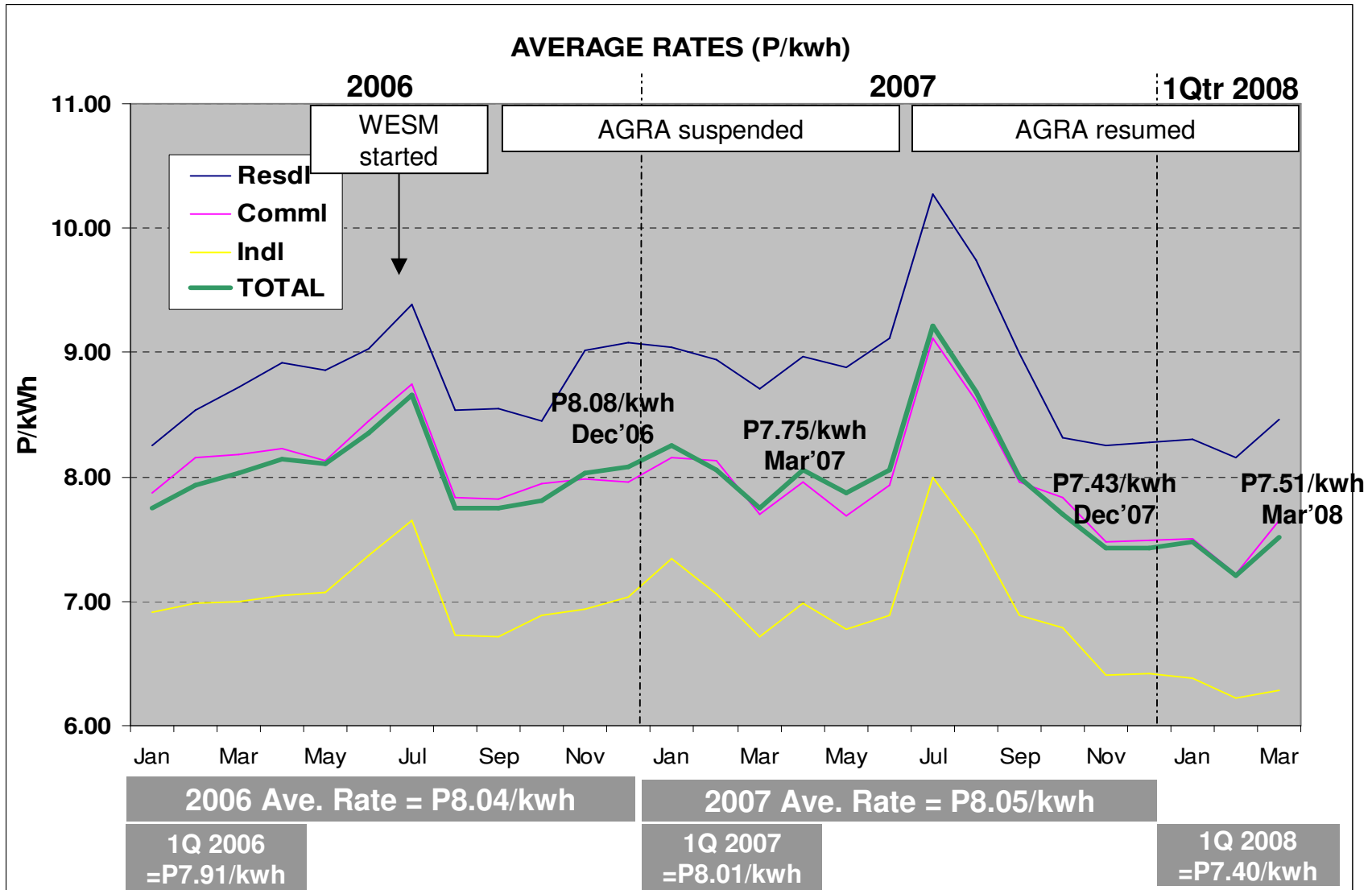
# 1Q 2008 Energy Sales

Energy sales in the 1<sup>st</sup> quarter of 2008 rose 1.9% to 6,156 gwh, lower than the growth rate in 2007 due to the Lenten holidays in March 2008.

Segment	% Sales Growth	
	2007	2008
Commercial	6.12%	4.10%
Industrial	4.10%	1.90%
Residential	0.72%	(0.6)%
<b>TOTAL</b>	<b>3.69%</b>	<b>1.90%</b>



# AVERAGE RETAIL RATES (Jan 2006-March 2008)



# PURCHASED POWER COST (PPC) BY SUPPLIER (2006 vs 2007)

Lower IPP generation and transmission costs compared to NPC's mitigated the increase in overall PPC.

Energy Source	gwh Volume		Average Generation Cost (P/kwh)		Transmission Cost (P/kwh)		Purchased Power Cost (P/kwh)	
	2006	2007	2006	2007	2006	2007	2006	2007
<b>NPC</b>								
NPC TSC	7,821	9,272	4.75	5.22	1.03	1.23	5.78	6.44
NPC Special Programs*	641	1,466	3.99	4.27	1.08	1.20	5.08	5.47
WESM	5,679	4,499	5.62	7.18	1.30	1.36	6.93	8.55
<b>Subtotal</b>	<b>14,141</b>	<b>15,237</b>	<b>5.07</b>	<b>5.70</b>	<b>1.12</b>	<b>1.26</b>	<b>6.19</b>	<b>6.97</b>
<b>IPPs</b>								
Quezon Power	2,951	3,142	4.68	4.08	0.73	0.71	5.42	4.8
First Gas-Sta. Rita	6,994	7,180	4.74	4.19	0.64	0.66	5.38	4.86
First Gas-San Lorenzo	3,518	3,579	4.70	4.15	0.59	0.62	5.29	4.78
<b>Subtotal</b>	<b>13,754</b>	<b>13,905</b>	<b>4.77</b>	<b>4.16</b>	<b>0.63</b>	<b>0.66</b>	<b>5.40</b>	<b>4.82</b>
<b>Total</b>	<b>27,895</b>	<b>29,142</b>	<b>4.92</b>	<b>4.97</b>	<b>0.88</b>	<b>0.98</b>	<b>5.80</b>	<b>5.94</b>

\* Special Programs include Ecozone Rate, ODPS, etc

# PURCHASED POWER COST (PPC) BY SUPPLIER (1Q 2007 vs 1Q 2008)

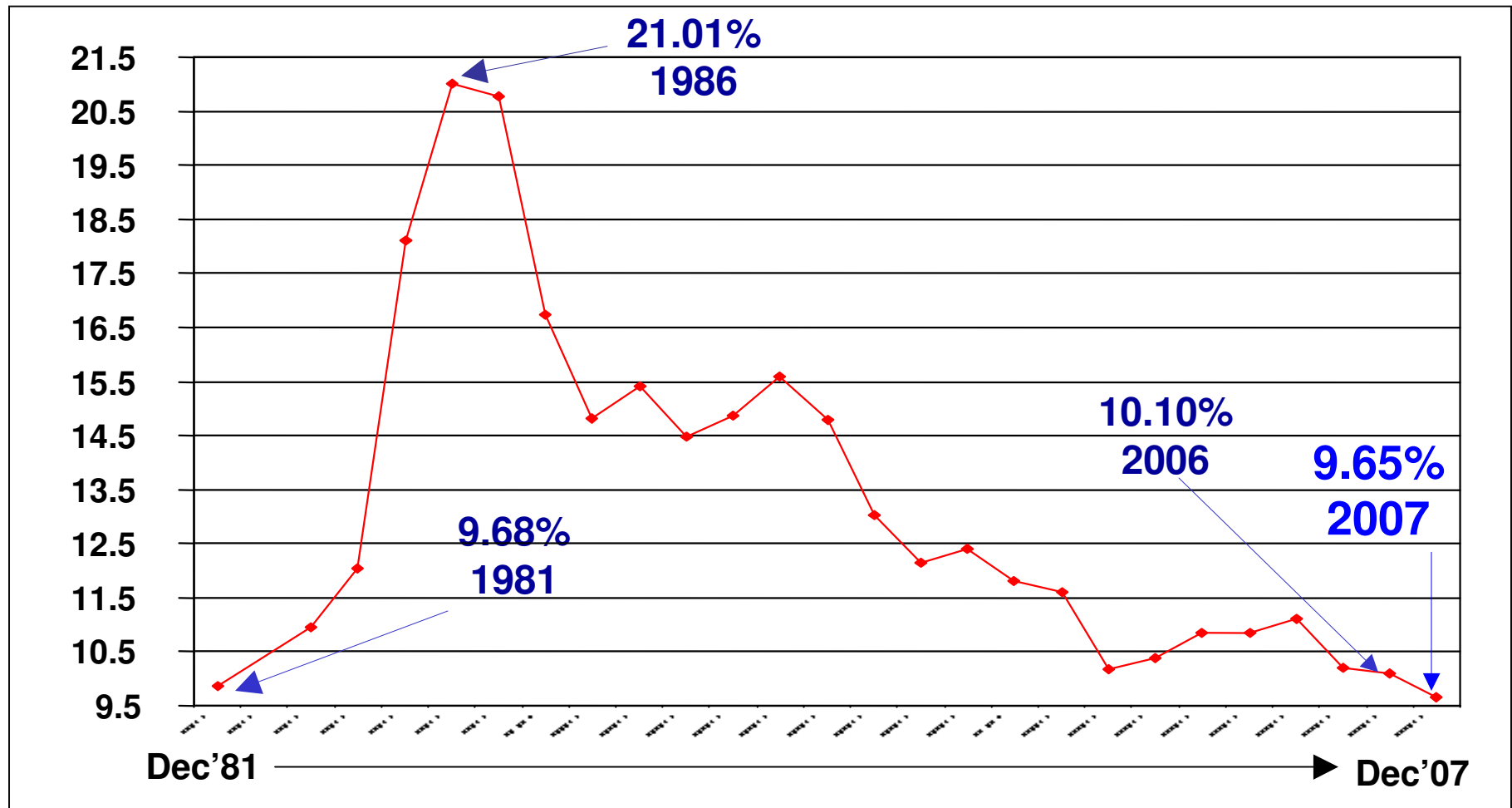
Lower overall PPC in the 1<sup>st</sup> Quarter of 2008 was largely due to the drop in generation cost. The PPC of the IPPs continued to be lower than that of NPC.

Energy Source	gwh Volume		Average Generation Cost (P/kwh)		Transmission Cost (P/kwh)		Purchased Power Cost (P/kwh)	
	2007	2008	2007	2008	2007	2008	2007	2008
<b>NPC</b>								
NPC TSC	1,739	1,559	5.96	4.76	1.34	1.53	7.3	6.29
NPC Special Programs*	232	1,203	4.49	3.98	1.27	1.53	5.77	5.52
WESM	1,280	615	5.92	6.02	1.51	1.32	7.42	7.64
<b>Subtotal</b>	<b>3,251</b>	<b>3,378</b>	<b>5.84</b>	<b>4.71</b>	<b>1.40</b>	<b>1.54</b>	<b>7.24</b>	<b>6.25</b>
<b>IPPs</b>								
Quezon Power	858	611	4.09	4.66	0.69	0.9	4.78	5.57
First Gas-Sta. Rita	1,699	1,932	4.52	4.16	0.69	0.65	5.21	4.28
First Gas-San Lorenzo	997	1,003	4.28	4.17	0.56	0.54	4.84	4.71
<b>Subtotal</b>	<b>3,566</b>	<b>3,549</b>	<b>4.35</b>	<b>4.25</b>	<b>0.66</b>	<b>0.66</b>	<b>5.01</b>	<b>4.91</b>
<b>Total</b>	<b>6,807</b>	<b>6,926</b>	<b>5.06</b>	<b>4.47</b>	<b>1.01</b>	<b>1.09</b>	<b>6.07</b>	<b>5.56</b>

\* Special Programs include Ecozone Rate, ODPS, etc

# YTD 2007 SYSTEM LOSS

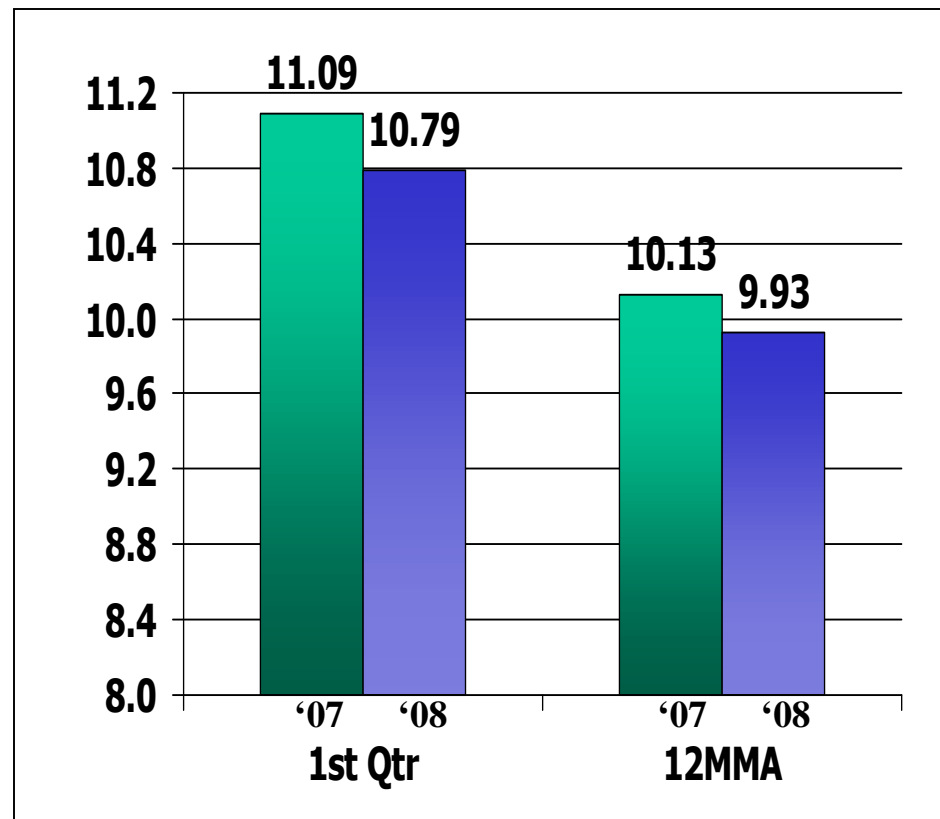
System loss was brought down to a single-digit level of 9.65%, the lowest in 27 years.



# 1Q 2008 System Loss

- **1st Qtr 2008** System Loss improved to **10.79%** from 11.09% in the same period last year.
- **12-MMA** improvement to **9.93%** as of March 2008 from 10.13% in 2007.

**% System Loss (1Q & March 12MMA - 2007 vs 2008)**



# 2007 & 1Q 2008 System Loss

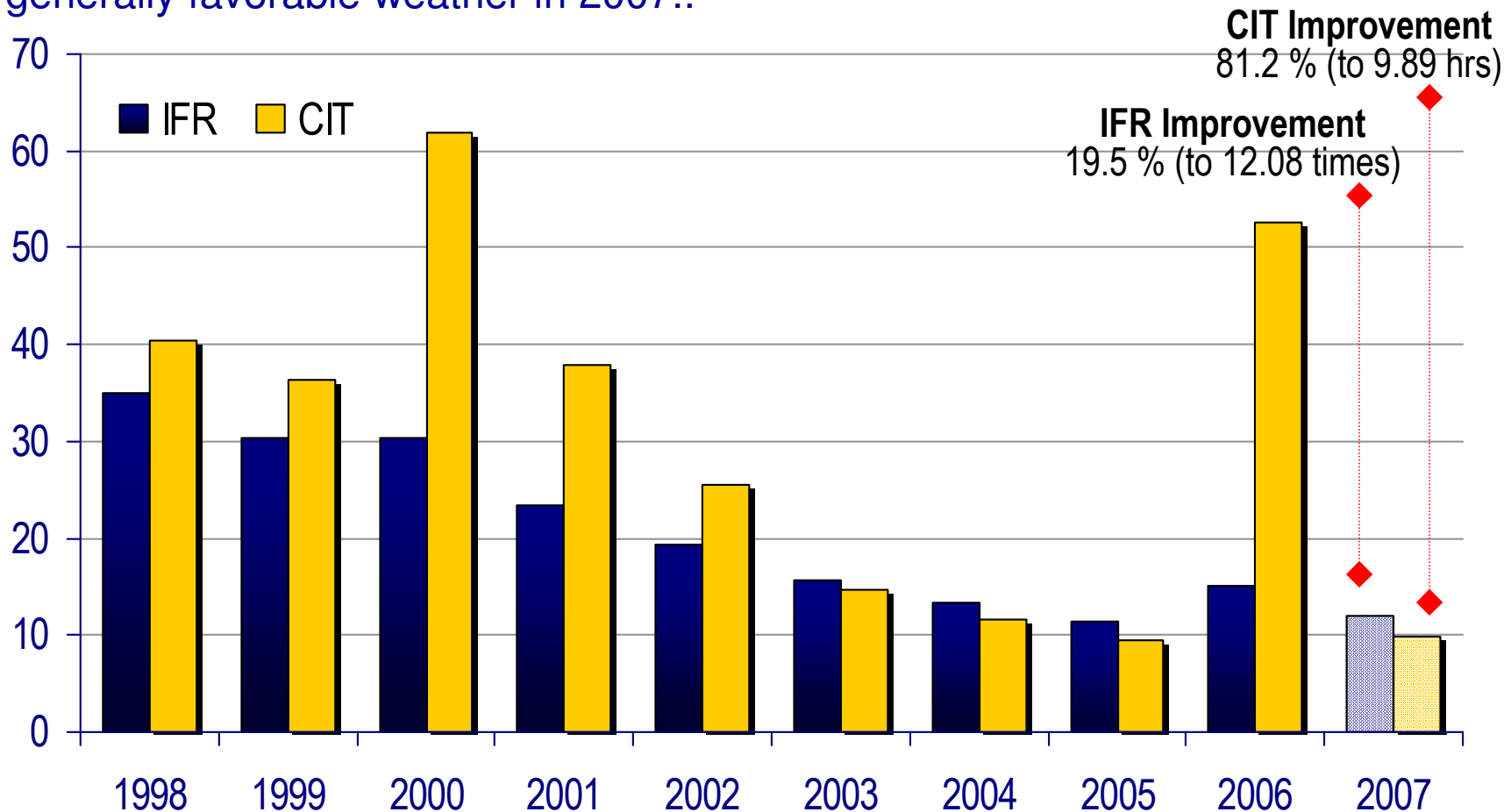
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## Improvements attributed to:

- Improved timing & quality of apprehending crews & continuous improvement of business processes
- Continued implementation of MOAs on Eliminating Third Party Accidents & Pilferage of Electricity.
- “Bantay Kuryente para sa Kaligtasan ng Mamamayan” launched together with the DILG in December 2007.
- Decongested lines ahead of summer months when consumption is expected to increase.

# 2007 System Performance

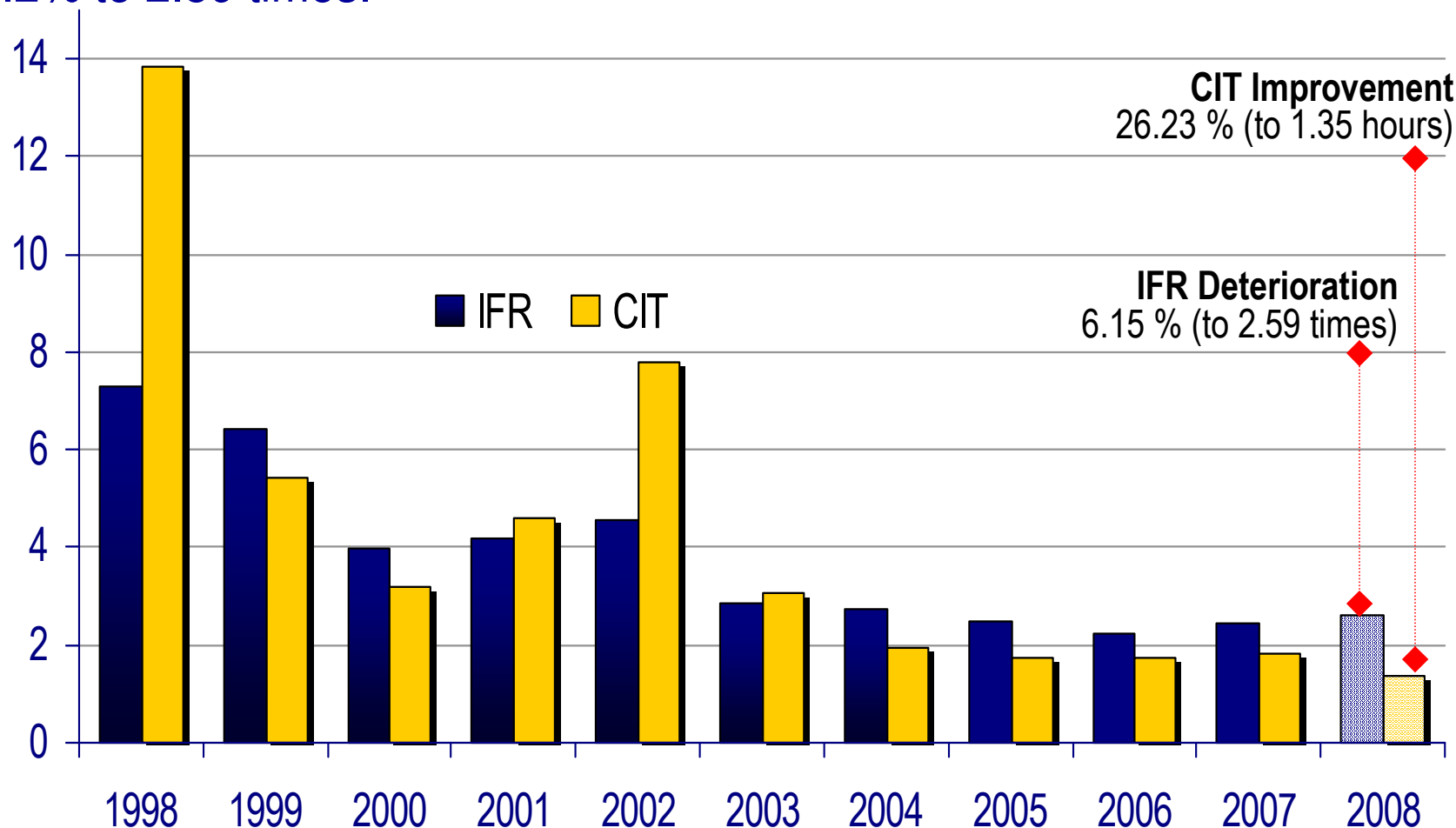
For 2007, system reliability (Interruption Frequency Rate) and system availability (Cumulative Interruption Time) improved by 19.5% to 12.08 times and 81.2% to 9.89 hours, respectively. This was a result of intensive line & substation equipment rehabilitation, the commissioning of new distribution feeders and the generally favorable weather in 2007..



NOTE: Service Interruption includes Forced, Pre-arranged, & Genco/Transco-caused outages

# 1Q 2008 System Performance

The 1<sup>st</sup> Quarter 2008 Cumulative Interruption Time improved by 26.2% to 1.35 hours. Interruption Frequency Rate, on the other hand, deteriorated 6.2% to 2.59 times.



NOTE: Service Interruption includes Forced, Pre-arranged, & Genco/Transco-caused outages

# Financials



## 2007

- **P3.61 billion in parent income**
  - Sales growth of 4.6%
  - Decline in interest expense from P5.10 billion in 2006 to P2.13 billion in 2007.
- **Cash dividend of P0.50 per share**

## 1<sup>st</sup> Quarter 2008

- **P655 million in parent income**

# Statements of Income – Parent only

For the years ended December 31, 2006 and 2007



	(Amounts in Million Pesos)		
	2006	2007	% Change
REVENUE	186,075	195,613	5.1
EXPENSES	180,674	190,377	5.4
INCOME BEFORE REVERSAL OF (PROVISION FOR) PROBABLE LOSSES AND INCOME TAX	5,401	5,236	(3.1)
Reversal of (provision for) probable losses	15,725	-	(100.0)
INCOME (LOSS) BEFORE INCOME TAX	21,126	5,236	(75.2)
PROVISION FOR INCOME TAX	7,747	1,630	(79.0)
NET INCOME	13,379	3,606	(73.0)
Peso Earnings (Loss) Per Share			
Basic	13.4039	3.5170	(73.8)
Diluted	13.3614	3.5018	(73.8)

- Reversal of accumulated provisions for probable losses from 2004-2006
- Without provision for probable losses, net income would have been P3.16 billion
- Distribution revenue increased to P25.46 billion in 2007, up by 9.2% from P23.31 billion in 2006

# Pro Forma Condensed Parent Statements of Income

For the years ended December 31, 2006 and 2007



(Amounts in Million Pesos)

	2006	2007	% Change
REVENUE	186,075	195,613	5.1
EXPENSES	180,674	190,377	5.4
INCOME BEFORE REVERSAL OF (PROVISION FOR) PROBABLE LOSSES AND INCOME TAX	5,401	5,236	(3.1)
PROVISION FOR INCOME TAX	2,243	1,630	(27.3)
NET INCOME	3,158	3,606	14.2
Earnings (Loss) Per Share			
Basic	3.1639	3.6661	15.9
Diluted	3.1538	3.6502	15.7

- Without provision for probable losses related to Unbundling Rate Case

# Details of Expenses (Income)

For the years ended December 31, 2006 and 2007



	(Amounts in Million Pesos)		
	2006	2007	% Change
<b>EXPENSES (INCOME)</b>			
Purchased power	160,480	171,852	7.1
Operations and maintenance	10,504	13,198	25.6
Depreciation and amortization	4,167	4,404	5.7
Interest and other financial expenses	4,963	2,866	(42.3)
Interest and other income	(2,692)	(1,993)	(26.0)
Present value impact on customers' refund	1,512	1,096	(27.5)
Provision for (recovery of) probable losses on disallowed receivables - net	215	(646)	(400.5)
Provision for (reversal of) probable losses from tax assessments and legal claims - net	452	(328)	(172.6)
Foreign exchange losses (gains) - net	1,901	(215)	(111.3)
Taxes other than income tax	553	143	(74.1)
CERA II revenues	(1,381)	-	(100.0)
	<b>180,674</b>	<b>190,377</b>	<b>5.4</b>

# Parent Balance Sheet Highlights - Total Assets

As of December 31, 2006 and 2007



(Amounts in Million Pesos)

	2006	2007	% Change
<b>ASSETS</b>			
Utility plant and others - net	93,426	95,101	1.8
Other non current assets - net	27,963	32,579	16.5
Total non current assets	121,389	127,680	5.2
Total current assets	42,909	40,125	(6.5)
Total Assets	164,298	167,805	2.1

- Other noncurrent assets included deferred generation and system loss charges amounting to P10.46 billion.

# Parent Balance Sheet Highlights - Total Liab & Equity

As of December 31, 2006 and 2007



(Amounts in Million Pesos)

	2006	2007	% Change
<b>EQUITY AND LIABILITIES</b>			
Total Equity	45,054	48,803	8.3
Total non current liabilities	73,502	71,666	(2.5)
Total current liabilities	45,742	47,336	3.5
Total Liabilities	119,244	119,002	(0.2)
Total Equity and Liabilities	164,298	167,805	2.1

# Parent Cash Flow Statements

For the years ended December 31, 2006 and 2007



	(Amounts in Million Pesos)		
	2006	2007	% change
<b>CASH BALANCE, BEGINNING</b>	<b>13,722</b>	<b>5,866</b>	<b>(57.3)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income before working capital changes	15,969	10,707	(33.0)
Increase (decrease) in other assets and liabilities	(6,519)	(7,131)	9.4
Interest and taxes paid	(2,528)	(5,271)	108.5
<b>Net Cash from Operations</b>	<b>6,922</b>	<b>(1,695)</b>	<b>(124.5)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
CAPEX	(5,547)	(6,467)	16.6
Others	(4,024)	(2,968)	(26.2)
<b>Net Cash from Investing Activities</b>	<b>(9,571)</b>	<b>(9,435)</b>	<b>(1.4)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of debt & customer refunds	(19,055)	(2,662)	(86.0)
Proceeds from debt & issuance and subscriptions to common stocks	11,907	10,500	(11.8)
Increase (decrease) in other assets and liabilities	2,007	1,573	(21.6)
Redemption of preferred stock	(66)	(85)	28.8
<b>Net Cash from Operations</b>	<b>(5,207)</b>	<b>9,326</b>	<b>279.1</b>
<b>CASH BALANCE, END</b>	<b>5,866</b>	<b>4,062</b>	<b>(30.8)</b>

# Debt Profile

December 31, 2006 and 2007



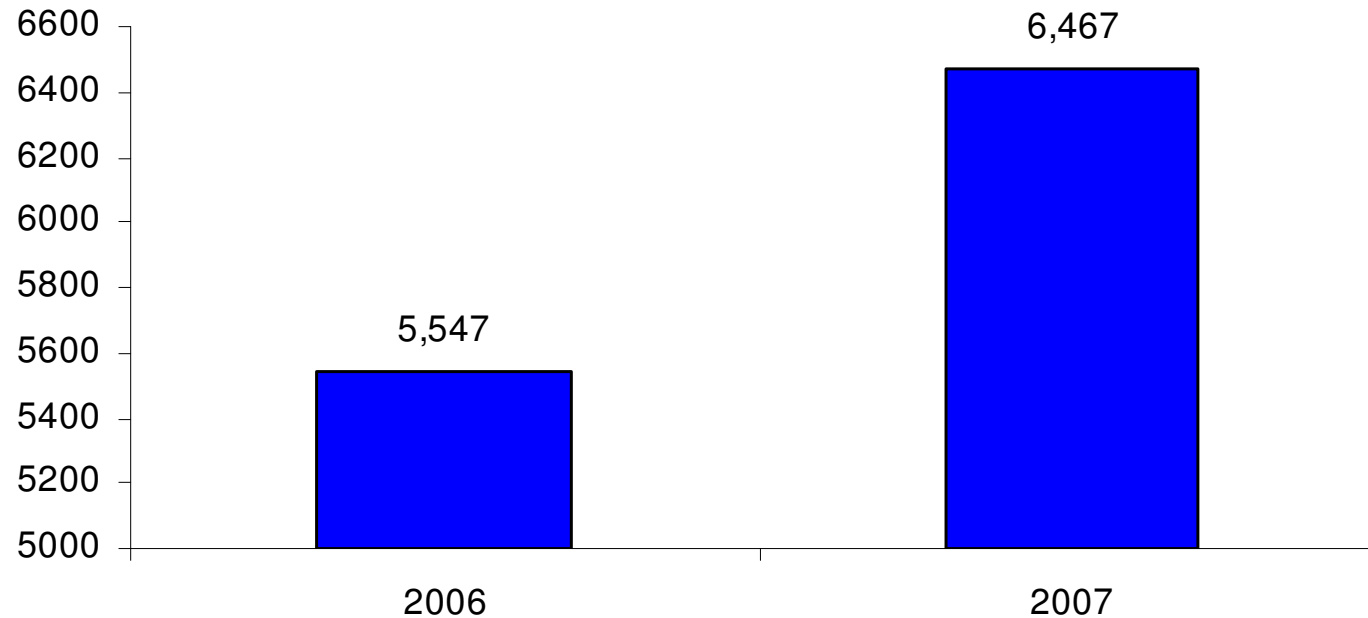
(Amounts in Billion Pesos)

	2006			2007		
	Foreign	Local	Total	Foreign	Local	Total
Long Term	0.32	12.17	12.49	0.20	12.17	12.37
Short Term					10.50	10.50
Total	0.32	12.17	12.49	0.20	22.67	22.87
	2.6%	97.4%	100.0%	0.9%	99.1%	100.0%

# Capital Expenditures

## December 31, 2006 vs. 2007

(Amounts in Million Pesos)



- **Capital expenditures (CAPEX) increased to P6.79 billion in 2007, up 11.4% from the previous year.**
- **CAPEX was used primarily to address customer growth, correct overloaded facilities and reduce system loss.**

# 1<sup>st</sup> Quarter 2008 Financials



# Net Income

For the Quarters Ended March 31, 2007 and 2008



(Amounts in Million Pesos)

	2007	2008	% Change
REVENUE	48,199	43,636	(9.5)
EXPENSES	47,402	42,760	(9.8)
INCOME (LOSS) BEFORE INCOME TAX	797	876	9.9
PROVISION FOR INCOME TAX	265	221	(16.6)
NET INCOME	532	655	23.2

- Distribution revenue increased to P5.8 billion in first quarter 2008, up by 2.7% from P5.65 billion in 2007

# Details of Expenses (Income)

For the quarter ended March 31, 2007 and 2008



(Amounts in Million Pesos)

	2007	2008	% Change
<b>EXPENSES (INCOME)</b>			
Purchased power	42,724	37,945	(11.2)
Operations and maintenance	2,833	3,080	8.7
Depreciation and amortization	1,038	1,068	2.9
Interest and other financial expenses	646	759	17.6
Interest and other income	(195)	(353)	81.0
Present value impact on customers' refund	274	211	(22.8)
Provision for (recovery of) probable losses			0.0
on disallowed receivables - net	51	-	(100.0)
Foreign exchange losses (gains) - net	-	6	100.0
Taxes other than income tax	32	44	38.8
	<b>47,402</b>	<b>42,760</b>	<b>(9.8)</b>

# Balance Sheet

As of March 31, 2008 and 2007



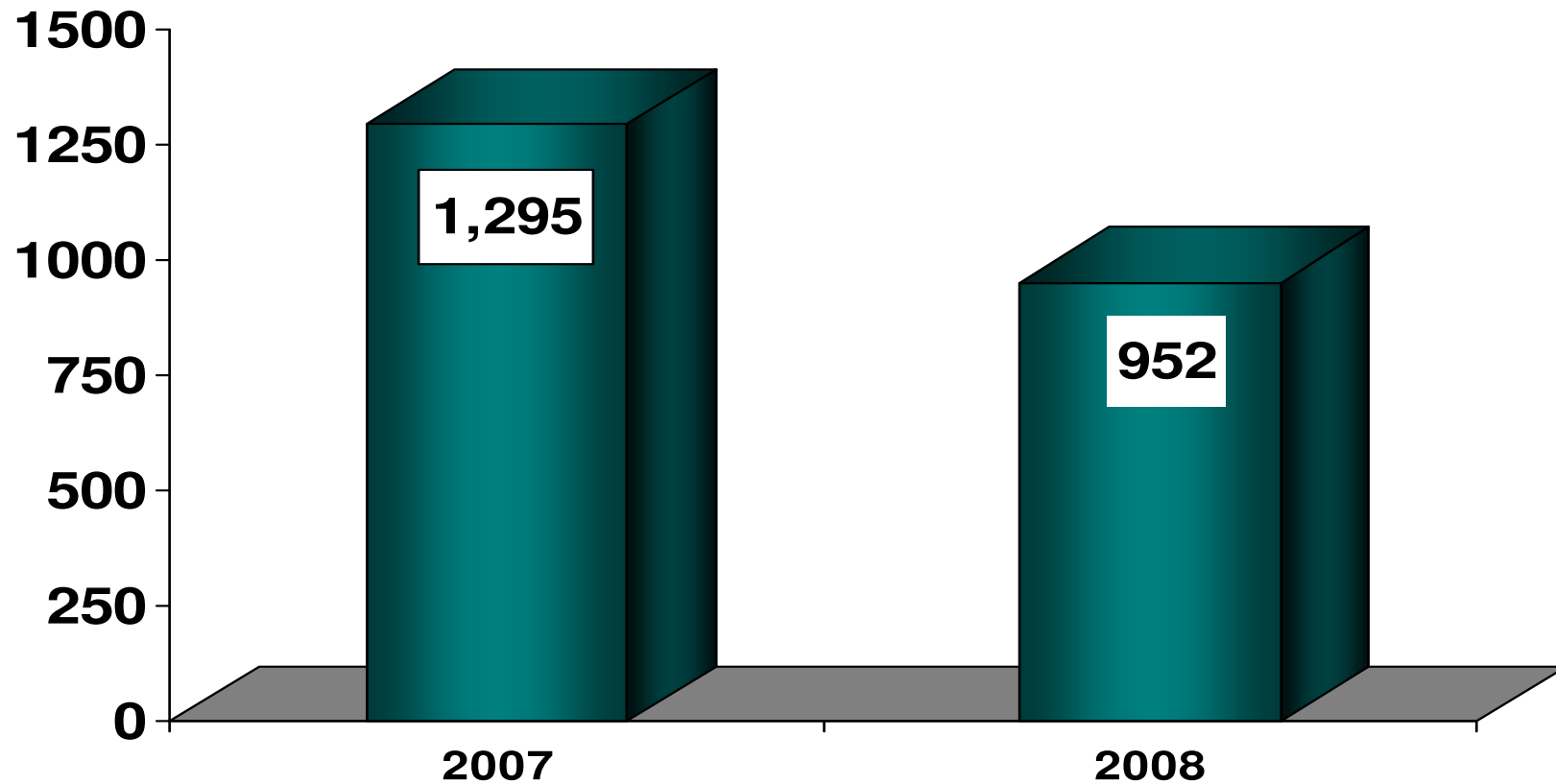
(Amounts in Million Pesos)

	2007	2008	% Change
<b>ASSETS</b>			
Utility plant and others - net	93,796	94,975	1.3
Other non current assets - net	30,123	33,932	12.6
Total non current assets	123,919	128,907	4.0
Total current assets	39,147	40,088	2.4
Total Assets	163,066	168,996	3.6
<b>EQUITY AND LIABILITIES</b>			
Total Equity	45,585	49,487	8.6
Total non current liabilities	74,222	71,825	(3.2)
Total current liabilities	43,259	47,684	10.2
Total Liabilities	117,481	119,509	1.7
Total Equity and Liabilities	163,066	168,996	3.6

# Capital Expenditures

As of March 31, 2007 and 2008

(in million pesos)



**Capital expenditures decreased to P952 million in the first quarter of 2008 from P1.30 billion in 2007.**

# Debt Profile

As of March 31, 2008 and 2007

	2007			2008		
	Foreign	Local	Total	Foreign	Local	Total
Long Term	0.32	12.17	12.49	0.22	11.90	12.12
Short Term		2.00	2.00		10.50	10.50
Total	0.32	14.17	14.49	0.22	22.40	22.62
	2.2%	97.8%	100.0%	1.0%	99.0%	100.0%

# Regulatory Developments



# Outline

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- Resumption of automatic adjustment of pass-through charges
- Status of under-recoveries in pass-through costs
- Meralco's PBR-based rate petitions

# Resumption of automatic adjustments

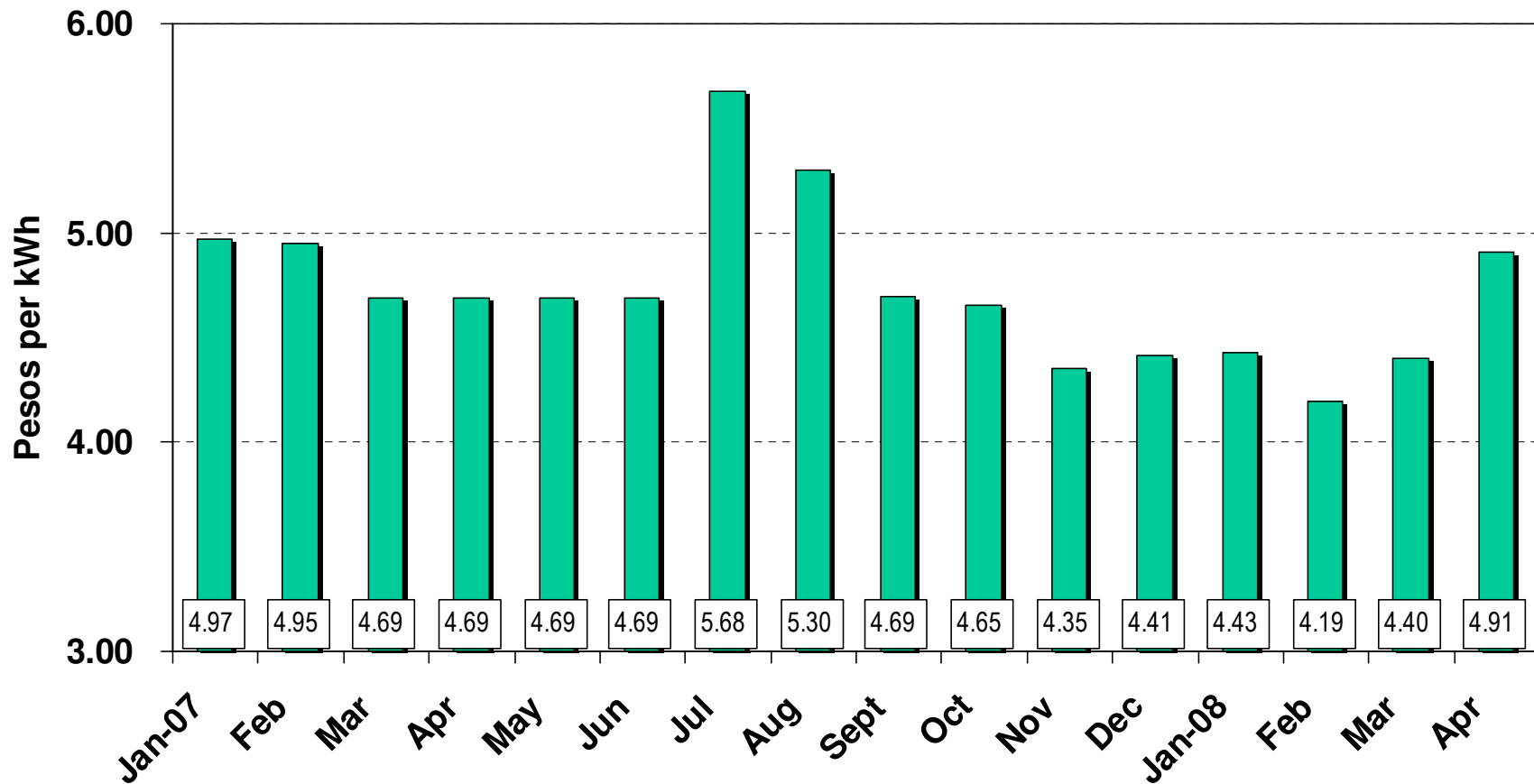
- Backgrounder
  - On September 1, 2006, ERC suspended the adjustment of Meralco’s generation charges through the use of automatic mechanisms (e.g., the Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities, or AGRA)
  - ERC suspension followed an August 2006 Supreme Court ruling that procedural requirements of the EPIRA IRR covers all rate adjustments, including those for pass-through charges

June 7	JCPC approves amendments to Rules 3 of the EPIRA IRR, exempting the adjustment of pass-through electric rate components from the jurisdictional and hearing requirements of the IRR
June 21	DoE promulgates amendments to EPIRA IRR
June 28	ERC lifts September 1, 2006 Order

- On June 28, 2007, ERC directed Meralco to:
  - “comply with the provisions of AGRA ... for purposes of generation rate and system loss rate adjustments ...”

# Generation Charge movements

- With resumption of monthly adjustments in July 2007, Generation Charge has reflected actual generation cost incurred by Meralco



# Status of pass-through cost under-recoveries



- Generation cost under-recoveries
  - During the period when AGRA was suspended (*September 2006 to June 2007*), Meralco filed 10 applications with ERC to recover P13.97 billion in generation cost under-recoveries

	<b>In millions of Pesos</b>
Applied for recovery	
Generation Charge	12,679
System Loss Charge	1,295
<b>Total</b>	<b>13,974</b>
Less: approved for recovery	8,829
<b>Pending approval</b>	<b>5,145</b>

- On January 18, 2008, the ERC allowed Meralco to collect the amount of P8,829 million through a P0.1662 per kwh charge on its billings to customers, beginning February 2008
- Meralco awaiting decision on remaining P5,145 million

# Status of pass-through cost under-recoveries

- Meralco has also asked ERC for authority to recover amounts related to the following pass-through rate components:
  - Transmission Charge
  - Inter-class Cross-subsidy
  - Lifeline Subsidy
- Total amount: P7,472 million

	<b>Date filed with ERC</b>	<b>Principal amount to be recovered (P million)</b>	<b>Status of application</b>
Transmission cost	September 2007	5,554	Completed
Inter-class cross-subsidy	November 2007	1,054	Hearings completed. Submitted for decision
Lifeline subsidy	February 2008	864	Hearings on-going

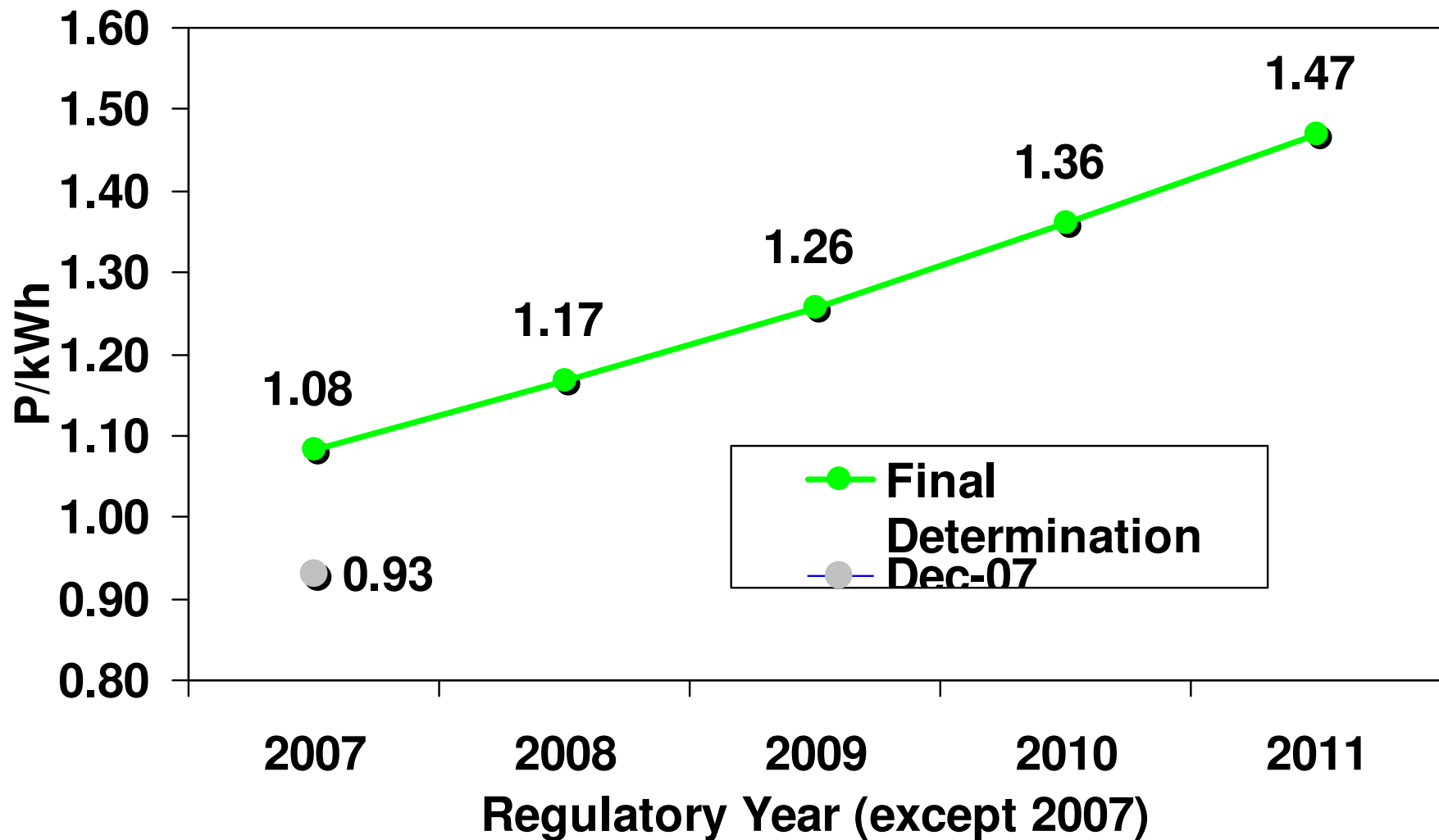
# On Meralco's PBR-based rate petition



- Transition of Meralco to Performance-Based Regulation (PBR) is on-going
  - ERC issued its “Final Determination” on Meralco’s PBR application that will govern the company during the second regulatory period (July 2007 to June 2011)

<b>Milestone</b>	<b>Completed</b>	<b>Timetable</b>
Release of Draft Determination	✓	May 16, 2007
Deadline for written comments	✓	June 15
Posting on ERC website of consolidated comments	✓	June 22
Public consultation	✓	June 26
Release of Final Determination	✓	August 31

# Approved Maximum Annual Prices (MAP)



# Implementation of PBR-based rates (1/2)

- Implementation of PBR-based rates has been delayed
  - Meralco awaiting ERC decision on the company's 1<sup>st</sup> rate translation application

	<b>Original</b> (RDWR Position Paper of ERC)	<b>Revised</b> (Per ERC Draft & Final Determination)	<b>Actual</b>
Issuance of Final Determination	May 16, 2007	August 31, 2007	August 31, 2007
Filing of rate structure application	-	October 15, 2007	January 11, 2008
Public hearings	-	December 3 & 4, 2007	Completed March 6, 2008
ERC approval of rate structure	-	January 14, 2008	<i>(Pending)</i>
Implementation of PBR-based rates	July 2007 (MAP <sub>2008</sub> )	February 2008 (MAP <sub>2008</sub> )	<i>(Pending)</i>

# Implementation of PBR-based rates (2/2)

- Second rate translation filing incorporates rate portion of under-recoveries for regulatory year 2008
  - Filed last April 1, 2008. Hearings were completed last April 29
  - Derived Maximum Average Price for 2009 ( $MAP_{2009}$ ): P1.3607/kWh

$$MAP_{2009} = [MAP_{2008} \times \{1 + CWI_{2009} - X\}] + S_{2009} - K_{2009} + ITA_{2009}$$

Variable	Description	Value (P/kWh)	Remarks
$MAP_{2008}$	MAP for RY2008	1.1669	As prescribed in MERALCO's Final Determination
X	Smoothing factor	(0.0462)	
$CWI_{2009}$	Change in Weighted Index for RY2009	(0.0211)	Negative change due to appreciation of Philippine Peso vs. US dollar
$S_{2009}$	Performance incentive for RY2009	0.0066	Derived using formula in Final Determination & actual performance for CY2007*
$K_{2009}$	Correction factor for over/under recovery of revenue in RY 2009	0.1580	Distribution Charge under-recoveries due to delayed implementation of the MAP for RY 2008
$ITA_{2009}$	Tax adjustment for corporate income tax	0.0000	As Prescribed in the RDWR sec. 4.2.1, $ITA_{2009}=0.0000$
<b>TOTAL</b>		<b>1.3607</b>	

\* Only Jul 07-Dec 07 under recoveries are included. Remaining under recoveries for RY 08 (Jan 08 to May/Jun 08) will be part of RY 2010 filing.

# Investors' Briefing & Teleconference



May 5, 2008 3:00 p.m.  
14 th Flr, Pasig Room - Lighthouse  
Meralco Center, Ortigas



**End of presentation**  
**Thank you !**