

FINANCIAL HIGHLIGHTS

NET INCOME

2007

Net income for the full year 2007 was P3.61 billion, a decrease of 73.0% from P13.38 billion in 2006.

Had there been no provision made for probable losses amounting to P15.73 billion in 2006, net income for that year would have been P3.16 billion. Compared to this level, net income for 2007 would have been 14.2% higher. The provision for probable losses was for a pending case questioning a rate increase approved by the Energy Regulatory Commission and implemented by the company in June 2003. The case was resolved by the Supreme Court in December 2006 in favor of ERC and Meralco.

1st Quarter 2008

For the 1st quarter of 2008, net income stood at P655 million, an increase of 23.2% from P532 million in the same period last year.

REVENUES

2007

Meralco posted strong energy sales in 2007, increasing 4.6% to 26,219 gwh, higher than its 2006 growth of 1.1%.

As a result, total revenues rose to P195.61 billion that year, a 5.1% jump compared to P186.08 billion in 2006.

Likewise, distribution revenues increased to P25.46 billion, up 9.2% from P23.31 billion in 2006.

1st Quarter 2008

For the 1st quarter of 2008, energy sales continued to register a positive growth, increasing 1.9% to 6,156 gWh. This was, however, lower than last year's 3.7% expansion mainly due to the effect of the Lenten holidays which fell in March this year as opposed to April in 2007.

Total revenues amounted to P43.64 billion compared to last year's P48.20 billion, a 9.5% decrease. This was due to the lower average generation and system loss charges for the period compared to those last year.

However, distribution revenues increased to P5.80 billion in the first quarter 2008 from P5.65 billion in the same period last year, up by 2.7%.

EXPENSES (INCOME)

2007

Total expenses in 2007 increased by 5.4% to P190.38 billion from P180.67 billion in 2006 driven by purchased power cost or PPC, a pass-through cost.

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The PPC, which accounted for 90.3% of total expenses, increased by 7.1% to P171.85 billion from P160.48 billion in 2006 with unrecoverable purchased power cost – system loss in excess of the cap – declining from P969 million to P260 million, a 73.2% improvement.

Mitigating the increase in total expenses was the reduction of interest expense by 42.3% from P4.96 billion to P2.87 billion.

1st Quarter 2008

For the 1st quarter of 2008, total expenses went down by 9.8% to P42.76 billion from P47.4 billion last year.

PPC declined by 11.2% to P37.95 billion from P42.72 billion in 2007. Unrecoverable purchased power cost dropped by 24.2% from P648 million to P491 million.

EARNINGS PER SHARE

2007

Basic earnings per share for the full year 2007 decreased to P3.66 from P13.71 in 2006 mainly due to a lower net income in 2007.

1st Quarter 2008

Earnings per share for the 1st quarter of 2008 (excluding depreciation on appraisal increase) however rose 6.25% to P0.68 from P0.64 last year.

CAPITAL EXPENDITURE

2007

Total capital expenditures in 2007 went up 11.4% to P6.79 billion from P6.1 billion in the preceding year. The investments were used to address customer load growth, replace dilapidated and obsolete electrical facilities and reduce system loss.

1st Quarter 2008

Capital expenditure for the 1st quarter of 2008 amounted to P952 million compared to P1.29 billion in the same period last year.

OPERATIONAL HIGHLIGHTS

ENERGY SALES (by Major Customer Segment)

2007

Last year's robust sales performance was attributed to positive growth in all major customer segments as shown in the table below.

Energy Sales by Customer Segment, in gwh (2006 vs 2007)

Customer Class	2006	2007	% Change
Residential	8,376.62	8,655.08	3.3
Commercial	9,454.61	10,020.78	6.0
Industrial	7,104.06	7,405.31	4.2

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The commercial segment continued to lead sales growth as its consumption increased 6% to 10,021 gwh, higher than the previous year's 4%. This was fueled by the heightened energy sales to Real Estate (11.4%) and Private Services (4.9%). The surge in Real Estate was attributed to the booming domestic property market while the growth in Private Services was due to the increased energy consumption of the Education, Hotels/Restaurant and Business Services subsectors, including Business Process Outsourcing (BPO) services.

Sales to the industrial segment grew by 4.2% to 7,405 gwh from its 0.2% and 1.2% growths in 2005 and 2006, respectively. Driving this expansion was the marked increase in electricity consumption of the Construction (22.9%), Fabricated Metals (15.1%), Beverage (10.4%), Plastics (5.2%) and Electrical Machinery (4.2%) industries. The increased consumption of the Construction industry was due to the rising demand for space from Retail Trade and BPOs, housing for families of OFWs and increased government infrastructure development.

The residential segment also posted improved sales growth, expanding 3.3% to 8,655 gwh. This was a reversal from its 2.2% and 2.0% decline in 2005 and 2006, respectively. The growth in residential sales was mainly due to the significant rise in per capita consumption of customers in the AB bracket (consuming at least 801 kwh per month) by 10% and the C bracket (consuming 201 to 800 kwh per month) by 6%. Low inflation rate and stable electricity prices in the period helped push up residential electricity consumption.

1st Quarter 2008

For the 1st quarter of 2008, the commercial segment continued to lead in energy sales growth, increasing 4.1% to 2,388 gwh. The expansion was propelled by the Transport, Storage and Communication, Real Estate, and Trade sectors, which rose 11.3%, 8.7%, and 7.4%, respectively. The addition of 12 new commercial customers with a combined demand of 8.7 MW to the grid in the 1st quarter of 2008 also contributed to this increase.

Sales to the industrial segment grew 1.9% to 1,795 gwh for the period. Growth in this segment was led by Beverage, Transport Equipment Manufacturing and Basic Metal and which grew 13.7%, 13.2% and 7.0%, respectively. The addition of fourteen (14) new major industrial customers with a combined demand of 10.4MW to the grid helped increase this segment's consumption.

The residential segment, however, slightly contracted 0.6% to 1,938 gwh in the 1st quarter of 2008, as compared to the 0.7% growth in the same period last year due to the effect of the Holy Week in March this year compared to April in 2007 and lower temperature in the period.

Shown below is the energy sales by major customer segment in the 1st quarter of 2008 compared to the 1st quarter of 2007.

Energy Sales by Customer Segment, in gwh (1st Quarter 2007 vs 1st Quarter 2008)

Customer Class	2007	2008	% Change
Residential	1,949.11	1,937.95	(0.6)
Commercial	2,294.12	2,388.48	4.1
Industrial	1,760.91	1,795.00	1.9

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AVERAGE RETAIL RATE

Monthly Overall Average Rates by Customer Segment
(December 2006, March 2007, December 2007, and March 2008)

The average retail rate for the month of December 2007 was P7.43/kwh, P0.65/kwh lower than its level of P8.08/kwh in the same period in 2006.

For the month of March 2008, the average retail rate stood at P7.51/kwh, also lower by P0.24/kwh from P7.75/kwh in the same period in 2007. However, the March 2008 average rate increased by a slight P0.08/kwh compared to that of December 2007.

The following table shows the breakdown of the average retail rates per customer segment.

Average Retail Rate per Customer Segment

Customer Segment	Average Rate (₱/kwh)			
	December 2006	March 2007	December 2007	March 2008
Residential	9.08	8.70	8.28	8.47
Lifeline	6.15	6.01	5.59	5.70
Nonlifeline	9.61	9.15	8.77	9.01
Commercial	7.96	7.70	7.49	7.65
GS, Small and Medium	8.76	8.43	8.22	8.41
Large	7.55	6.69	7.11	7.28
Very Large	7.00	6.79	6.55	6.64
Industrial	7.03	6.71	6.41	6.29
Small and Medium	8.46	8.14	7.93	8.17
Large	7.16	6.93	6.84	7.02
Very Large	6.52	6.32	5.63	5.16
Extra Large	6.30	6.09	6.12	6.42
Total	8.08	7.75	7.43	7.51

Monthly Overall Average Rates by Unbundled Components (₱/ kwh)
(December 2006, March 2007, December 2007, and March 2008)

2007

The decrease in the average rate from December 2006 to December 2007 was largely due to lower generation and system loss charges following a reduction in generation cost. Corresponding VAT rates also went down due to higher percentage dispatch of zero-VAT rated plants. In addition, the suspension of the collection of the currency exchange rate adjustment (CERA) component of the Meralco charges following the conversion of Meralco's foreign loans to local currency starting January 2007 resulted in the decrease in the Meralco charges. Another cause for the reduction was the restoration of the Power Act Reduction, a discount for residential customers, starting October 2007.

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The following table shows the unbundled rate component breakdown by customer segment for December 2006 vs December 2007.

Unbundled Rates by Customer Segment
(December 2006 vs December 2007)

	December 2006 Overall Average	December 2007			
		Overall Average	Average Residential	Average Commercial	Average Industrial
Generation	4.78	4.36	4.33	4.41	4.31
Transmission	0.94	0.92	0.91	1.04	0.76
Meralco Charges	1.05	0.93	1.80	0.70	0.33
System Loss	0.64	0.58	0.72	0.56	0.44
Subsidies	- 0.01	-0.01	-0.26	0.10	0.10
Taxes/ Universal Charge	0.68	0.65	0.78	0.68	0.47
TOTAL	8.08	7.43	8.28	7.49	6.41

1st Quarter 2008

From March 2007 to March 2008, the decrease in the average rate was also largely due to the reduction in the generation and system loss charges caused by lower generation cost. Contributing to the reduction as well was the restoration of the Power Act Reduction, a discount for residential customers starting October 2007.

Corresponding VAT rates, however, increased due to the higher percentage dispatch of VAT-rated plants.

The following table shows the unbundled rate component breakdown by customer segment for March 2007 vs March 2008.

Unbundled Rates by Customer Segment
(March 2007 vs March 2008)

	March 2007 Overall Average	March 2008			
		Overall Average	Average Residential	Average Commercial	Average Industrial
Generation	4.58	4.32	4.38	4.41	4.13
Transmission	0.92	0.95	0.92	1.07	0.82
Meralco Charges	0.96	0.93	1.81	0.72	0.27
System Loss	0.61	0.57	0.73	0.57	0.42
Subsidies	- 0.01	0.00	-0.26	0.11	0.12
Taxes/ Universal Charge	0.69	0.74	0.89	0.77	0.53
TOTAL	7.75	7.51	8.47	7.65	6.29

Annual Overall Average Rates (₱/ kwh)

While average retail rates on a monthly basis (December 2006, March 2007, December 2007 and March 2008) have generally been on a downward trend, the overall average rate for 2007 did not change significantly from its 2006 level. It was almost flat from P8.04/kwh in 2006 to P8.05/kwh in 2007.

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Contributing to the price stability was the suspension from September 2006 to June 2007 of adjustments in the Generation Charge and System Loss Charge components of the bill. These two charges, which account for about two-thirds of the total rate, were pegged by the ERC at August 2006 levels after a Supreme Court decision on the EPIRA Implementing Rules and Regulations' (IRR's) procedural requirements for rate adjustments. The EPIRA IRR was subsequently amended, so that the monthly adjustment of generation and system loss charges was resumed by July 2007.

Unbundled Overall Rates by Customer Segment
(2006 vs 2007)

	2006 Overall Average	2007			
		Overall Average	Average Residential	Average Commercial	Average Industrial
Generation	4.81	4.78	4.83	4.81	4.76
Transmission	0.85	0.92	0.91	1.03	0.79
Meralco Charges	1.06	0.98	1.84	0.69	0.33
System Loss	0.63	0.63	0.78	0.62	0.48
Subsidies	-0.00	-0.01	-0.21	0.09	0.09
Taxes/ Universal Charge	0.72	0.74	0.88	0.76	0.52
TOTAL	8.04	8.05	8.98	8.01	6.98

Quarterly Overall Average Rates (₱/ kwh)

On a quarterly basis, overall average rates for the 1st quarter of 2008 dropped to P7.40/kwh from P8.01/kwh in 2007. This was mainly due to the decline in generation costs for the period, which translated into lower generation and system loss charges.

Unbundled Overall Rates by Customer Segment
(1st Quarter 2007 vs 1st Quarter 2008)

	1 st Qtr 2007 Overall Average	1 st Quarter 2008			
		Overall Average	Average Residential	Average Commercial	Average Industrial
Generation	4.82	4.31	4.40	4.35	4.16
Transmission	0.93	0.93	0.91	1.04	0.81
Meralco Charges	0.96	0.95	1.80	0.71	0.31
System Loss	0.63	0.57	0.72	0.56	0.42
Subsidies	0.00	-0.01	-0.25	0.10	0.11
Taxes/ Universal Charge	0.69	0.67	0.82	0.70	0.48
TOTAL	8.01	7.40	8.31	7.45	6.29

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POWER SOURCING

Purchased Power Cost (P/kwh)

2007

Purchased power cost (consisting of generation and transmission costs) for 2007 slightly increased to P5.94/kwh from P5.80/kwh in 2006 as shown in the table below.

Purchased Power Cost by Supplier (2006 vs. 2007)

Energy Source	Average Generation Cost (P/kwh)		Transmission Cost (P/kwh)		Purchased Power Cost (P/kwh)	
	2006	2007	2006	2007	2006	2007
NPC						
NPC TSC	4.75	5.21	1.03	1.23	5.78	6.44
NPC Special Programs*	4.00	4.27	1.08	1.20	5.08	5.47
WESM	5.62	7.18	1.30	1.36	6.93	8.55
Subtotal	5.07	5.70	1.12	1.26	6.19	6.97
IPPs						
Quezon Power	4.68	4.08	0.73	0.71	5.42	4.80
First Gas-Sta. Rita	4.74	4.19	0.64	0.66	5.38	4.86
First Gas-San Lorenzo	4.70	4.15	0.59	0.62	5.29	4.78
Subtotal	4.77	4.16	0.63	0.66	5.40	4.82
Total	4.92	4.97	0.88	0.98	5.80	5.94

*Special Programs include Ecozone Rate, ODPS, etc.

Overall generation costs inched up to P4.97/kwh from P4.92/kwh while transmission costs also increased to P0.98/kwh from P0.88/kwh.

Mitigating the impact of higher rates in 2007 were the lower generation and transmission costs of Meralco IPPs compared to NPC's. The IPPs' overall generation cost was P4.16/kwh compared to NPC's P5.70/kwh while IPPs' transmission costs stood at P0.66/kwh compared to NPC's P1.26/kwh. Furthermore, the IPPs' generation cost in 2007 was a decline of 12.8% compared to the previous year's P4.77/kwh. The strengthening of the peso compared to the US Dollar in 2007 led to significant reductions in the generation costs of the IPPs. In addition, the improved dispatch of the IPPs from an average plant capacity factor (PCF) of 78.53% in 2006 to 79.59% in 2007 helped lower the per-unit capacity costs of the IPPs.

The increase in the transmission cost was attributed to the implementation of higher transmission rates based on the ERC-approved Maximum Annual Revenue (MAR) of TransCo effective February 2007.

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1st Quarter 2008

Meralco's average purchased power cost in the 1st quarter of 2008 declined by 7.6% to P5.56/kwh from P6.07/kwh in 2007 largely due to the drop in overall generation costs.

The detailed summary of purchased power costs per supplier is shown in the following table.

Purchased Power Cost by Supplier (1st quarter 2008 vs 1st quarter 2007)

Energy Source	Average Generation Cost (P/kwh)		Transmission Cost (P/kwh)		Purchased Power Cost (P/kwh)	
	2007	2008	2007	2008	2007	2008
NPC						
NPC TSC	5.96	4.76	1.34	1.53	7.30	6.29
NPC Special Programs*	4.49	3.98	1.28	1.53	5.77	5.52
WESM	5.92	6.02	1.51	1.62	7.42	7.64
Subtotal	5.84	4.71	1.40	1.54	7.24	6.25
IPPs						
Quezon Power	4.09	4.66	0.69	0.90	4.78	5.57
First Gas-Sta. Rita	4.52	4.16	0.69	0.65	5.21	4.80
First Gas-San Lorenzo	4.28	4.17	0.56	0.54	4.84	4.71
Subtotal	4.35	4.25	0.66	0.66	5.01	4.91
Total	5.06	4.47	1.01	1.09	6.07	5.56

*Special Programs include Ecozone Rate, ODPS, etc.

Lower NPC and IPP generation costs were incurred in the period. The cost of NPC-TSC had a 20.0% reduction from its 1st quarter 2007 average of P5.96/kwh to only P4.76/kwh in 2008 as the NPC GRAM-ICERA charge was reduced during the period, particularly when it reached -P0.2742/kwh starting the February 2008 supply month. For the IPPs, the drop in the generation costs was again the result of the lower peso to US Dollar exchange rate. The generation cost of the IPPs remained lower compared to that of NPC.

Transmission costs, on the other hand, increased to P1.09/kwh in the 1st quarter of 2008 from P1.01/kwh in 2007 mainly as a result of higher TransCo rates for the year coupled by the introduction of fixed monthly connection charges.

Fortunately, the lower transmission costs of the IPPs of an average of P0.66/kwh compared to P1.54/kwh of NPC helped mitigate the rise in overall transmission costs.

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Special Programs

To provide large customers an opportunity to reduce their generation costs, different rate options are being offered under the Customer Choice Program (CCP). These are the hourly NPC TOU Rates and Meralco's Peak and Offpeak rates for commercial and industrial customers having a demand of at least 750kW, an Ecozone Rate for Philippine Economic Zone Authority or PEZA-accredited entities inside High Load (HLF) ecozones and large HLF PEZA-accredited industries outside ecozones, and the One Day Power Sales (ODPS) for self-generating end users. As of end-March 2008, a total of 328 large end users have actively availed of this program providing energy bill savings of as high as 23%.

Another rate option is Meralco's the Bright and Right TOU for residential customers with a monthly consumption of at least 1,000kwh.

Energy Sourcing Mix

Meralco increased its contracted annual quantities from NPC by 1,020 gwh through an "Addendum" to the transition supply contract beginning in the July 2007 supply month. This improved the supply share of NPC by 3.8 percentage points from 28.0% for 2006 to 31.8% for 2007. The year 2007 also exhibited an increase in the NPC special program volumes with the start of the CCP and Ecozone wholesale purchases by Meralco on March and October 2007 supply months, respectively. All these resulted in the downward trend of the WESM share from 20.4% in 2006 to 15.4% in 2007 and then to only 8.9% in the 1st quarter of 2008.

The table below shows the detailed percentage shares of the power suppliers for the said periods.

Energy Sourcing Mix (Percentage Share to total purchases)

Period	NPC			IPPs
	WESM	TSC	Special Programs*	
2006 Average	20.4%	28.0%	2.3%	49.3%
2007 Average	15.4%	31.8%	5.0%	47.7%
1st Qtr 2007 Average	18.8%	25.5%	3.4%	52.2%
Jan-08	8.7%	21.7%	18.4%	51.2%
Feb-08	9.5%	21.2%	16.7%	52.7%
Mar-08	8.4%	24.8%	17.1%	49.7%
1st Qtr 2008 Average	8.9%	22.5%	17.4%	51.2%

*Special Programs include Ecozone Rate, ODPS, etc.

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SYSTEM RELIABILITY

2007

In 2007, Meralco achieved its goals in system reliability and availability and exceeded its target on system loss.

The interruption frequency rate (IFR), a measure of the number of interruptions experienced by the average customer improved from 15.00 times in 2006 to 12.08 times in 2007. The improvement was a result of the intensive line and substation equipment rehabilitation program undertaken by Meralco after the devastation of *Milenyo* in September 2006 and the commissioning of new distribution feeders, which effectively reduced line exposure. In addition, the general weather condition in 2007 was favorable to distribution operations, particularly the marked absence of strong typhoons and rains.

In the same manner, the cumulative interruption time (CIT), a measure of the average duration of the interruption experienced by a customer, improved drastically by 81.2% from 52.58 hours in 2006 to only 9.89 hours in 2007. It should be noted that Meralco's operations in 2006 was affected by strong typhoons such as *Milenyo* and *Reming*. Removing the effect of these typhoons, CIT still showed a remarkable improvement of 23.6%, which was partly attributed to the reduction in the IFR as operating resources were immediately available to restore outages. Meralco's investments in remotely-controlled line switches also facilitated the restoration of power by isolating the faulted portion of the distribution system without the need for crews to be on-site.

1st Quarter 2008

For the 1st quarter of 2008, IFR showed a slight deterioration from 2.44 times in 2007 to 2.59 times while a notable improvement was recorded in CIT from 1.83 hours to 1.35 hours.

SYSTEM LOSS

2007

Meralco's performance towards further improving system loss set a new milestone in 2007. It was in that year when Meralco was able to reduce its system loss to a single-digit level of 9.65%. System loss in 2006 was 10.10%.

This was brought about by the greater emphasis on improving the timing and quality of the work of apprehending crews at the same time continuously working on improving its business process. On top of these, Meralco was also thankful for the support extended by its stakeholders in the fight against electricity pilferage. As a result, the total amount of energy pilferage deterred by these activities increased by an estimated 47% from 2006 levels.

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Most of the apprehensions conducted were triggered by the information provided by concerned citizens through Meralco's website (www.meralco.com.ph), telephone (Kuryente Watch hotline 632-8989), and sometimes directly to the dedicated email address for anti-pilferage reports (stoptheft@meralco.com.ph).

Meralco also signed a Memorandum of Agreement (MOA) in Eliminating Third-Party Accidents and Pilferage of Electricity with the Municipality of Pateros and the cities of Manila and Pasay. Similar MOAs were signed with the cities of Antipolo and Marikina in 2005 and 2006, respectively. Complementing these MOAs, Meralco and the Department of the Interior and Local Government (DILG) jointly launched in December 2007 the *Bantay Kuryente Para sa Kaligtasan ng Mamamayan*, which aims to intensify the campaign against pilferage of electricity and to improve public safety.

1st Quarter 2008

For the 1st quarter of 2008, loss-prevention activities were lined up and implemented ahead of the summer months in order to decongest lines when customer consumptions were expected to increase. As a result, system loss improved by 0.30%age points to 10.79% from 11.09% in 2007. On a 12-Month Moving Average, system loss likewise went down to 9.93% from 10.13% last year.

REGULATORY HIGHLIGHTS

Transition to Performance-Based Regulation (PBR)

On August 31, 2007, the Energy Regulatory Commission (ERC) issued its Final Determination on Meralco's PBR-based application, setting forth the performance incentive scheme and price control arrangements that will apply to the company during the Second Regulatory Period (from July 1, 2007 to June 30, 2011).

The ERC-approved Maximum Annual Prices (MAP) are ₱1.167/kwh, ₱1.260/kwh, ₱1.361/kwh, and ₱1.471/kwh for the regulatory years (RY) 2008, 2009, 2010, and 2011, respectively.

On January 11, 2008, the company filed an application for the approval of the proposed translation of the MAP for RY2008 into different rate schedules for the company's various customer segments.

Hearings on the application ended on March 6, 2008. Meralco submitted its Final Offer of Evidence on March 18, 2008 and the case is deemed submitted for decision.

While awaiting the resolution of the first rate translation application, Meralco on April 1, 2008 filed its second application, for the translation of the MAP for RY2009. Hearings on the second application had been scheduled to begin on April 28, 2008.

Resumption of Automatic Adjustment of Pass-Through Rate Components

Meralco was allowed to resume the monthly automatic updating of generation and system loss charges beginning July 2007, after the ERC lifted the suspension of the Automatic Generation Rate Adjustment (AGRA) mechanism. This prevented the continued accumulation by Meralco of under-recoveries in generation costs.

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It may be recalled that, in its March 2003 decision on Meralco's rate unbundling, the ERC directed Meralco to discontinue implementing the Purchased Power Adjustment clause in its tariffs. Instead, changes in Meralco's generation charge would be covered by the ERC's Generation Rate Adjustment Mechanism, or GRAM rules.

Meralco made three filings under the GRAM rules and, with the replacement of GRAM by an Automatic Generation Rate Adjustment (AGRA) mechanism starting November 2004, Meralco also made a final GRAM filing to account for all generation costs prior to November 2004.

ERC's approval of Meralco's 2nd GRAM filing was questioned before the Supreme Court (SC) by a group of electricity consumers, saying that Meralco and ERC failed to comply with the requirements of Sec. 4(e), Rule 3 of EPIRA's IRR on the publication, notice, and hearing of an application prior to issuance of an order.

The SC ruled that Sec. 4(e), Rule 3 of the EPIRA IRR must be strictly complied with and applied to GRAM. As a result of the SC's ruling, Meralco was directed by ERC to stop collecting from its customers adjustments in the generation charge authorized under an automatic mechanism, such as the AGRA. The implementation of the AGRA was suspended beginning September 2006, so that Meralco could adjust generation charges only after the filing and approval of an application by the ERC.

On June 7, 2007, the Joint Congressional Power Commission approved amendments to Sec. 4(e), Rule 3 of the EPIRA IRR that exempted the adjustment of pass-through electric rate components from the jurisdictional and hearing requirements of the IRR. The amendments were promulgated by the Department of Energy on June 21, 2007.

Under-recoveries in Pass-Through Costs

During the period in which the AGRA mechanism was suspended by the ERC, the Company filed ten separate applications with the ERC for the **full recovery of generation costs totaling P13.97 billion**, including value-added tax (VAT), incurred for the supply months of August 2006 to May 2007.

On January 18, 2008, the ERC issued an Order allowing the company to collect the amount of ₱8.83 billion through a ₱0.1662/kwh charge on its billings to customers. The charge was implemented beginning February 2008 and will continue until the ₱8.83 billion is fully collected.

In the same Order, the ERC directed the company to refund to its customers the amount refunded by Philippine Electric Market Corporation (PEMC) to the company relative to the Net Settlement Surplus (NSS) in order to mitigate the impact of the increase in its generation cost. As of March 17, 2008, NSS represents an estimated ₱2.81 billion. The amount is to be refunded through a ₱0.1614/kwh credit to customers' bills beginning February 2008 and will continue until the ₱2.81 billion is fully refunded.

As of March 17, 2008, a decision on the balance of the company's generation cost under-recoveries is still pending at the ERC.

On September 26, 2007, the company filed an application to recover ₱5.55 billion in **transmission charge under-recoveries** accumulated over the period June 2003 to July 2007, along with a corresponding carrying cost.

The application was brought about by the implementation of the "Guidelines for the Adjustment of Transmission Rates by Distribution Utilities", which did not address the current and accumulated over- or under-recoveries in the collection of the transmission charge. The petition is currently undergoing hearings at the ERC.

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Similarly, on November 14, 2007, Meralco filed a petition for authority to recover ₱1.05 billion of under-recoveries, and a corresponding carrying charge, incurred in implementing the *Inter-Class Cross Subsidy* system.

The ERC concluded hearings on the petition on April 1, 2008. Meralco filed its Formal Offer of Evidence last April 10, 2008 and the case is deemed submitted for the Commission's decision.

Finally, on February 19, 2008, the company filed an application with the ERC for the collection of the under-recoveries incurred in the implementation of the *Lifeline Subsidy system* amounting to ₱864 million, with a corresponding carrying cost. The case is currently undergoing hearings at the ERC.

PARENT ONLY FINANCIAL STATEMENTS

COMPARATIVE STATEMENTS OF INCOME

For the years ended December 31, 2007 and 2006

(Amounts in Million Pesos)

	2007	2006	% Change
REVENUES	195,613	186,075	5.1
EXPENSES (INCOME)			
Purchased power	171,852	160,480	7.1
Operations and maintenance	13,198	10,504	25.6
Interest and other financial charges - net	2,866	4,963	(42.3)
Depreciation and amortization	4,404	4,167	5.7
Interest and other financial income	(1,993)	(2,692)	(26.0)
Foreign exchange losses - net	(215)	1,901	(111.3)
Present value impact on customers' refund	1,096	1,512	(27.5)
CERA II revenues	-	(1,381)	(100.0)
Provision for probable losses on disallowed receivables	(646)	215	(400.5)
Provision for probable losses from tax assessments and legal claims	(328)	452	(172.6)
Taxes other than income tax	143	553	(74.1)
	190,377	180,674	5.4
INCOME BEFORE PROBABLE LOSS	5,236	5,401	(3.1)
Reversal of Probable loss	-	15,725	(100.0)
INCOME BEFORE INCOME TAX	5,236	21,126	(75.2)
Provision for income tax	1,630	7,747	(79.0)
NET INCOME	3,606	13,379	(73.0)

Manila Electric Company
Year End 2007 Financial and Operating Results and
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PARENT ONLY FINANCIAL STATEMENTS
COMPARATIVE STATEMENTS OF INCOME

For the quarter ended March 31, 2008 & 2007
(Amounts in Million Pesos)

	2008	2007	% Change
REVENUES	43,636	48,199	(9.5)
EXPENSES (INCOME)			
Purchased power	37,945	42,724	(11.2)
Operations and maintenance	3,080	2,833	8.7
Interest and other financial charges - net	759	646	17.5
Depreciation and amortization	1,068	1,038	2.9
Interest and other financial income	(353)	(195)	81.0
Foreign exchange losses - net	6	-	100.0
Present value impact on customers' refund	211	274	(23.0)
Provision for probable losses on disallowed receivables	-	51	(100.0)
Taxes other than income tax	44	32	37.5
	42,760	47,402	(9.8)
INCOME BEFORE INCOME TAX	876	797	9.9
Provision for income tax	221	265	(16.7)
NET INCOME	655	532	23.2

Manila Electric Company
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PARENT ONLY FINANCIAL STATEMENTS

COMPARATIVE BALANCE SHEETS			
As of December 31, 2007 and 2006			
(Amounts in Million Pesos)			
	2007	2006	% Change
ASSETS			
Noncurrent Assets			
Utility Plant and others-net	95,101	93,426	1.8
Investments in subsidiaries, associates and joint ventures	1,776	1,443	23.1
Investment properties	902	907	(0.5)
Deferred pass-through fuel costs	4,896	7,063	(30.7)
Other noncurrent assets	25,005	18,550	34.8
Total Noncurrent Assets	127,680	121,389	5.2
Current Assets			
Cash and cash equivalents	4,062	5,866	(30.8)
Trade and other receivables	33,211	32,883	1.0
Inventories	1,491	951	56.8
Other current assets	1,362	3,209	(57.6)
Total Current Assets	40,125	42,909	(6.5)
TOTAL ASSETS	167,805	164,298	2.1

Manila Electric Company
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1Q 2008 Financial and Operating Results – Parent Only



STOCKHOLDERS' EQUITY AND LIABILITIES			
	2007	2006	% Change
Stockholders' Equity	48,803	45,054	8.3
Noncurrent Liabilities			
Interest-bearing loans and other borrowings - net of current portion	13,028	14,142	(7.9)
Deferred income tax liabilities	13,825	14,497	(4.6)
Customers' deposits	21,300	19,132	11.3
Pension Liability	11,290	10,775	4.8
Customers' refund - net of current portion	9,650	9,926	(2.8)
Deferred pass-Through Fuel Costs	692	2,788	(75.2)
Other noncurrent liabilities	1,881	2,242	(16.1)
Total Noncurrent Liabilities	71,666	73,502	(2.5)
Current Liabilities			
Notes payable	10,500	-	100.0
Trade and other payables	28,760	38,963	(26.2)
Interest-bearing loans and other borrowings - current portion	1,513	769	96.7
Customers' refund - current portion	3,120	4,432	(29.6)
Other Current Liabilities	3,443	1,578	118.2
Total Current Liabilities	47,336	45,742	3.5
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	167,805	164,298	2.1

Manila Electric Company
Year End 2007 Financial and Operating Results and
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PARENT ONLY FINANCIAL STATEMENTS

COMPARATIVE BALANCE SHEETS			
As of March 31, 2008 & 2007			
(Amounts in Million Pesos)			
	2008	2007	% Change
ASSETS			
Noncurrent Assets			
Utility Plant and others-net	94,975	93,796	1.3
Investments in subsidiaries, associates and joint ventures	1,941	1,505	28.9
Investment properties	901	906	(0.5)
Deferred pass-through fuel costs	4,953	6,954	(28.8)
Other noncurrent assets	26,138	20,758	25.9
Total Noncurrent Assets	128,907	123,919	4.0
Current Assets			
Cash and cash equivalents	3,525	3,793	(7.1)
Trade and other receivables	33,490	32,589	2.8
Inventories	1,484	964	53.9
Other current assets	1,589	1,800	(11.7)
Total Current Assets	40,088	39,147	2.4
TOTAL ASSETS	168,996	163,066	3.6

Manila Electric Company
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1Q 2008 Financial and Operating Results – Parent Only



STOCKHOLDERS' EQUITY AND LIABILITIES			
	2007	2006	% Change
Stockholders' Equity	49,487	45,585	8.6
Noncurrent Liabilities			
Interest-bearing loans and other borrowings - net of current portion	12,795	13,887	(7.9)
Deferred income tax liabilities	13,540	14,250	(5.0)
Customers' deposits	21,824	19,665	11.0
Pension Liability	11,682	11,279	3.6
Customers' refund - net of current portion	9,408	10,195	(7.7)
Deferred pass-Through Fuel Costs	698	2,746	(74.6)
Other noncurrent liabilities	1,878	2,200	(14.7)
Total Noncurrent Liabilities	71,825	74,222	(3.2)
Current Liabilities			
Notes payable	10,250	2,000	412.5
Trade and other payables	28,781	31,539	(8.7)
Interest-bearing loans and other borrowings - current portion	1,498	1,013	47.9
Customers' refund - current portion	2,917	3,800	(23.2)
Other Current Liabilities	4,238	4,907	(13.6)
Total Current Liabilities	47,684	43,259	10.2
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	168,996	163,066	3.6

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PARENT ONLY FINANCIAL STATEMENTS

COMPARATIVE CASH FLOW STATEMENTS

For the years ended December 31, 2007 and 2006

(Amounts in Million Pesos)

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

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PARENT ONLY FINANCIAL STATEMENTS

COMPARATIVE CASH FLOW STATEMENTS

For the quarter ended March 31, 2008 & 2007

(Amounts in Million Pesos)

	2008	2007	% change
CASH BALANCE, BEGINNING	4,062	5,866	(30.8)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income before working capital changes	2,853	3,994	(28.6)
Increase (decrease) in other assets and liabilities	929	(2,076)	144.8
Interest and taxes paid	(1,693)	(1,449)	16.8
Net Cash from Operations	2,089	469	345.9
CASH FLOWS FROM INVESTING ACTIVITIES			
CAPEX	(952)	(1,295)	(26.4)
Others	(1,091)	(2,758)	(60.5)
Net Cash from Investing Activities	(2,043)	(4,053)	(49.6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of debt & customer refunds	(5,087)	(251)	1923.7
Proceeds from debt & issuance and subscriptions to common stocks	4,000	2,250	77.8
Increase (decrease) in other assets and liabilities	524	(474)	210.7
Redemption of preferred stock	(21)	(13)	54.3
Net Cash from Operations	(583)	1,511	(138.6)
CASH BALANCE, END	3,525	3,793	(7.1)

For further questions:
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