



MANILA ELECTRIC COMPANY



PSE: MER

UNIVERSITY OF THE
PHILIPPINES

MANILA ELECTRIC COMPANY

**LARGEST
POWER
DISTRIBUTION COMPANY**

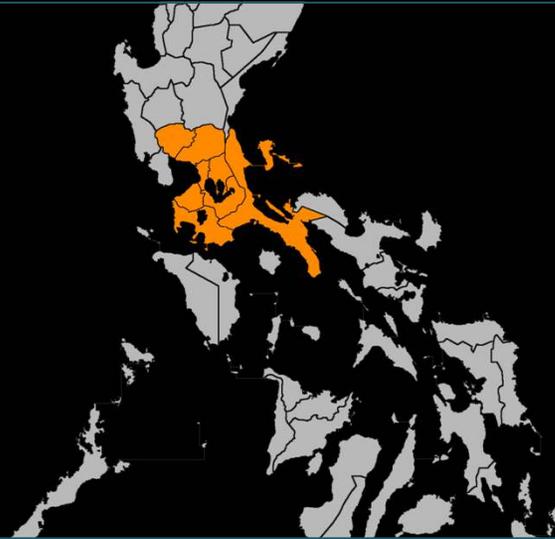


55%
*of PHL Retail
Energy Sales*



MANILA ELECTRIC COMPANY

**LARGEST
POWER
DISTRIBUTION COMPANY**



55%
*of PHL Retail
Energy Sales*



46%
OF PHL GDP

**PRODUCED IN
MERALCO'S
FRANCHISE AREA**

INVESTMENT HIGHLIGHTS

PHP 397.40

ONE-YEAR TARGET PRICE

43%

UPSIDE

PHP 278.00

29 NOVEMBER '13 PRICE

BUY

RECOMMENDATION



*Highly Defensive Core
Distribution Business*



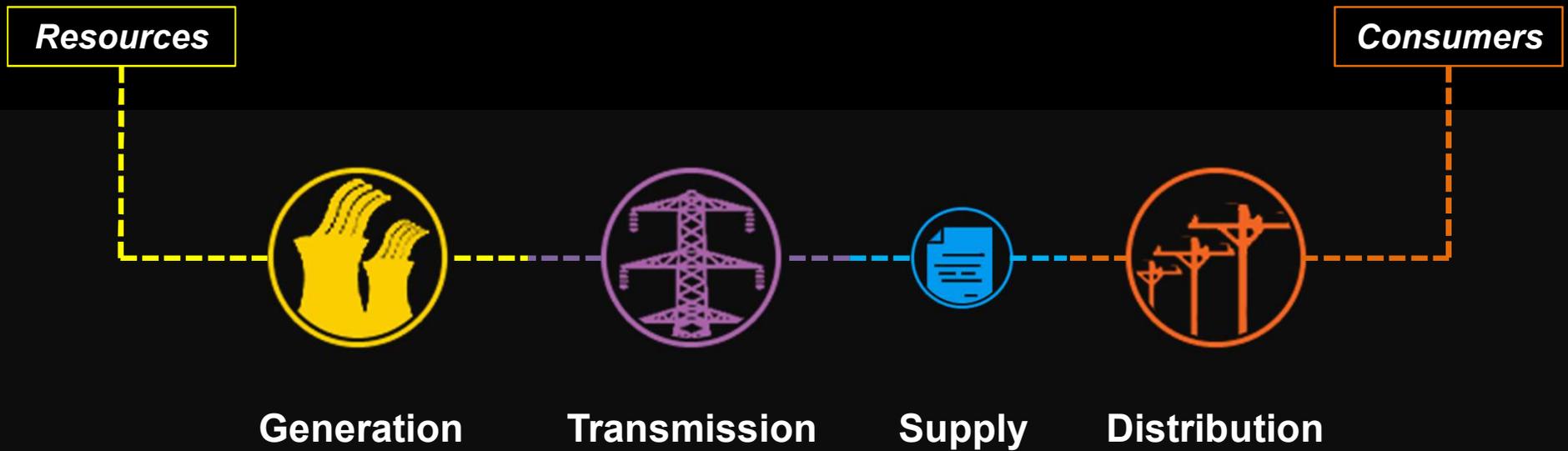
*Promising Investments in
Power Generation*



*Solid Company
Financials*

PHILIPPINE POWER INDUSTRY

EPIRA ELECTRIC POWER INDUSTRY REFORM ACT



PHILIPPINE POWER INDUSTRY

EPIRA ELECTRIC POWER INDUSTRY REFORM ACT



Generation



Transmission



Supply



Distribution

OPEN AND COMPETITIVE

PHILIPPINE POWER INDUSTRY

EPIRA ELECTRIC POWER INDUSTRY REFORM ACT



Generation



Transmission



Supply



Distribution

**REGULATED AND AWARDED THROUGH
CONGRESSIONAL FRANCHISE**

PHILIPPINE POWER INDUSTRY

EPIRA ELECTRIC POWER INDUSTRY REFORM ACT



Generation



Transmission



Supply



Distribution

NOT ALLOWED TO ENGAGE IN
OTHER SECTORS OF THE **POWER INDUSTRY**

PHILIPPINE POWER INDUSTRY

EPIRA ELECTRIC POWER INDUSTRY REFORM ACT



Generation



Transmission



Supply



Distribution

ALLOWED TO ENGAGE IN
SUPPLY AND POWER GENERATION

PHILIPPINE POWER INDUSTRY

EPIRA ELECTRIC POWER INDUSTRY REFORM ACT



Generation



Transmission



Supply



Distribution

MERALCO'S CORE BUSINESS

Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

Solid Company
Financials

Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



HIGHLY DEFENSIVE BUSINESS

DISTRIBUTION WHEELING REVENUE

VOLUME

Virtual monopoly in Metro Manila and parts of Luzon



Source: Meralco 2012 Annual Report

PRICE

Maximum Average Price (MAP) via Performance-Based Regulation (PBR)

- ✓ Recovery of capital expenditures
- ✓ Recovery of operating expenses
- ✓ Return on capital
- ✓ Adjusted annually for inflation and foreign currency fluctuation

Source: Rules for Setting Distribution Wheeling Rates, 2006

Highly Defensive Core
Distribution Business

Promising Investments in
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Financials

Risk Reward Analysis

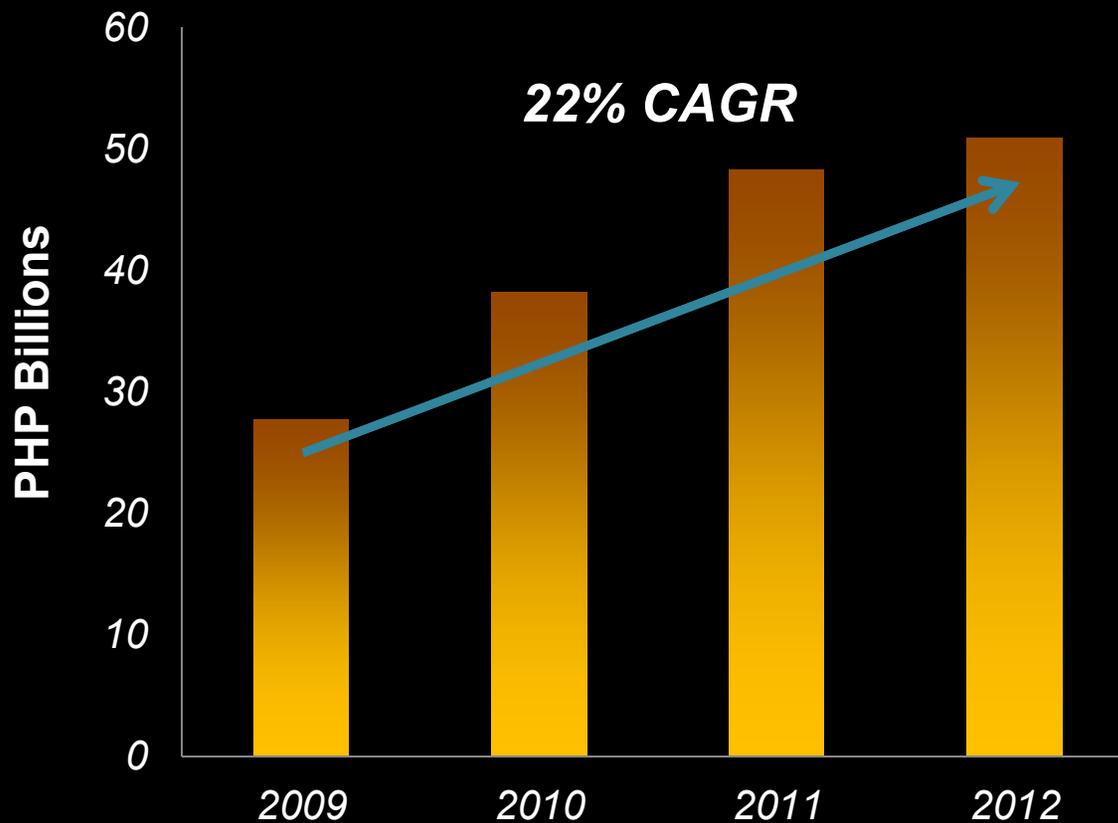
CORE DISTRIBUTION BUSINESS



STRONG OPERATING RESULTS

**Solid Topline
Growth**

Distribution Wheeling Revenue



Source: Company data

Highly Defensive Core
Distribution Business

Promising Investments in
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CORE DISTRIBUTION BUSINESS

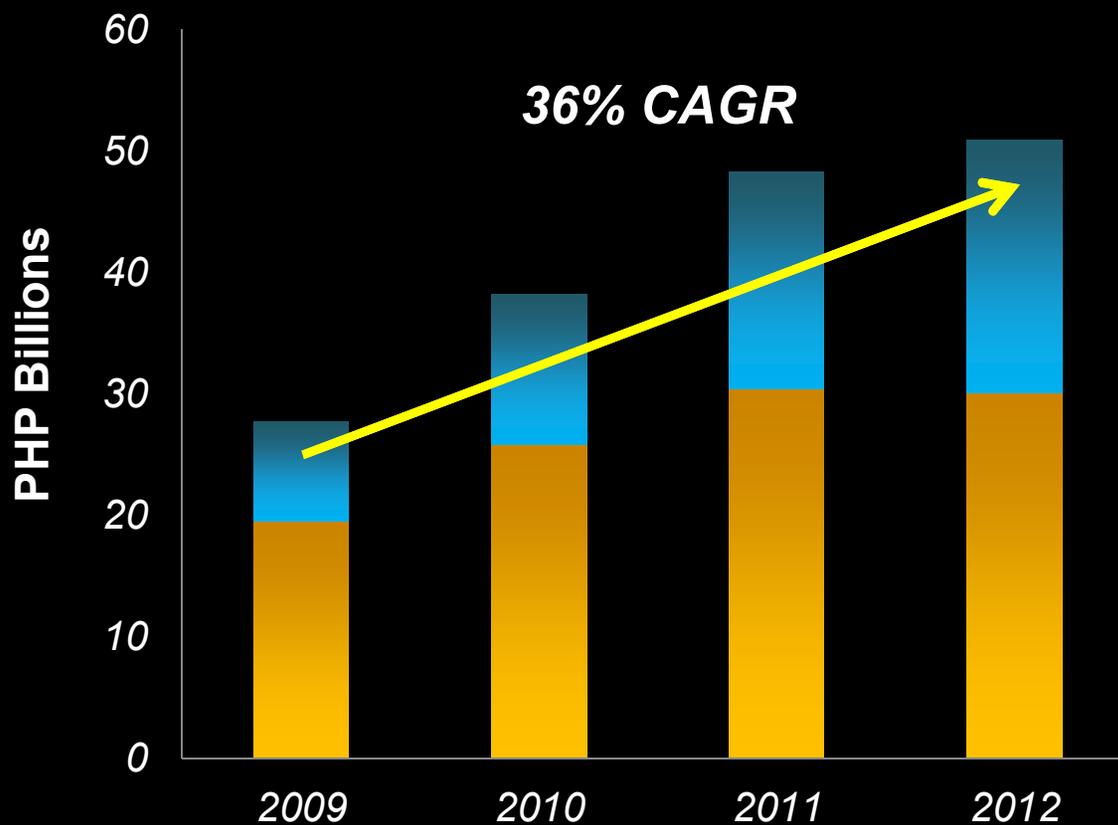


STRONG OPERATING RESULTS

Solid Topline Growth

Growing Profitability and Cash Flows

Operating Income



Source: Company data

Highly Defensive Core Distribution Business

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Risk Reward Analysis

CORE DISTRIBUTION BUSINESS

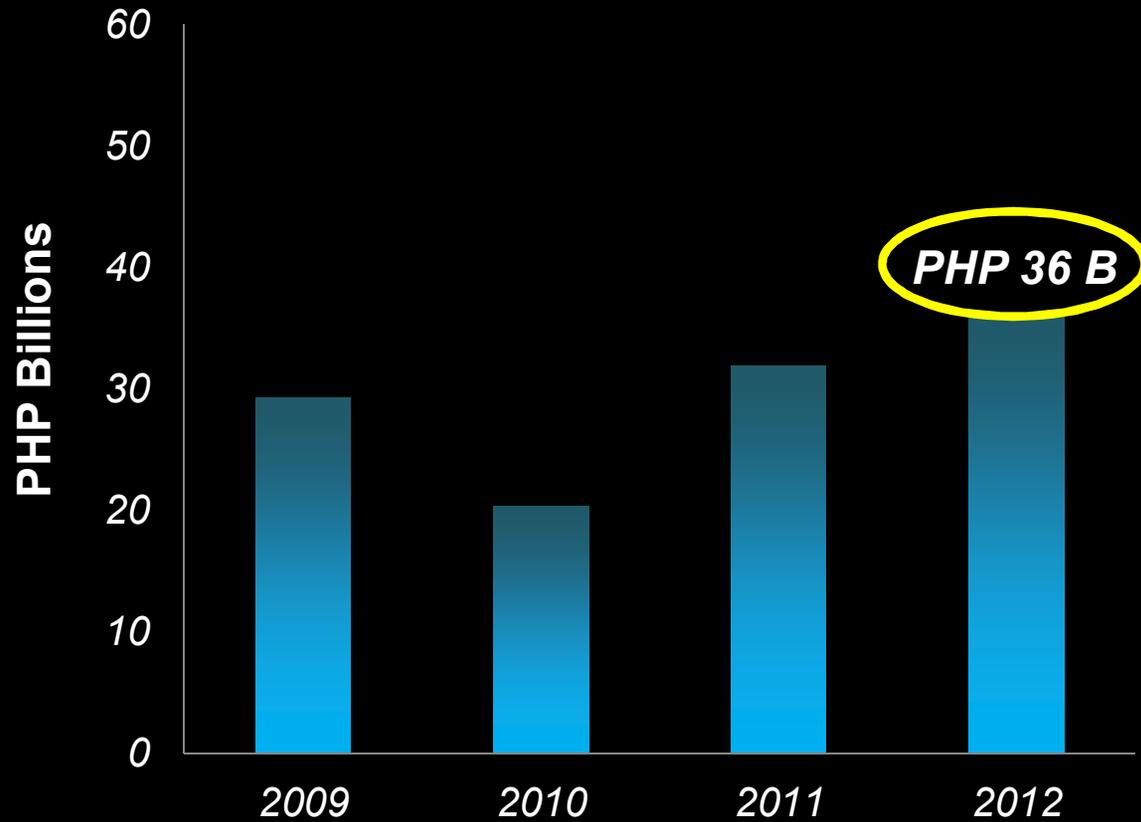


STRONG OPERATING RESULTS

Operating Cash Flows

Solid Topline Growth

Growing Profitability and Cash Flows



Source: Company data

Highly Defensive Core Distribution Business

Promising Investments in Power Generation

Solid Company Financials

Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



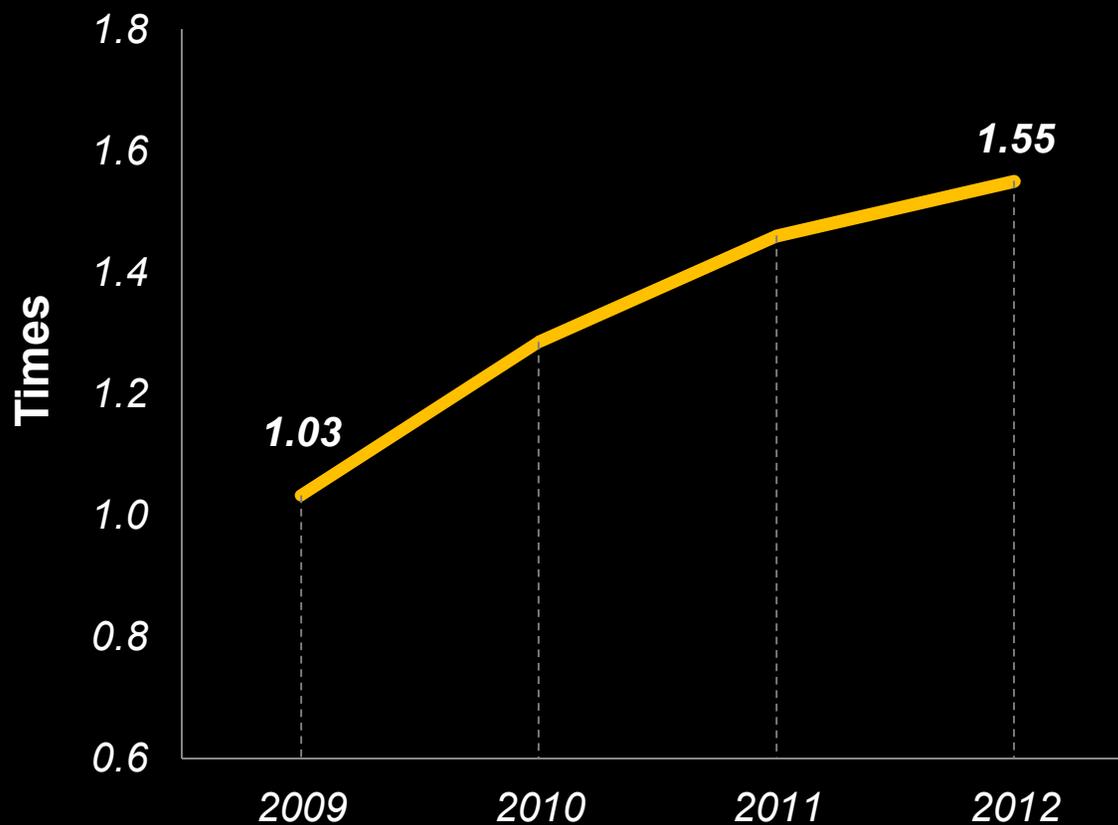
STRONG OPERATING RESULTS

Solid Topline Growth

Growing Profitability and Cash Flows

Improving Liquidity

Current Ratio



Highly Defensive Core Distribution Business

Promising Investments in Power Generation

Solid Company Financials

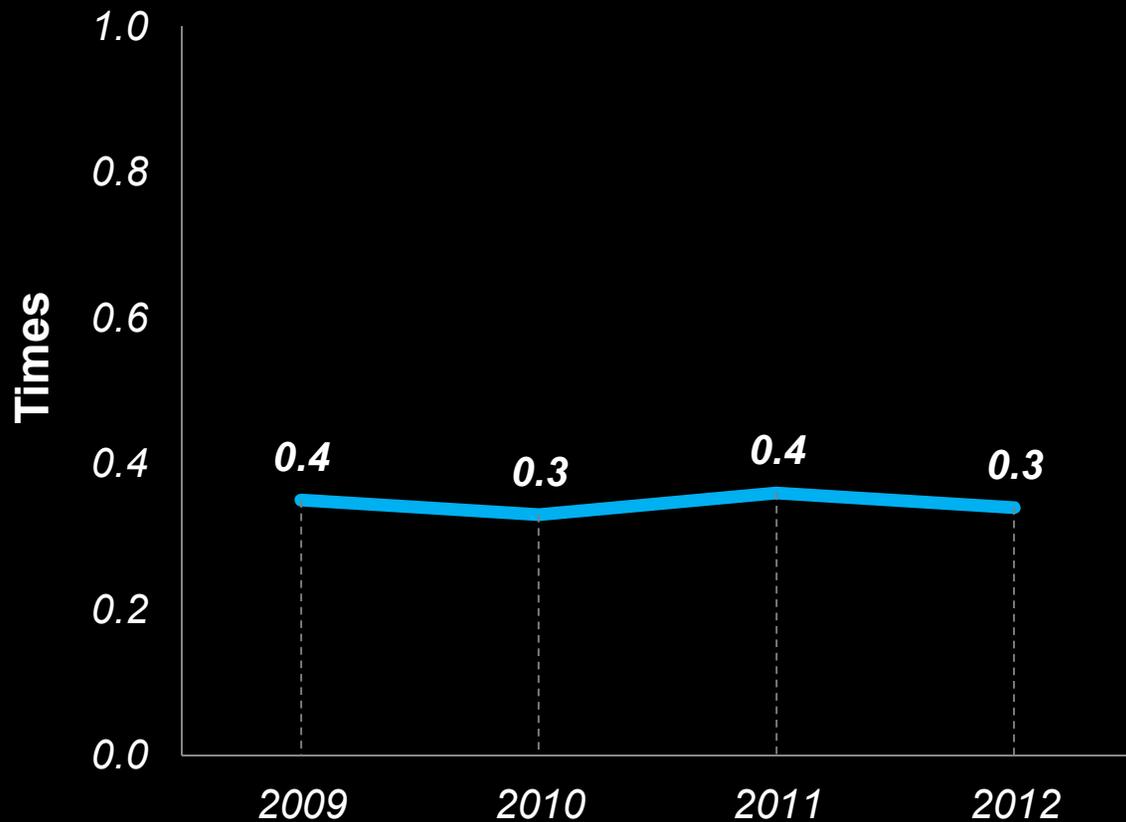
Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



STRONG OPERATING RESULTS

Debt to Equity Ratio



Solid Topline Growth

Growing Profitability and Cash Flows

Improving Liquidity

Low Reliance On Debt

Highly Defensive Core Distribution Business

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Solid Company Financials

Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



STRONG OPERATING RESULTS

*Solid Topline
Growth*

*Growing Profitability
and Cash Flows*

*Improving
Liquidity*

*Low Reliance
On Debt*

FLEXIBILITY
TO FINANCE **GROWTH**

Highly Defensive Core
Distribution Business

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Risk Reward Analysis

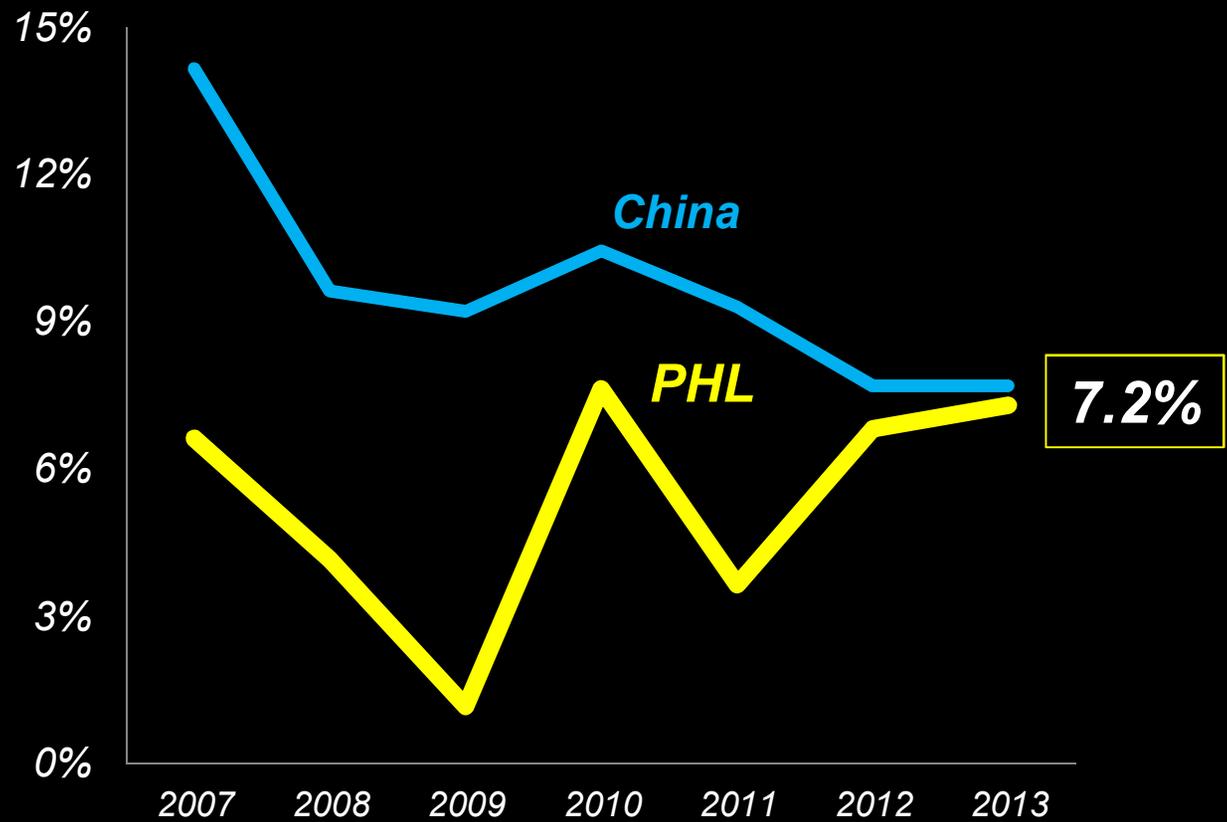
CORE DISTRIBUTION BUSINESS



POSITIVE OUTLOOK IN CORE DISTRIBUTION

Continuing Trend for
GDP Growth

GDP Growth



Source: World Bank

Highly Defensive Core
Distribution Business

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CORE DISTRIBUTION BUSINESS

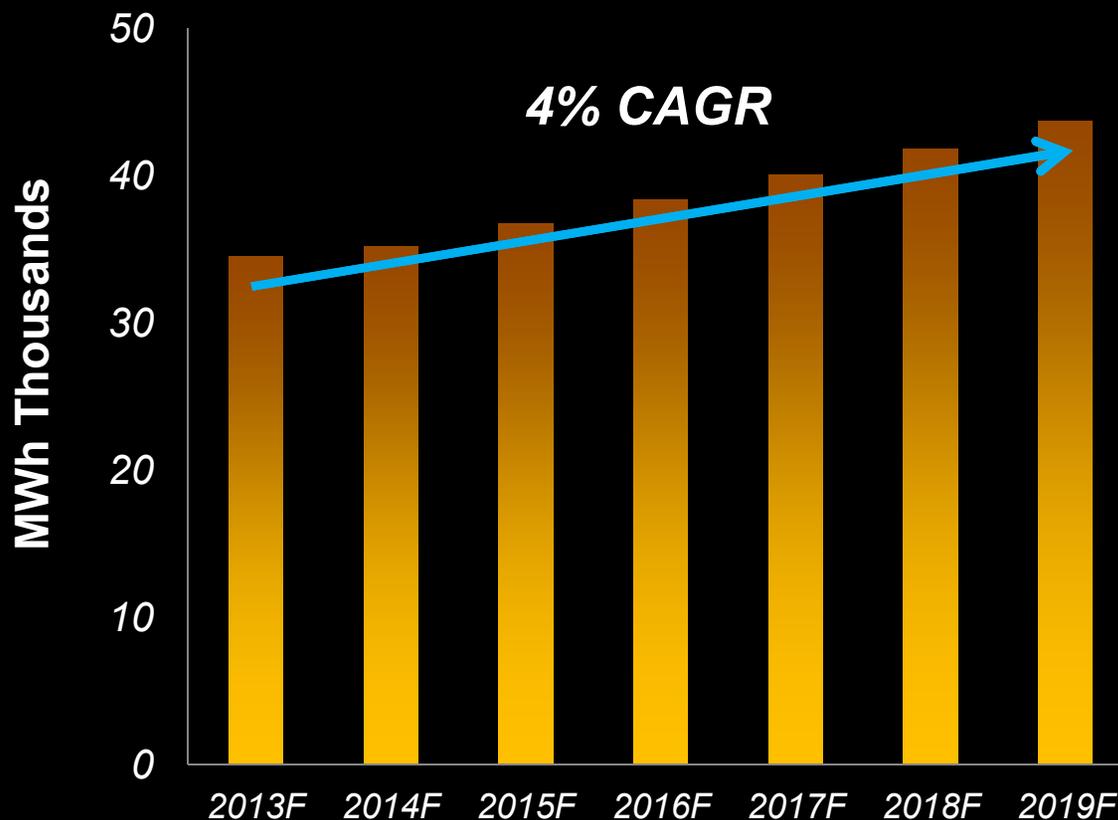


POSITIVE OUTLOOK IN CORE DISTRIBUTION

Continuing Trend for
GDP Growth

Increasing Energy
Sales Volume

Energy Sales Volume



Highly Defensive Core
Distribution Business

Promising Investments in
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Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



POSITIVE OUTLOOK IN CORE DISTRIBUTION

*Continuing Trend for
GDP Growth*

*Increasing Energy
Sales Volume*

*Tariff Rates: MAP
Forecast*

4th Regulatory Period



Highly Defensive Core
Distribution Business

Promising Investments in
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Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



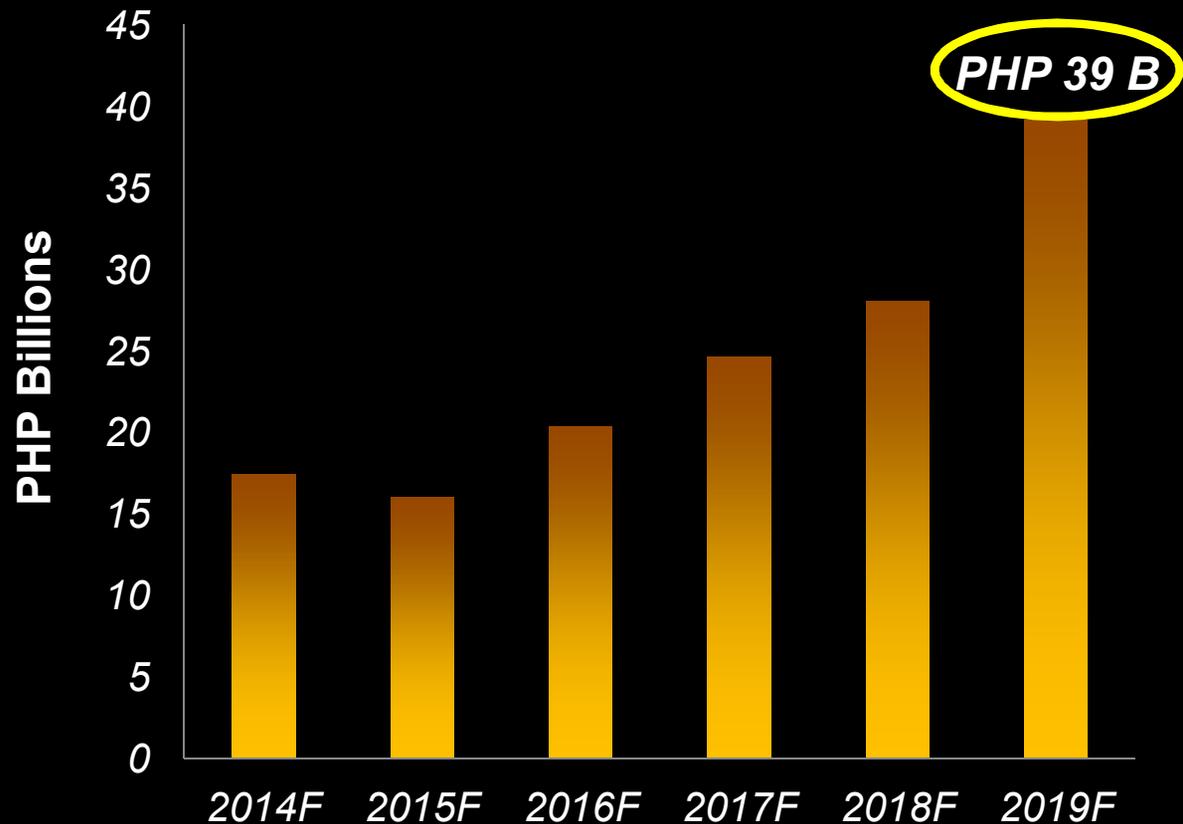
POSITIVE OUTLOOK IN CORE DISTRIBUTION

Operating Cash Flows

Continuing Trend for
GDP Growth

Increasing Energy
Sales Volume

Tariff Rates: MAP
Forecast



Highly Defensive Core
Distribution Business

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Risk Reward Analysis

CORE DISTRIBUTION BUSINESS



HIGHLY DEFENSIVE BUSINESS

STRONG OPERATING CASH FLOWS

POSITIVE OUTLOOK IN CORE DISTRIBUTION

Discounted Free Cash Flow
WACC of 10.8%



PHP 299.20
ONE-YEAR TARGET PRICE
Core Distribution Business

Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

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Financials

Risk Reward Analysis

PHILIPPINE POWER INDUSTRY



Generation



Transmission



Supply



Distribution

MERALCO'S CORE BUSINESS

Highly Defensive Core
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PHILIPPINE POWER INDUSTRY



Generation



Transmission



Supply



Distribution

**TO STRENGTHEN THE
CORE DISTRIBUTION**

Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

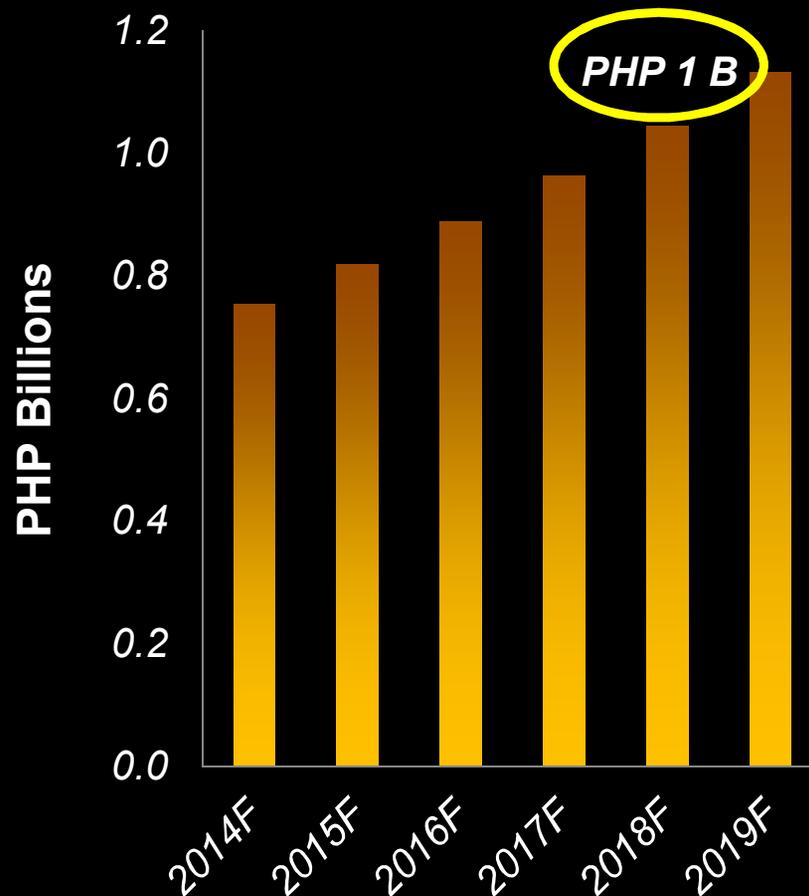
Solid Company
Financials

Risk Reward Analysis



STRENGTHENING THE CORE DISTRIBUTION

Retail Profits



PHP 299.20

ONE-YEAR TARGET PRICE

Core Distribution Business

Highly Defensive Core
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Power Generation

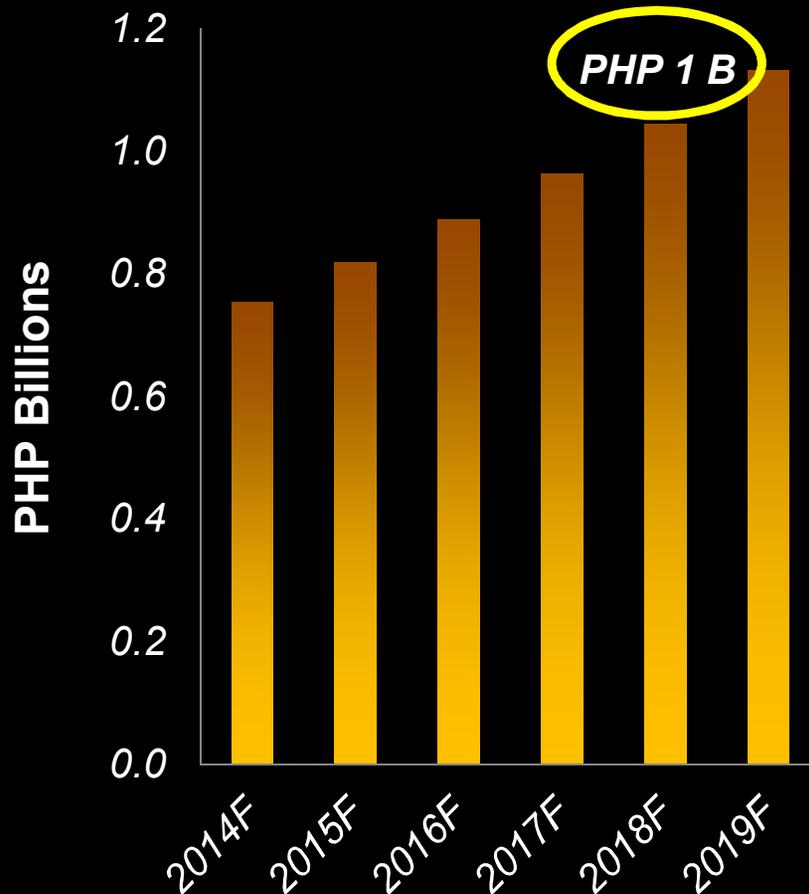
Solid Company
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Risk Reward Analysis



STRENGTHENING THE CORE DISTRIBUTION

Retail Profits



PHP 299.20

ONE-YEAR TARGET PRICE
Core Distribution Business

PHP 7.80

ONE-YEAR TARGET PRICE
Retail Business

Highly Defensive Core
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Promising Investments in
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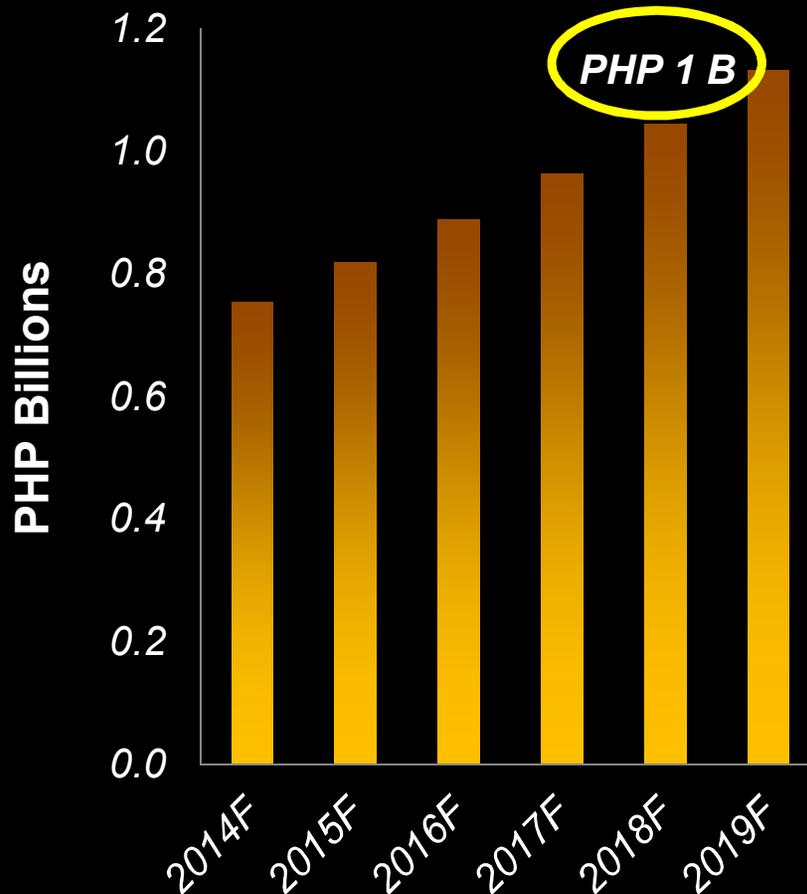
Solid Company
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STRENGTHENING THE CORE DISTRIBUTION

Retail Profits



PHP 299.20

ONE-YEAR TARGET PRICE
Core Distribution Business

PHP 7.80

ONE-YEAR TARGET PRICE
Retail Business

PHP 307.00

ONE-YEAR TARGET PRICE
Distribution Business

Highly Defensive Core
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Generation



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Supply



Distribution

PHP 307.00

ONE-YEAR TARGET PRICE

Distribution Business

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PHILIPPINE POWER INDUSTRY



Generation



Transmission



Supply



Distribution

OPPORTUNITIES

- ✓ *Meet market demand*
- ✓ *Minimize supplier dependence*
- ✓ *Enhance growth and profitability*

PHP 307.00

ONE-YEAR TARGET PRICE

Distribution Business

Highly Defensive Core
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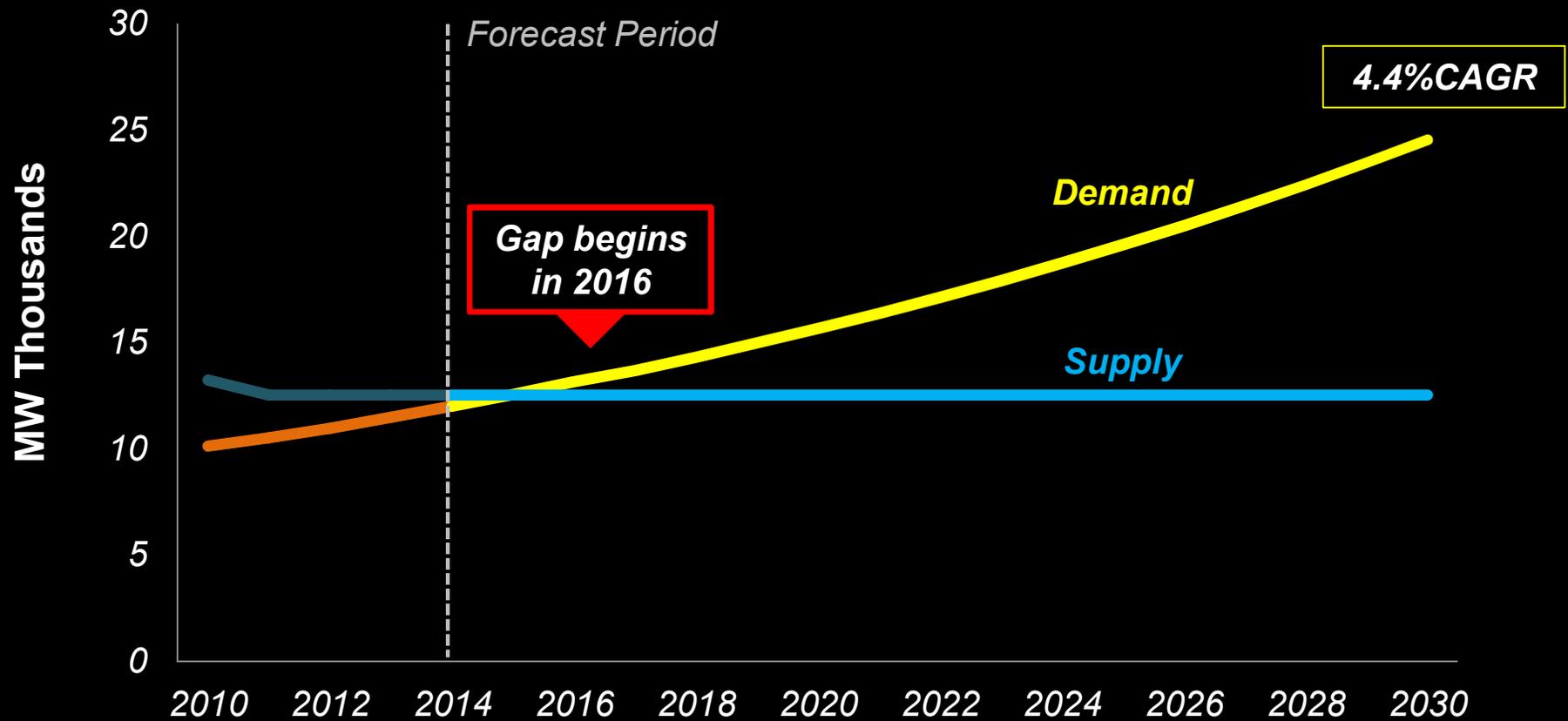
Risk Reward Analysis

GENERATION BUSINESS



LOOMING POWER DEMAND-SUPPLY GAP

Power Demand-Supply Forecast



Source: Department of Energy Power Development Plan, last updated 2012

Highly Defensive Core
Distribution Business

Promising Investments in
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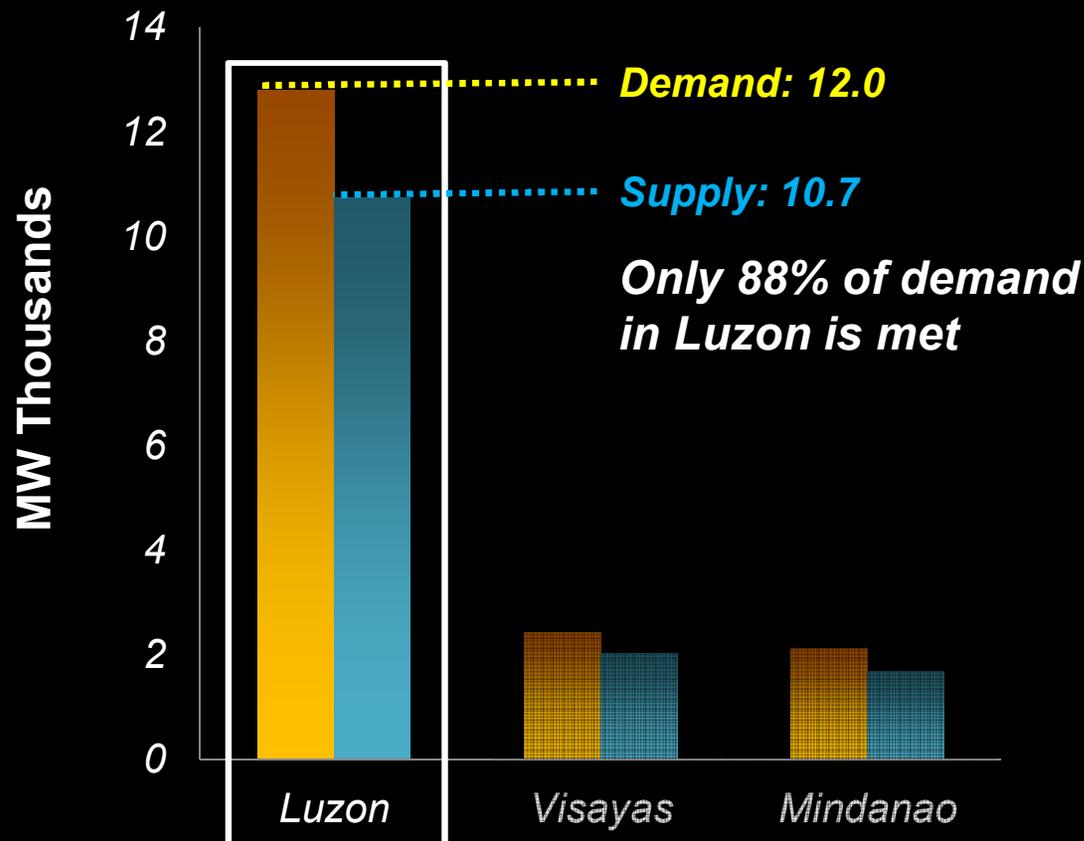
Risk Reward Analysis

GENERATION BUSINESS



LOOMING POWER DEMAND-SUPPLY GAP

2019 Power Supply-Demand Gap



Source: Department of Energy Power Development Plan, last updated 2013

Highly Defensive Core
Distribution Business

Promising Investments in
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Risk Reward Analysis

GENERATION BUSINESS



TIMELY ENTRY INTO POWER GENERATION

MGEN

Wholly-Owned Subsidiary

3000 MW

In Luzon by 2020

Redondo Peninsula Energy (RP)

600 MW, Coal, 47% interest
To operate in 2018
Redondo Peninsula

Quezon Power 2 (QP2)

460 MW, Coal, 49% interest
To operate in 2017
Quezon Province

Source: Meralco's 3Q 2013 Open-Door Presentation



Highly Defensive Core
Distribution Business

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Risk Reward Analysis

GENERATION BUSINESS



TIMELY ENTRY INTO POWER GENERATION

MGEN

Wholly-Owned Subsidiary

PHP 760 M

2014 Income Contribution

Global Bus. Power Corp. (GBP)

665 MW, Coal/Diesel, 20% interest
Currently Operational
Visayan Provinces

Pacific Light Power (PLP)

800 MW, LNG, 28% interest
Currently Operational
Singapore

Source: Meralco's 3Q 2013 Open-Door Presentation

Singapore

Visayas

Highly Defensive Core
Distribution Business

Promising Investments in
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Financials

Risk Reward Analysis

GENERATION BUSINESS



PROMISING RETURNS

	<i>2019F Profit Margin</i>	<i>2019F ROE</i>
<i>Global Business Power Corp.</i>	<i>22%</i>	<i>19%</i>
<i>Quezon Power 2</i>	<i>19%</i>	<i>20%</i>
<i>Redondo Peninsula Energy</i>	<i>22%</i>	<i>26%</i>

Highly Defensive Core
Distribution Business

Promising Investments in
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Financials

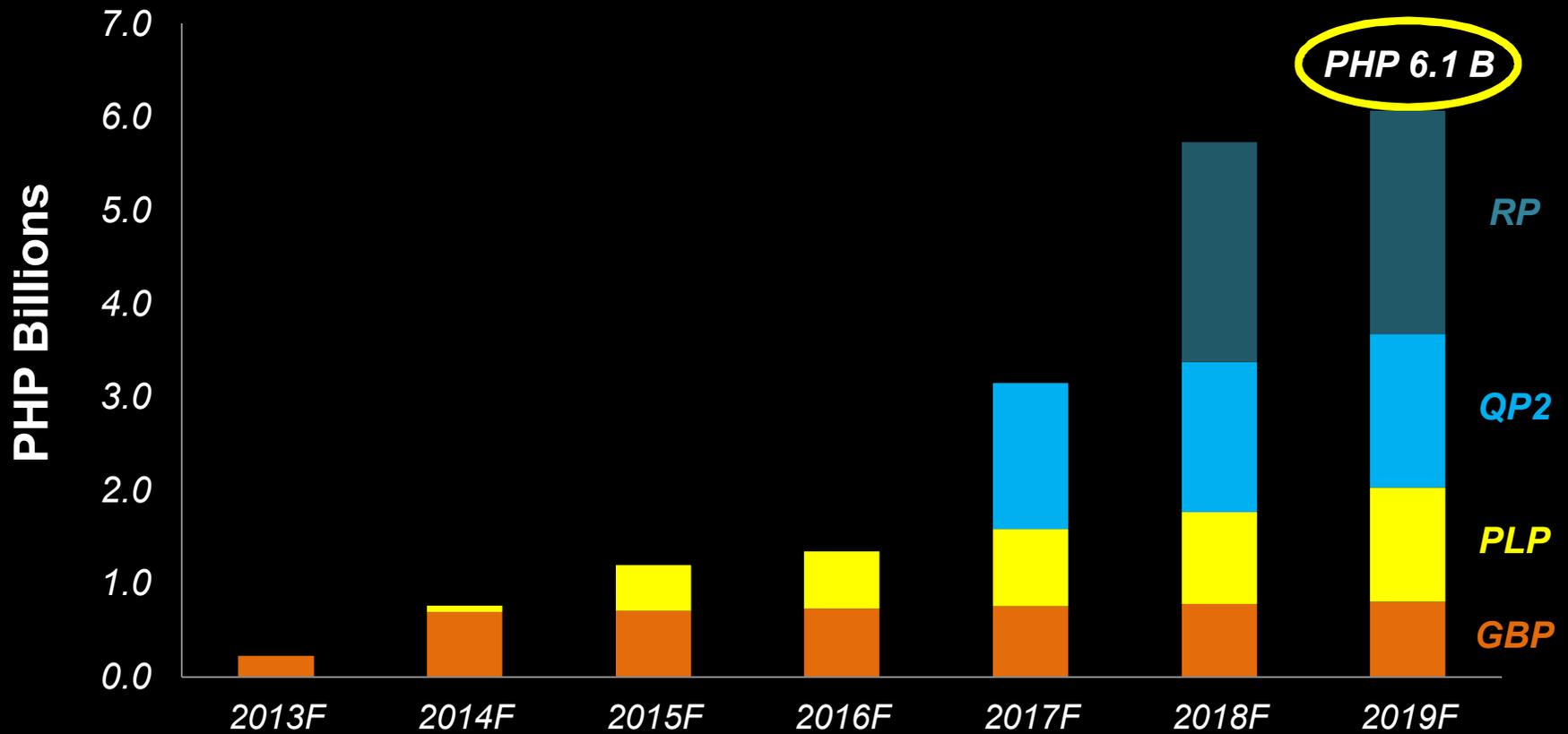
Risk Reward Analysis

GENERATION BUSINESS



PROMISING RETURNS

Income Contribution by Power Company



Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

Solid Company
Financials

Risk Reward Analysis

GENERATION BUSINESS



LOOMING POWER DEMAND-SUPPLY GAP

TIMELY ENTRY INTO POWER GENERATION

PROMISING RETURNS

<i>Power Company</i>	<i>Value Contribution</i>
<i>RP</i>	<i>PHP 37.20</i>
<i>QP2</i>	<i>PHP 21.00</i>
<i>GBP</i>	<i>PHP 8.40</i>
<i>PLP</i>	<i>PHP 23.80</i>

PHP 90.40

ONE-YEAR TARGET PRICE
Generation Business

Singapore

Philippines

Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

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Financials

Risk Reward Analysis

PHILIPPINE POWER INDUSTRY



Generation



Transmission



Supply



Distribution

PHP 90.40

ONE-YEAR TARGET PRICE
Generation Business

PHP 307.00

ONE-YEAR TARGET PRICE
Distribution Business

Highly Defensive Core
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Financials

Risk Reward Analysis

MERALCO CONSOLIDATED



STRONG PROJECTED PERFORMANCE

	2013F	2019F
<i>Consolidated Profits</i>	<i>PHP 22 B</i>	<i>PHP 29 B</i>
<i>Operating Cash Flows</i>	<i>PHP 27 B</i>	<i>PHP 43 B</i>
<i>Debt to Equity</i>	<i>0.3x</i>	<i>0.5x</i>
<i>Current Ratio</i>	<i>1.65x</i>	<i>2.17x</i>

Highly Defensive Core
Distribution Business

Promising Investments in
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Risk Reward Analysis

PHILIPPINE POWER INDUSTRY



Generation



Transmission



Supply



Distribution

**POISED TO TAKE ADVANTAGE
OF THE OPPORTUNITIES**

Highly Defensive Core
Distribution Business

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Financials

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PHILIPPINE POWER INDUSTRY



Generation



Transmission



Supply



Distribution

PHP 90.40

ONE-YEAR TARGET PRICE

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PHP 307.00

ONE-YEAR TARGET PRICE

Distribution Business

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Distribution

PHP 90.40

ONE-YEAR TARGET PRICE

Generation Business

PHP 307.00

ONE-YEAR TARGET PRICE

Distribution Business

PHP 397.40

ONE-YEAR TARGET PRICE

Meralco Consolidated

43%

UPSIDE

BUY

RECOMMENDATION

Highly Defensive Core
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Promising Investments in
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Risk Reward Analysis

RELATIVE VALUATION ANALYSIS



REINFORCING OUR RECOMMENDATION

	<i>P/E</i>	<i>PEG</i>	<i>EV/EBITDA</i>
<i>Spark Infra. (AUS)</i>	16.3	0.29x	10.1
<i>SP AusNet (AUS)</i>	22.3	4.95x	9.6
<i>CLP Holdings (HK)</i>	17.7	NMF	11.3
<i>Power Assets (HK)</i>	12.8	2.62x	18.6

Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

Solid Company
Financials

Risk Reward Analysis

RELATIVE VALUATION ANALYSIS



REINFORCING OUR RECOMMENDATION

	<i>P/E</i>	<i>PEG</i>	<i>EV/EBITDA</i>	<i>Div. Yield</i>
<i>Spark Infra. (AUS)</i>	16.3	0.29x	10.1	6.47%
<i>SP AusNet (AUS)</i>	22.3	4.95x	9.6	6.34%
<i>CLP Holdings (HK)</i>	17.7	NMF	11.3	4.21%
<i>Power Assets (HK)</i>	12.8	2.62x	18.6	4.17%
Average	17.3	2.62x	12.4	5.30%
Meralco	16.3	0.74x	8.1	4.07%

Source: Thomson Reuters

MERALCO TRADING AT A DISCOUNT

Highly Defensive Core
Distribution Business

Promising Investments in
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Financials

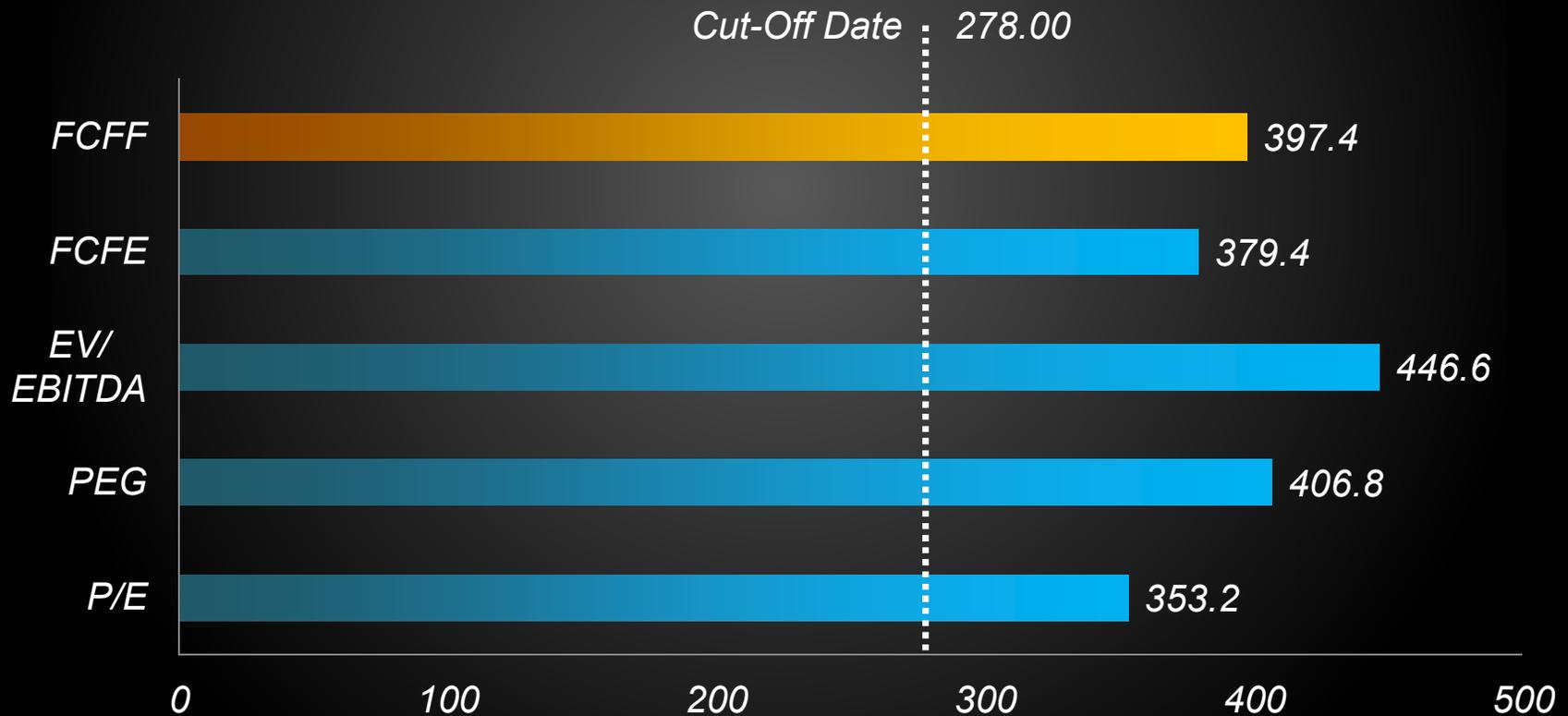
Risk Reward Analysis

ALTERNATIVE VALUATION TECHNIQUES



REINFORCING OUR RECOMMENDATION

Computed Target Prices *Meralco Share Price (PHP)*



Highly Defensive Core
Distribution Business

Promising Investments in
Power Generation

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Financials

Risk Reward Analysis

RISK REWARD ANALYSIS



Highly Defensive Core Distribution Business

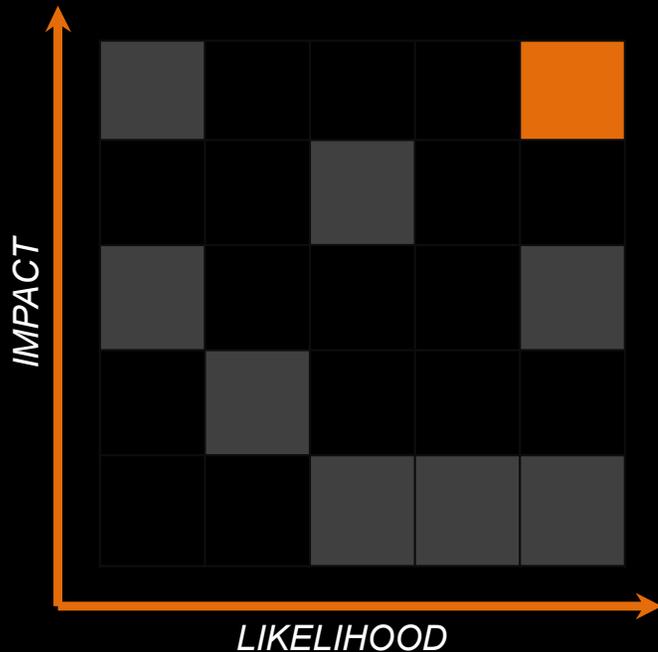
Promising Investments in Power Generation

Solid Company Financials

Risk Reward Analysis

RISK REWARD ANALYSIS

STRINGENT REGULATIONS



REGULATORY RISK

RISK

More stringent rate restrictions \square lower MAP leading to decreasing returns

MITIGATING FACTORS

Continuing consultation with the ERC
 Educating customers through public advisory

STRESS TEST

Maximum Average Price (PHP/kWh)



Highly Defensive Core Distribution Business

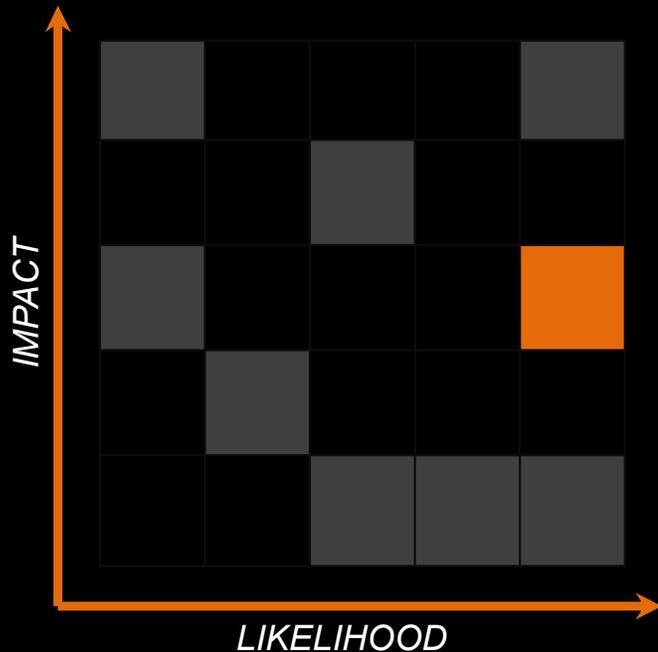
Promising Investments in Power Generation

Solid Company Financials

Risk Reward Analysis

RISK REWARD ANALYSIS

COMMISSIONING DELAY



LEGAL RISK

RISK

Environmental-related litigation of RP could result in a delay of plant commissioning

MITIGATING FACTORS

Investing in environment-friendly technology and full compliance with requirements

STRESS TEST

Exclusion of RP's Value



Highly Defensive Core Distribution Business

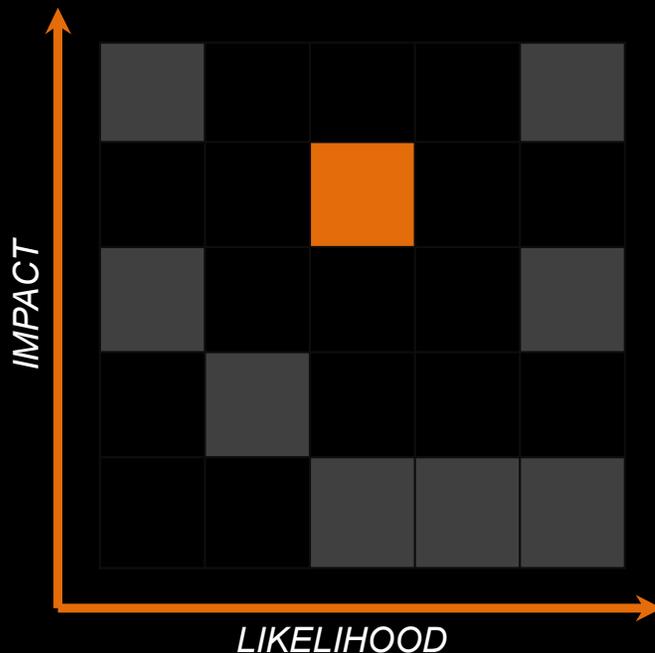
Promising Investments in Power Generation

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Risk Reward Analysis

RISK REWARD ANALYSIS

FUEL SUPPLY SHORTAGE



OPERATIONAL RISK

RISK

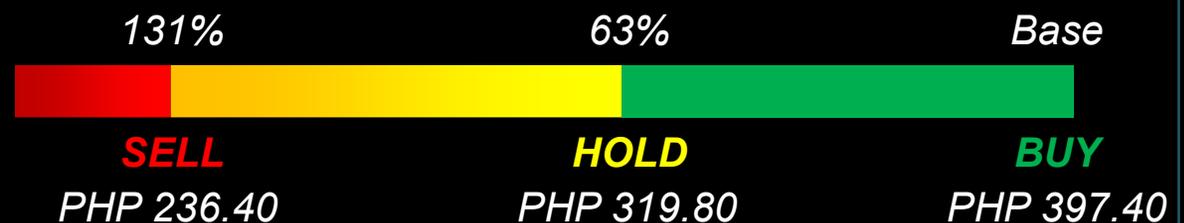
Sourcing coal at prices higher than expected

MITIGATING FACTORS

*Maintaining a 3-month supply of inventory
Engaging in long-term contracts with suppliers*

STRESS TEST

Percentage Increase in the Price of Coal



Highly Defensive Core
Distribution Business

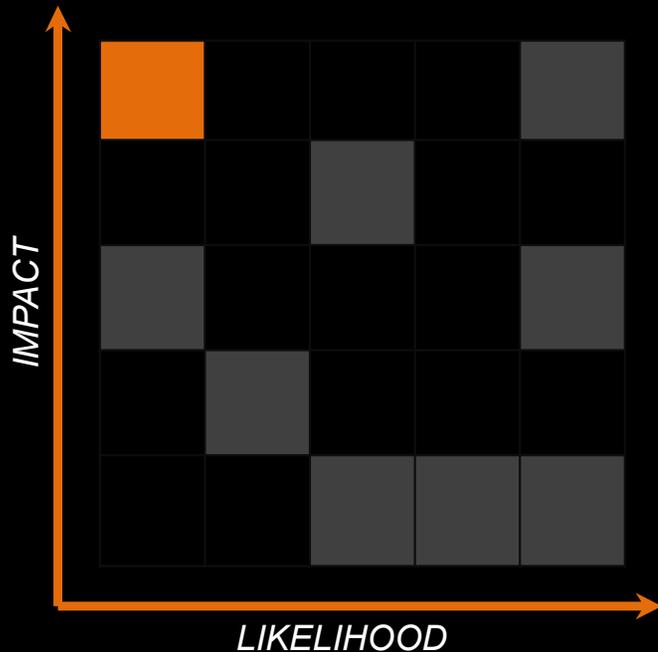
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Power Generation

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Risk Reward Analysis

RISK REWARD ANALYSIS

FRANCHISE NON-RENEWAL



REGULATORY RISK

RISK

Franchise to expire by 2028

MITIGATING FACTORS

Meralco has been the sole distributor in its area since 1903

STRESS TEST

Franchise Non-Renewal

Non-Renewal

Base



HOLD

BUY

PHP 301.20

PHP 397.40

Highly Defensive Core
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INVESTMENT HIGHLIGHTS

PHP 397.40

ONE-YEAR TARGET PRICE

43%

UPSIDE

PHP 278.00

29 NOVEMBER '13 PRICE

BUY

RECOMMENDATION



*Highly Defensive Core
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MANILA ELECTRIC COMPANY



PSE: **MER**

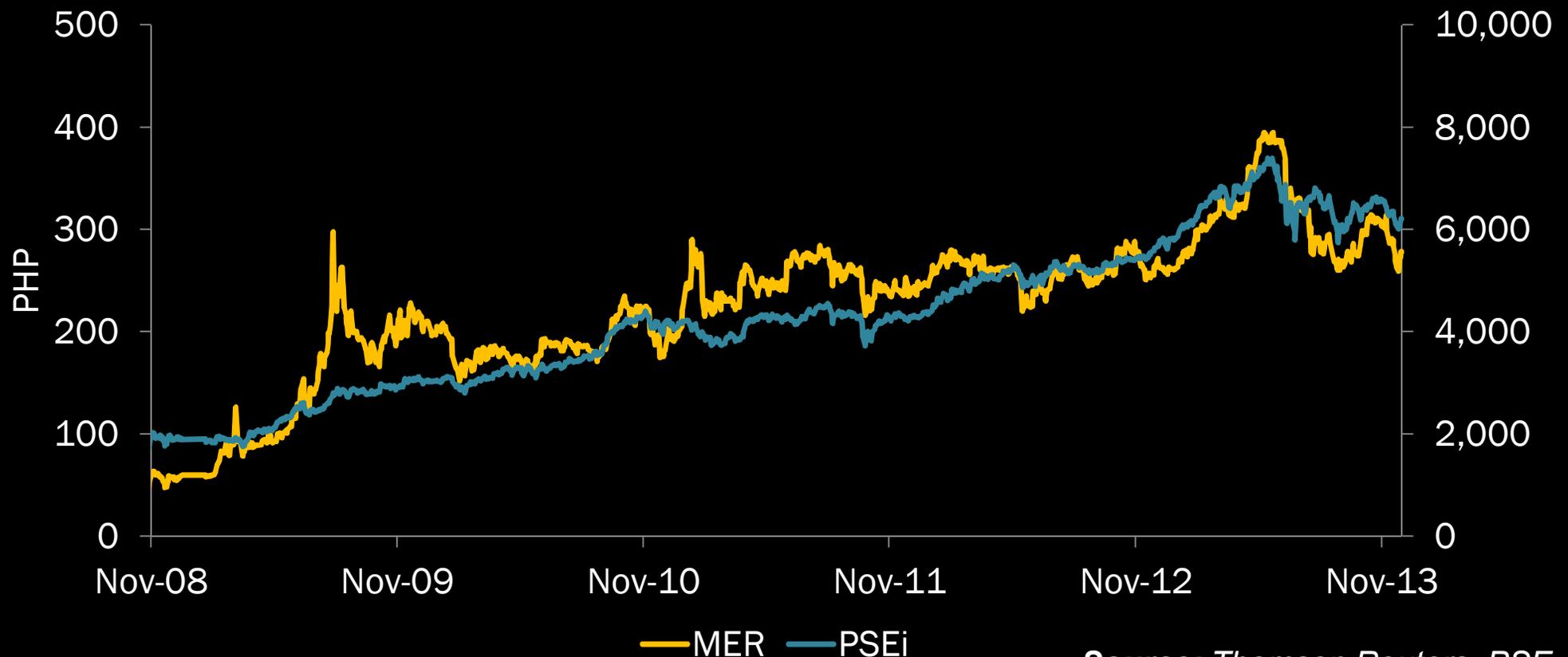
UNIVERSITY OF THE
PHILIPPINES



SUMMARY

STOCK DATA

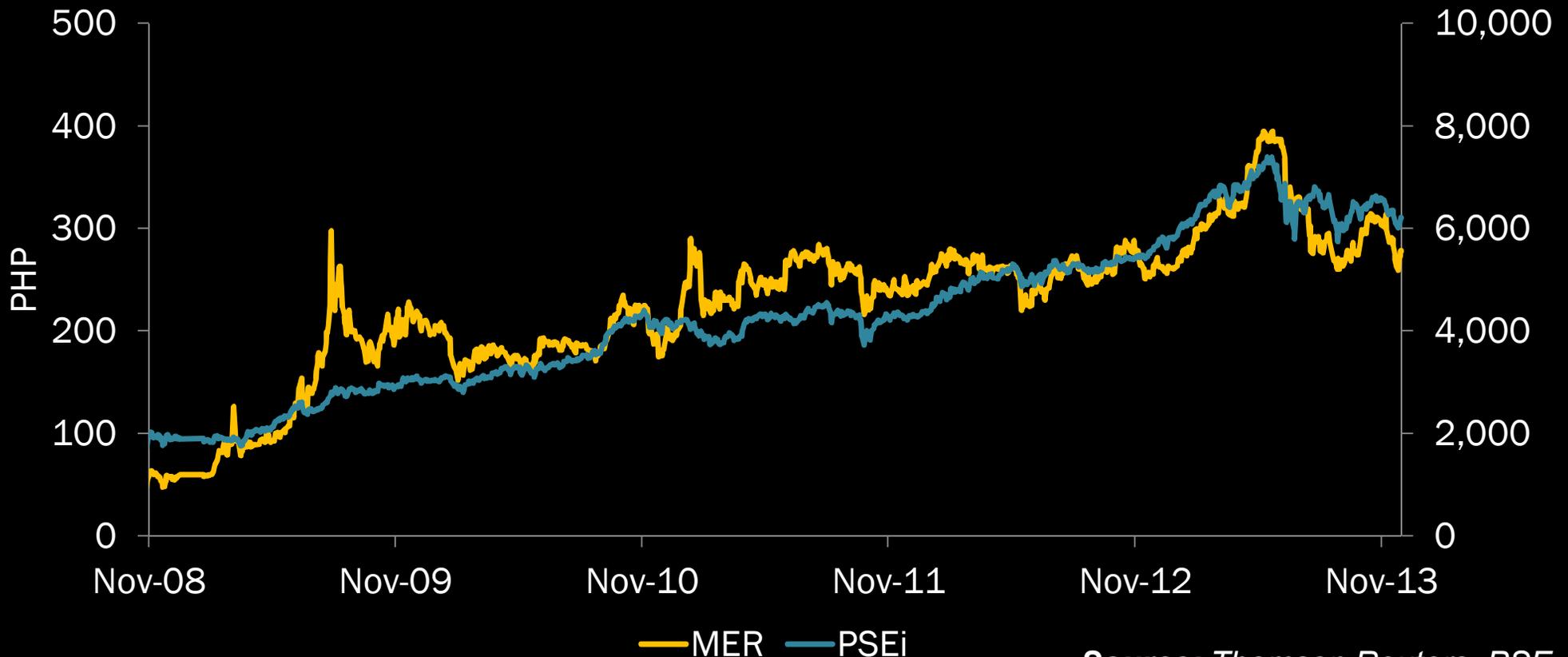
52-Week High (PHP)	397.00	Free Float (%)	13.31
52-Week Low (PHP)	252.00	EPS, December 31, 2012 (PHP)	15.10
November 29, 2013 close (PHP)	278.00	Dividend Yield (%)	4.07
Market Cap (PHP Millions)	313,333.44	P/E Ratio (ltm)	16.30
Market Cap (USD Millions)	6,962.97	P/B Ratio (ltm)	4.10
Outstanding Shares (Millions)	1,127.09	EV/EBITDA Ratio (ltm)	8.10
PSEi 52-Week Volatility	255.00	Latest Dividend (PHP/sh)	6.45



Source: Thomson Reuters, PSE

STOCK DATA

52-Week High (USD)	9.08	Free Float (%)	13.31
52-Week Low (USD)	5.77	EPS, December 31, 2012 (USD)	0.345
November 29, 2013 close (USD)	6.35	Dividend Yield (%)	4.07
Market Cap (USD Millions)	7,168.46	P/E Ratio (ltm)	0.373
Outstanding Shares (Millions)	1,127.09	P/B Ratio (ltm)	0.094
PSEi 52-Week Volatility	255.00	EV/EBITDA Ratio (ltm)	0.185
		Latest Dividend (USD)	0.148



Source: Thomson Reuters, PSE

HISTORICAL STOCK PRICE



Source: Thomson Reuters, PSE, Team estimates

FORECASTED STATEMENT OF FINANCIAL POSITION

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Cash and cash equivalents	44,141	60,500	62,581	61,534	64,634	73,130	76,905	83,459	99,406
Trade and other receivables - net	29,108	28,077	27,576	32,995	31,859	30,590	33,240	36,113	39,230
Inventories - lower of cost or NRV	1,675	1,371	1,668	1,703	1,777	1,854	1,936	2,022	2,113
Other current assets	2,500	2,295	3,343	3,694	3,692	3,685	3,902	4,134	4,381
Current Assets	77,424	92,243	95,168	99,926	101,962	109,259	115,983	125,728	145,130
Utility plant and others - net	105,510	109,312	111,433	115,488	120,119	125,753	131,609	137,434	143,123
Investments in associates and joint ventures	844	1,815	17,870	25,056	25,803	26,683	28,171	30,608	33,125
Investment properties - net	1,642	1,634	1,626	1,618	1,610	1,602	1,594	1,586	1,578
Deferred tax assets - net	25	3,232	6,990	7,167	7,036	6,884	7,312	7,773	8,268
Other noncurrent assets - net	6,594	8,837	8,670	8,541	8,205	7,842	8,267	8,738	9,257
Noncurrent assets	114,615	124,830	146,589	157,869	162,772	168,764	176,954	186,138	195,351
Assets of Discontinued Operations	18,349	-	-	-	-	-	-	-	-
ASSETS	210,388	217,073	241,757	257,795	264,734	278,023	292,936	311,866	340,481

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF FINANCIAL POSITION

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Notes payable	67	1,787	1,787	1,787	1,787	1,787	1,787	1,787	1,787
Trade payables and other current liabilities	40,011	47,576	49,129	49,339	47,628	45,962	49,179	52,850	56,690
Customers' refund	6,250	6,127	5,690	5,209	-	-	-	-	-
Income Tax Payable	2,154	1,668	610	1,919	1,750	1,619	1,888	2,061	2,257
Current portion of interest-bearing long-term financial liabilities	4,560	2,360	642	42	42	33	2,467	970	6,271
Current Liabilities	53,042	59,518	57,858	58,296	51,207	49,401	55,321	57,668	67,005
Interest-bearing long-term financial liabilities - net of current portion	19,816	20,466	20,337	29,933	38,375	48,698	49,884	55,844	55,279
Customers' deposits - net of current portion	24,080	23,313	23,335	23,005	22,751	22,307	22,251	22,497	23,056
Provisions	16,919	19,411	27,441	26,474	25,414	24,244	24,005	24,563	33,442
Long-term employee benefits	8,226	9,438	7,525	7,645	7,762	7,878	7,992	8,103	8,213
Refundable service extension costs - net of current portion	3,794	4,357	4,641	4,614	4,427	4,221	4,621	5,055	5,527
Deferred tax liabilities – net	595	-	9,920	9,589	9,258	8,927	8,596	8,265	7,934
Other noncurrent liabilities	6,302	12,843	12,843	13,523	14,203	14,884	15,564	16,244	16,924
Noncurrent liabilities	79,732	89,828	106,042	114,784	122,191	131,159	132,912	140,571	150,375
Liabilities of Discontinued Operations	9,113	-	-	-	-	-	-	-	-
LIABILITIES	141,887	149,346	163,899	173,080	173,399	180,560	188,234	198,239	217,381

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF FINANCIAL POSITION

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Common stock	11,273	11,273	11,273	11,273	11,273	11,273	11,273	11,273	11,273
Subscriptions receivable	(521)	(211)	-	-	-	-	-	-	-
Additional paid-in capital	4,111	4,111	4,111	4,111	4,111	4,111	4,111	4,111	4,111
Excess of acquisition cost over carrying value of non-controlling interest acquired	(328)	(328)	(328)	(328)	(328)	(328)	(328)	(328)	(328)
Employee stock purchase plan	915	1,049	1,167	1,270	1,360	1,360	1,360	1,360	1,360
Unrealized fair value gains on available-for-sale or AFS investments	85	120	120	120	120	120	120	120	120
Unrealized fair value gains on AFS investments of discontinued operations	14	-	-	-	-	-	-	-	-
Cumulative translation adjustments of a subsidiary and an associate	12	3	3	3	3	3	3	3	3
Cost of treasury shares held	(9)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Retained earnings - appropriated	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Retained earnings - unappropriated	42,236	45,473	55,099	61,684	68,050	74,023	81,081	89,782	99,018
Equity Attributable to Equity Holders of the Parent	63,788	67,479	77,434	84,121	90,578	96,552	103,610	112,311	121,546
Non-controlling Interests	4,713	248	424	594	757	911	1,093	1,316	1,554
EQUITY	68,501	67,727	77,858	84,715	91,335	97,463	104,702	113,627	123,100
LIABILITIES AND EQUITY	210,388	217,073	241,757	257,795	264,734	278,023	292,936	311,866	340,481

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF COMPREHENSIVE INCOME

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Sale of electricity	253,989	282,991	316,469	316,642	303,862	289,660	317,114	346,921	379,320
Sale of services and others	2,819	2,279	3,701	3,849	3,980	4,113	4,249	4,386	4,526
REVENUES	256,808	285,270	320,170	320,491	307,842	293,774	321,363	351,307	383,845
Purchased Power	205,674	232,068	259,522	259,664	249,183	237,537	260,051	284,494	311,063
Salaries, wages and employee benefits	10,911	11,750	11,404	12,683	12,279	11,751	12,661	13,648	14,720
Contracted services	3,333	2,702	3,155	3,712	3,580	3,432	3,741	4,077	4,441
Provision for doubtful accounts - net	2,243	832	319	672	187	163	498	543	593
Taxes, fees and permits	399	403	415	432	446	461	476	492	508
Other expenses	2,887	3,750	3,731	3,742	3,609	3,460	3,772	4,110	4,477
Provision for probable charges and expenses from claims	8,065	9,226	8,284	8,258	7,964	7,635	8,324	9,071	9,881
Equity in net losses (earnings) of associates and joint ventures	(67)	15	(310)	(847)	(1,286)	(1,439)	(3,243)	(6,552)	(6,168)
Others	(44)	(1,852)	(948)	(948)	(948)	(948)	(948)	(948)	(948)
EBITDA	23,407	26,376	34,598	33,123	32,829	31,722	36,030	42,371	45,279
Depreciation and amortization	5,504	5,576	5,940	6,316	6,738	7,218	7,444	7,934	8,427
Operating Income/EBIT	17,903	20,800	28,658	26,807	26,092	24,504	28,586	34,437	36,852

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF COMPREHENSIVE INCOME

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Interest and other financial income	(2,264)	(2,569)	(2,919)	(3,020)	(2,969)	(3,119)	(3,529)	(3,711)	(4,027)
Interest and other financial charges	1,445	1,528	1,284	953	1,345	1,714	2,164	2,321	2,515
Derivative mark-to-market loss (gain)	16	(40)	-	-	-	-	-	-	-
Foreign exchange loss (gain)	7	4	-	-	-	-	-	-	-
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS/EBT	18,699	21,877	30,294	28,874	27,716	25,910	29,951	35,827	38,364
Current	8,454	9,490	2,833	8,916	8,129	7,521	8,771	9,574	10,485
Deferred	(2,515)	(3,793)	6,162	(508)	(200)	(180)	(759)	(791)	(827)
PROVISION FOR (BENEFIT FROM) INCOME TAX	5,939	5,697	8,995	8,408	7,929	7,341	8,012	8,783	9,659
INCOME FROM CONTINUING OPERATIONS	12,760	16,180	21,299	20,466	19,787	18,568	21,938	27,045	28,706
Income from discontinued operations, net of income tax	966	978	-	-	-	-	-	-	-
NET INCOME	13,726	17,158	21,299	20,466	19,787	18,568	21,938	27,045	28,706

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF CASH FLOWS

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Income before income tax	19,987	22,938	30,294	28,874	27,716	25,910	29,951	35,827	38,364
Adjustments for:									
Depreciation and amortization	5,637	5,731	5,940	6,316	6,738	7,218	7,444	7,934	8,427
Provisions, net of settlement	7,869	8,948	8,030	(966)	(1,061)	(1,170)	(239)	558	8,879
Interest and other financial income	(2,784)	(2,683)	(2,919)	(3,020)	(2,969)	(3,119)	(3,529)	(3,711)	(4,027)
Interest and other financial charges	1,628	1,599	1,284	953	1,345	1,714	2,164	2,321	2,515
Provision for doubtful accounts - net	2,243	832	319	672	187	163	498	543	593
Gain on disposal of investment	(24)	(780)	-	-	-	-	-	-	-
Reversal of write-down of inventory to net realizable value	(18)	(45)	-	-	-	-	-	-	-
Loss (gain) on disposal of utility plant and others	461	(12)	-	-	-	-	-	-	-
Employee share-based payments	172	134	118	103	91	-	-	-	-
Equity in net (earnings) losses of associates and joint ventures	(67)	15	(310)	(847)	(1,286)	(1,439)	(3,243)	(6,552)	(6,168)

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF CASH FLOWS

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Operating income before working capital changes	35,104	36,677	42,755	32,086	30,760	29,277	33,046	36,920	48,583
Decrease (increase) in:									
Trade and other receivables	(4,964)	(2,134)	182	(6,091)	950	1,106	(3,149)	(3,416)	(3,710)
Inventories	323	357	(297)	(35)	(74)	(78)	(82)	(86)	(91)
Other current assets	(2,180)	285	(1,048)	(350)	1	8	(218)	(232)	(247)
Increase (decrease) in:									
Trade payables and accrued expenses	11,163	4,622	1,553	209	(1,710)	(1,666)	3,217	3,671	3,840
Customers' refund	(881)	(123)	(438)	(481)	(5,209)	-	-	-	-
Customers' deposits			22	(329)	(254)	(444)	(56)	246	559
Refundable Service Extension Costs			284	(27)	(186)	(207)	400	434	472
Long-term employee benefits	(1,301)	1,212	(1,913)	120	118	116	114	112	109
Net cash generated from operations	35,155	40,896	41,100	25,102	24,395	28,112	33,273	37,649	49,516
Income tax paid	(5,309)	(7,228)	(3,891)	(7,607)	(8,298)	(7,652)	(8,502)	(9,401)	(10,289)
Dividends from associates	20	33	170	521	539	559	1,755	4,115	3,651
Net Cash Flows from (Used in) Operating Activities	29,846	33,668	37,378	18,016	16,636	21,018	26,526	32,363	42,878

Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF CASH FLOWS

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Additions to:									
Utility plant and others	(8,343)	(9,353)	(8,133)	(10,450)	(11,457)	(12,950)	(13,410)	(13,882)	(14,250)
Intangibles	(209)	(315)	-	-	-	-	-	-	-
Investment properties	(42)	-	-	-	-	-	-	-	-
Investment in an associate	(517)	(198)	(15,915)	(6,860)	-	-	-	-	-
Decrease (increase) in:									
Other non-current assets	653	(2,075)	73	36	242	269	(520)	(564)	(613)
Interest and other financial income received	1,450	2,174	2,919	3,020	2,969	3,119	3,529	3,711	4,027
Proceeds from:									
Disposal of utility plant and others	107	155	174	181	190	200	212	224	236
Return of investment	65	30	-	-	-	-	-	-	-
Net Cash Flows from (Used in) Investing Activities	(6,816)	(9,549)	(20,882)	(14,073)	(8,055)	(9,362)	(10,189)	(10,511)	(10,599)

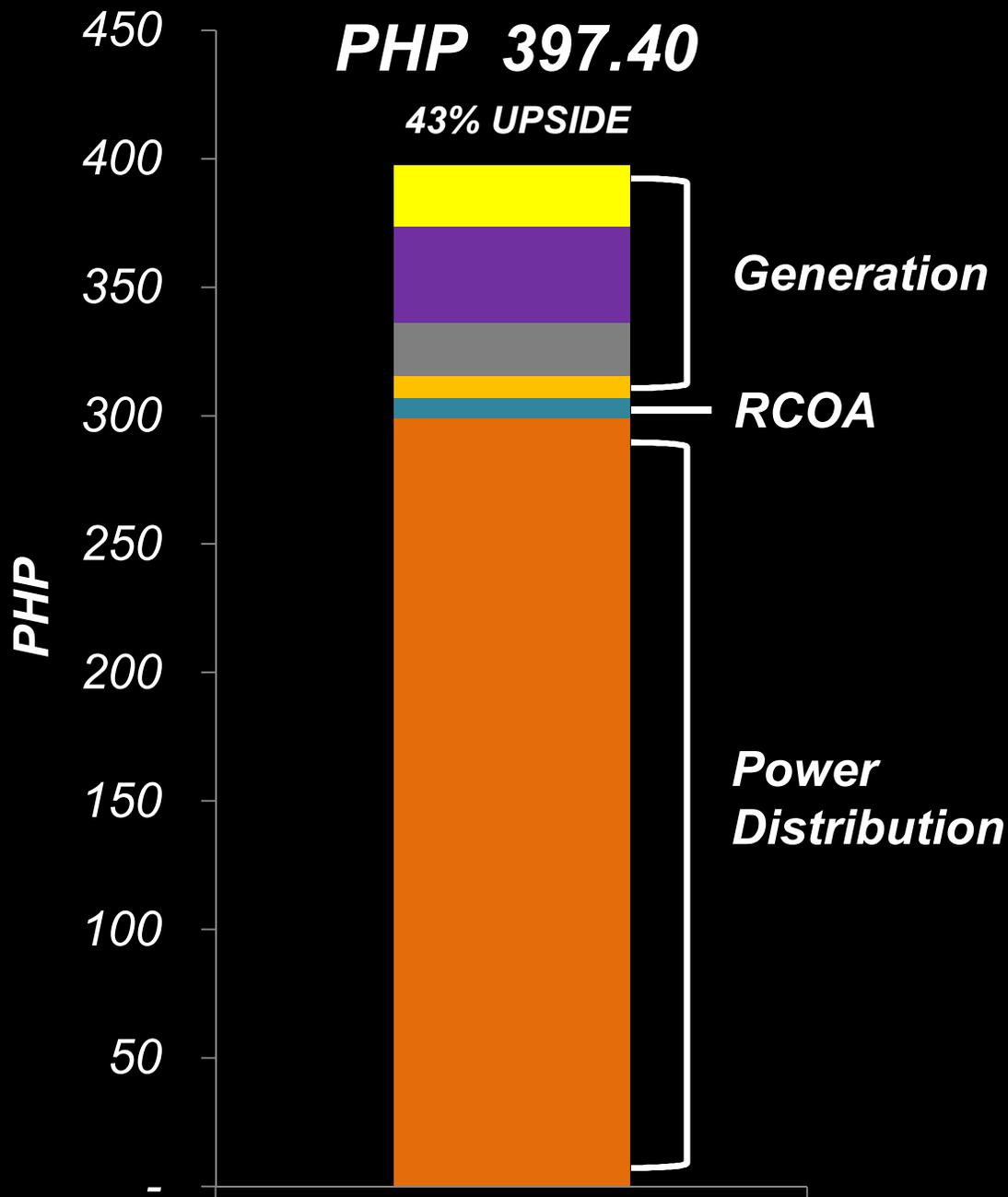
Source: MER disclosures, Team estimates

FORECASTED STATEMENT OF CASH FLOWS

In PHP Millions	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Proceeds from:									
Interest-bearing long-term financial liabilities, net of issue costs	11,720	3,000	-	9,623	8,469	10,341	3,638	6,922	5,706
Notes payable	2,150	1,720	1,787	1,787	1,787	1,787	1,787	1,787	1,787
Collection of subscriptions receivable	217	310	211	-	-	-	-	-	-
Payments of:									
Dividends	(9,866)	(8,890)	(11,496)	(13,712)	(13,257)	(12,441)	(14,699)	(18,120)	(19,233)
Interest-bearing long-term financial liabilities	(5,620)	(4,565)	(1,847)	(627)	(27)	(27)	(18)	(2,460)	(970)
Interest and other financial charges	(1,960)	(2,882)	(1,284)	(953)	(1,345)	(1,714)	(2,164)	(2,321)	(2,515)
Notes payable	(2,082)	-	(1,787)	(1,787)	(1,787)	(1,787)	(1,787)	(1,787)	(1,787)
Acquisition of treasury shares	(9)	(2)	-	-	-	-	-	-	-
Increase (decrease) in:									
Other noncurrent liabilities	872	973	-	680	680	680	680	680	680
Net Cash Flows From (Used In) Financing Activities	(4,578)	(10,336)	(14,416)	(4,989)	(5,480)	(3,160)	(12,562)	(15,298)	(16,331)
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,771*	16,359	2,081	(1,046)	3,100	8,496	3,774	6,554	15,947
Cash and Cash Equivalents at the Beginning of the Year	24,370	44,141	60,500	62,581	61,534	64,634	73,130	76,905	83,459
Cash and Cash Equivalents at End of Year	44,141	60,500	62,581	61,534	64,634	73,130	76,905	83,459	99,406

Source: MER disclosures, Team estimates

TARGET PRICE PER SHARE



Component	Value
Core Distribution	299.20
RCOA	7.80
Distribution	307.00
Global Business Power	8.40
Quezon Power 2	21.00
RP Energy	37.20
PacificLight Power	23.80
Generation	90.40
TARGET PRICE	397.40

Source: Team estimates



Highly Defensive Core Distribution Business

- *Electricity is a basic necessity*
- *Virtual monopoly in its franchise area*
 - *Accounts for 55% of energy sales*
 - *46% of GDP created within the area*
- *Returns are protected under the PBR scheme*
 - *Recovery of operating expenses and capital expenditures plus a return on capital*
 - *Protection from market risks: inflation, foreign currency fluctuations*



Promising Investments in Power Generation

- *Looming supply shortage in the Philippines*
- *Largest potential for growth for MERALCO*
- *Synergy with distribution business*



Solid Company Financials

- *Financial flexibility in spite of large investments*
- *Consolidated profits of PHP 29 Billion by 2019*
- *Operating cash flows of PHP 43 Billion*
- *Debt-to-equity ratio of 0.5*

COMPANY AND SUBSIDIARIES



Accounts for 55% of energy sales in the Philippines

46% of the GDP is generated within its franchise area

60% of Philippine manufacturing output is generated within the franchise area

110 years in service

Source: MER disclosure

BOARD OF DIRECTORS

Name	Position	Notes
<i>Manuel V. Pangilinan</i>	<i>Chairman</i>	
<i>Lance Y. Gokongwei</i>	<i>Vice-Chairman</i>	
<i>Oscar S. Reyes</i>	<i>Director</i>	<i>President and CEO</i>
<i>Ray C. Espinosa</i>	<i>Director</i>	
<i>James L. Go</i>	<i>Director</i>	
<i>John L. Gokongwei, Jr.</i>	<i>Director</i>	
<i>Jose Ma. K. Lim</i>	<i>Director</i>	
<i>Manuel M. Lopez</i>	<i>Director</i>	
<i>Napoleon L. Nazareno</i>	<i>Director</i>	
<i>Artemio Panganiban</i>	<i>Director</i>	<i>Independent</i>
<i>Pedro E. Roxas</i>	<i>Director</i>	<i>Independent</i>

Source: MER disclosure

EXECUTIVE MANAGEMENT



Manuel V. Pangilinan
Chairman



Lance Y. Gokongwei
Vice Chairman



Oscar S. Reyes
President and CEO

Source: MER disclosure

MANUEL V. PANGILINAN



Manuel V. Pangilinan
Chairman



Lance Y. Gokongwei
Vice Chairman



Oscar S. Reyes
President and CEO

- 67 years old
- Chief Executive Officer and Managing Director of First Pacific Company, Ltd.
- Chairman of Philippine Long Distance Telephone Company, Smart Communications, Inc., Metro Pacific Investments Corporation, Maynilad Water Services Corporation, among many others
- Bachelors degree from the Ateneo, Masters degree from Wharton

Source: MER disclosure

LANCE Y. GOKONGWEI



Manuel V. Pangilinan
Chairman



Lance Y. Gokongwei
Vice Chairman



Oscar S. Reyes
President and CEO

- 46 years old
- President, Chief Operating Officer and Director of JG Summit Holdings, Inc., Universal Robina Corporation, Cebu Air, Inc.
- President, Chief Operating Officer and Director of Universal Robina (Cayman), Ltd., URC International Co. Ltd.
- Chief Executive Officer and Vice Chairman of Robinsons Land Corp.
- Bachelor's degree from The University of Pennsylvania

Source: MER disclosure, Business Week



Manuel V. Pangilinan
Chairman



Lance Y. Gokongwei
Vice Chairman



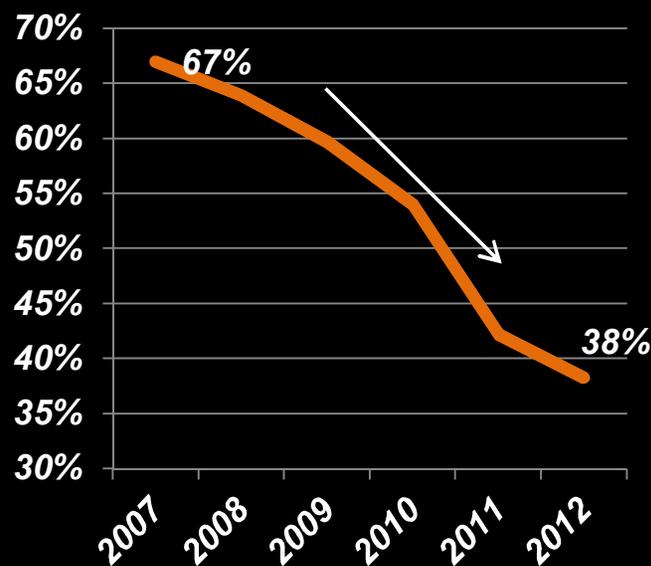
Oscar S. Reyes
President and CEO

- 67 years old
- Former Country Chairman of the Shell Companies in the Philippines
- Member of the Advisory Board of PLDT
- Bachelors degree from the Ateneo, Post-graduate degrees from the Ateneo, Harvard, and Waterloo Lutheran University

Source: MER disclosure

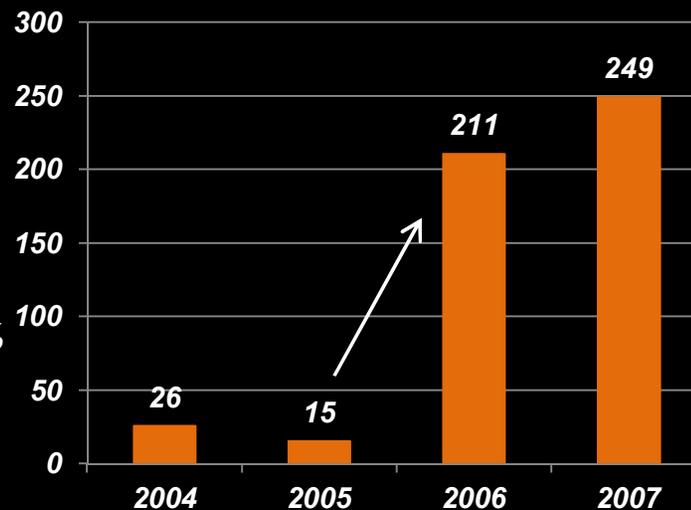
**Significant reduction
in Maynilad's non-
revenue water (NRW)**

Maynilad's NRW (%)



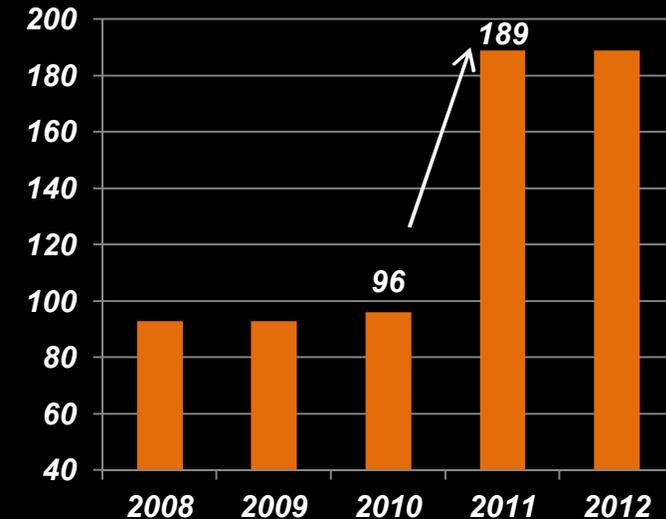
**Major increase in
Makati Med's net
income**

**Makati Med's
Net Income (PHP M)**



**Aggressive
expansion of
MPTC's road
network**

**MPTC's
Road Network (in km.)**



Source: Respective Company Data

CORPORATE OFFICERS

Officer

Position

Ricardo V. Buencamino

***Senior Executive Vice President
Head, Networks***

Roberto R. Almazora

***Senior Vice President,
Head, Retail Electricity Supplier***

Alfredo S. Panlilio

***Senior Vice President
Head, Customer Retail Services
and Corporate Communications***

Ramon B. Segismundo

***Senior Vice President
Head, Human Resources and Corporate Services***

Rafael L. Andrada

***First Vice President, Treasurer
Head, Investment Management***

Ivanna G. De La Pena

***First Vice President
Head, Regulatory Management Office***

Source: MER disclosures

CORPORATE OFFICERS

Officer

Position

Marthyn S. Cuan

***Vice President
Chief Information Officer***

Aaron A. Domingo

***Executive Vice President and General Manager,
Meralco PowerGen Corporation***

Betty C. Siy-Yap

***Senior Vice President
Chief Finance Officer***

Ruben B. Benosa

***First Vice President
Head, Corporate Logistics Officer***

Atty. William S. Pamintuan

***First Vice President
Deputy General Counsel
Assistant Corporate Secretary***

Raymond B. Ravelo

***Vice President
Head, Corporate Business Strategy***

Atty. Simeon Ken R. Ferrer

Corporate Secretary

Source: MER disclosures

EXECUTIVE AND BOD STOCK OWNERSHIP

<i>Name</i>	<i>Position</i>	<i>% To Total Outstanding</i>
<i>Manuel V. Pangilinan</i>	<i>Chairman</i>	<i>0.00%</i>
<i>Lance Y. Gokongwei</i>	<i>Vice-Chairman</i>	<i>0.00%</i>
<i>Oscar S. Reyes</i>	<i>Director</i>	<i>0.00%</i>
<i>Ray C. Espinosa</i>	<i>Director</i>	<i>0.00%</i>
<i>James L. Go</i>	<i>Director</i>	<i>0.00%</i>
<i>John Gokongwei</i>	<i>Director</i>	<i>0.00%</i>
<i>Jose Ma. K. Lim</i>	<i>Director</i>	<i>0.00%</i>
<i>Manuel M. Lopez</i>	<i>Director</i>	<i>0.20%</i>
<i>Napoleon L. Nazareno</i>	<i>Director</i>	<i>0.00%</i>
<i>Artemio Panganiban</i>	<i>Director</i>	<i>0.00%</i>
<i>Pedro E. Roxas</i>	<i>Director</i>	<i>0.00%</i>
<i>Others</i>	<i>Executive Officers</i>	<i>0.02%</i>
<i>All Officers and Directors</i>		<i>0.22%</i>

Aggregate direct beneficial ownership of key management and BOD is less than 1%

Source: MER disclosures

COMPENSATION OF KEY MANAGEMENT

Compensation (PHP Millions)	2010	2011	2012
Short-term benefits	376	413	432
Long-term benefits	133	112	69
Share-based	14	16	31
Total	523	541	532

Source: MER disclosures

MERALCO'S AWARDS

2012

Top Employer Organization

Best in Asia on Corporate Governance

Silver Award for Corporate Governance

Anvil Award of Excellence

2013

PSE Bell Award

Platts Top Global Energy Company Award

Asia's Icon on Corporate Governance

Best Corporate Social Responsibility

Source: MER disclosures

Asia's Icon of Corporate Governance

- *MERALCO wins 3rd straight title*
- *General criteria:*
 1. *Quality of Management*
 2. *Business Model*
 3. *Growth Prospects*
 4. *Financial Performance*
 5. *Relative Industry Position*
- *Outstanding Directors: Chairman Manuel V. Pangilinan and President & CEO Oscar S. Reyes*
- *Best CSR, Best Investor Relations Company, Best Investor Relations Professional (Rafael Andrada), Best CFO (Betty Siy-Yap)*

PSE Bell Awards

- *Based on corporate governance guidelines for listed companies of the PSEi*
- *General criteria:*
 - *Sound Business Strategy*
 - *Effective Board of Directors*
 - *Policies to Protect Shareholder Rights*

Source: MER disclosures

CORPORATE GOVERNANCE ANALYSIS

<i>Aspect</i>	<i>Example</i>
Board	<i>Established audit, risk, governance, and nomination and election committees</i>
Shareholder Rights	<i>One-share-one-vote policy; mechanisms in place that protect minority shareholders against actions of controlling shareholders such as the right to nominate candidates for the board of directors, pre-emptive right, right of inspection, appraisal rights, and a right to dividends</i>
Audit and Oversight	<i>Separate internal audit function, overseen by board; comprehensive enterprise-wide compliance program that is annually reviewed; Designated Chief Governance Officer</i>
Compensation	<i>Discloses compensation policies and beneficial ownership of management</i>

Source: MER disclosures

CORPORATE SOCIAL RESPONSIBILITY

One Meralco Foundation (OMF)



19,000 Volunteers

28,286 Beneficiaries

9,800 Households Benefited

900 Families Earning through 15 Livelihood Programs

Source: MER disclosures

SUBSIDIARIES

SUBSIDIARY	BUSINESS DESCRIPTION
MERALCO PowerGen Corporation	<i>Developer of highly cost competitive and reliable power plants, ensuring the provision of adequate, reliable and affordable power to customers</i>
Clark Electric Distribution Corporation	<i>Exclusive franchised distribution utility in the Clark Economic Zone</i>
Corporate Information Solutions, Inc.	<i>Provider of information technology services and integrated business solutions to enterprise clients; business of bills payment collection</i>
Lighthouse Insurance Overseas Limited	<i>Captive reinsurer for MERALCO's major catastrophic risk exposure</i>
MERALCO Energy, Inc.	<i>Energy Service Company; Provider of beyond the meter (customer-owned facilities) energy services to MER's key accounts</i>

Source: MER disclosures

SUBSIDIARIES

SUBSIDIARY	BUSINESS DESCRIPTION
<i>MERALCO Financial Services Corporation</i>	<i>Engine for expanding customer service through innovative consumer and customer-based products and services that support MER's core business</i>
<i>MERALCO Industrial Engineering Services Corporation</i>	<i>Contractor-specialist engaged in engineering, construction and maintenance activities; service provider in electromechanical works, engineering, distribution, and technical services</i>
<i>Radius Telecoms, Inc.</i>	<i>Operations and maintenance arm for MER's fiber-based telecommunications infrastructure</i>
<i>Republic Surety and Insurance Company, Inc.</i>	<i>Non-life insurance company which manages MER's risk exposures</i>

Source: MER disclosures

SUBSIDIARIES

<i>Business</i>	<i>Subsidiaries</i>	<i>% Ownership</i>
<i>Power generation</i>	<i>MERALCO PowerGen Corporation</i>	<i>100%</i>
<i>Power distribution</i>	<i>Clark Electric Distribution Corporation</i>	<i>65%</i>
<i>Energy services</i>	<i>MERALCO Energy, Inc.</i>	<i>100%</i>
	<i>MERALCO Industrial Engineering Services Corporation</i>	<i>99%</i>

Source: MER disclosures

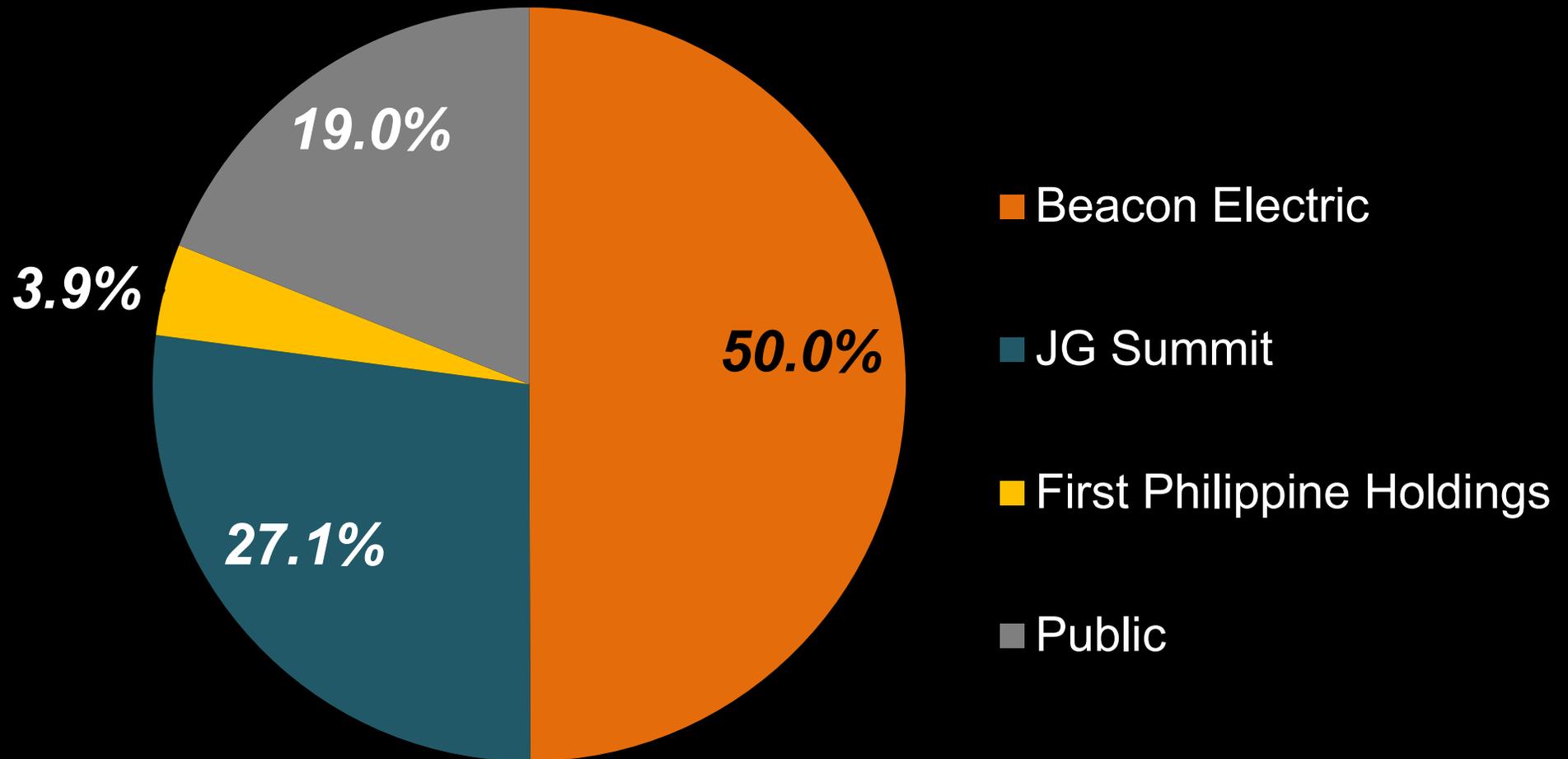
SUBSIDIARIES

<i>Business</i>	<i>Subsidiaries</i>	<i>% Ownership</i>
<i>Financial Services</i>	<i>Corporate Information Solutions, Inc.</i>	<i>100%</i>
	<i>MERALCO Financial Services Corporation</i>	<i>100%</i>
<i>Insurance</i>	<i>Lighthouse Insurance Overseas Limited</i>	<i>100%</i>
	<i>Republic Surety and Insurance Company, Inc.</i>	<i>100%</i>
<i>Telecomm Services</i>	<i>Radius Telecoms, Inc.</i>	<i>100%</i>

Source: MER disclosures

SHAREHOLDER STRUCTURE

(as of December 21, 2013)



Source: MER disclosures

TOP 10 STOCKHOLDERS

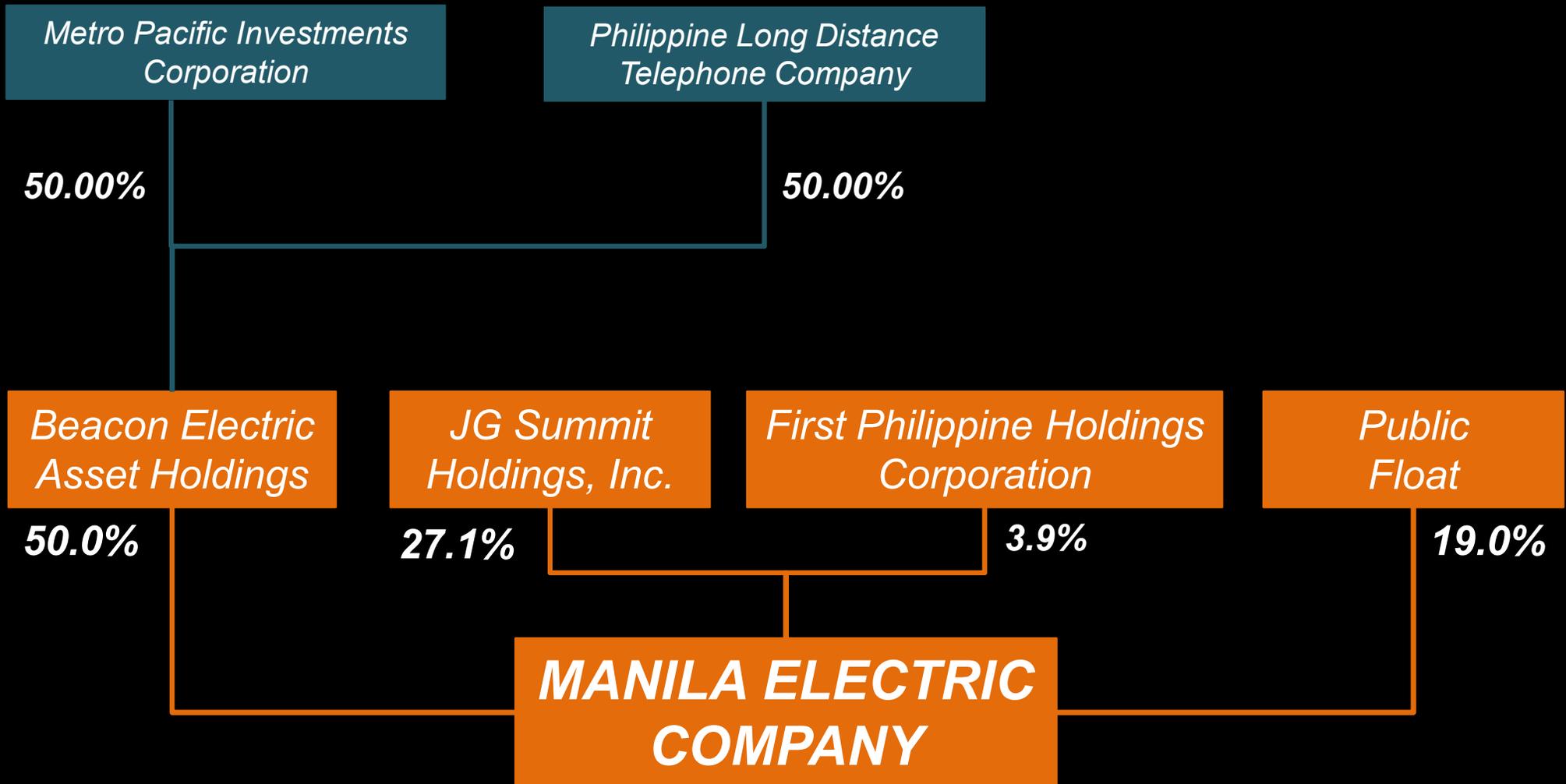
(as of December 31, 2013)

Name	% Ownership	No. of Shares Held (in Thousands)
1. Beacon Electric Asset Holdings	49.96%	563,124
2. PCD Nominee Corporation (Filipino)	23.23%	261,861
3. JG Summit Holdings, Inc.	13.59%	153,191
4. PCD Nominee Corporation (Non-Filipino)	4.80%	54,054
5. First Philippine Holdings Corporation	3.94%	44,382
6. Board of Administrator – ESOP	0.51%	5,775
7. Lopez, Manuel M. and/or Ma. Teresa L. Lopez	0.13%	1,449
8. Lopez, Manuel M.	0.07%	796
9. Concepcion, Raul Joseph and/or Raul Anthony Concepcion and/or Raul Patrick	0.07%	774
10. Yan, Lucio W.	0.04%	403

Source: MER disclosures

OWNERSHIP STRUCTURE

(as of December 21, 2013)



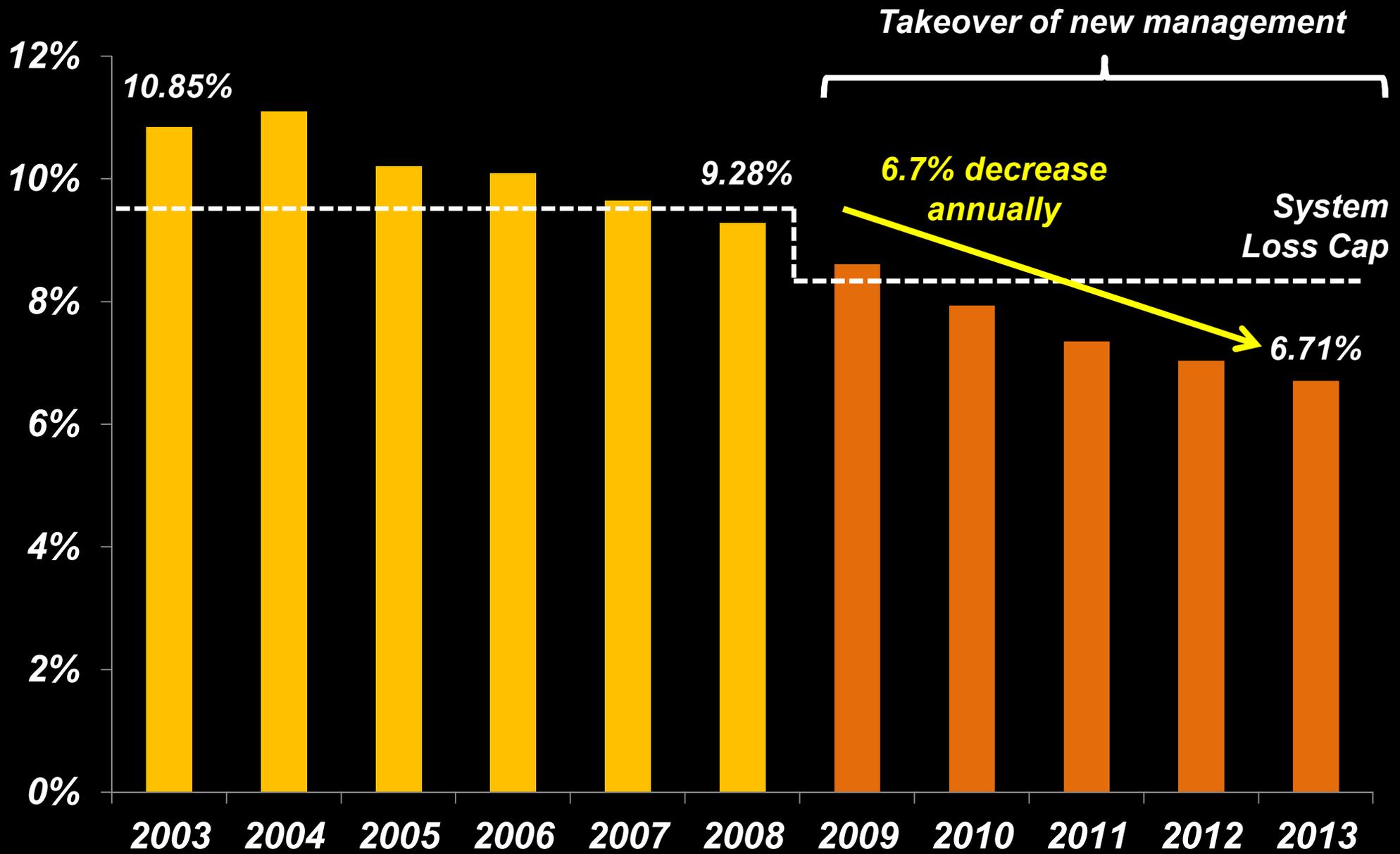
Source: MER disclosures

MGEN POWER PLANT PORTFOLIO

Company	Type	Capacity (MW)	Start of Operations	Location	MER's Interest
PacificLight	LNG-fired	2x400	Ongoing	Jurong Island, Singapore	28%
RP Energy	Circulating Fluidized Bed Coal-fired	2x300	2018	Subic Freeport Zone, PH	47%
Quezon Power 2	Supercritical coal-fired	460	2017	Mauban, Quezon, PH	49%
Global Business Power	Portfolio of coal and diesel	665.5	Ongoing	Mindoro and Visayas, PH	20%

Source: MER disclosures

SYSTEM LOSS PERFORMANCE



Source: MER disclosures

MGEN

UNIVERSITY OF THE PHILIPPINES

MERALCO'S CORE STRATEGIES

Strengthening of the core distribution business

Retail Electricity Supply (Open Access)

Entry into power generation

Franchise expansion and power-related privatization

Subsidiary value optimization

Growth Pillars

Core Electricity Distribution Service

Power Generation

Retail Electricity Supplier

Franchise Expansion

Subsidiaries

Overseas

Innovative Solutions

Source: MER disclosures

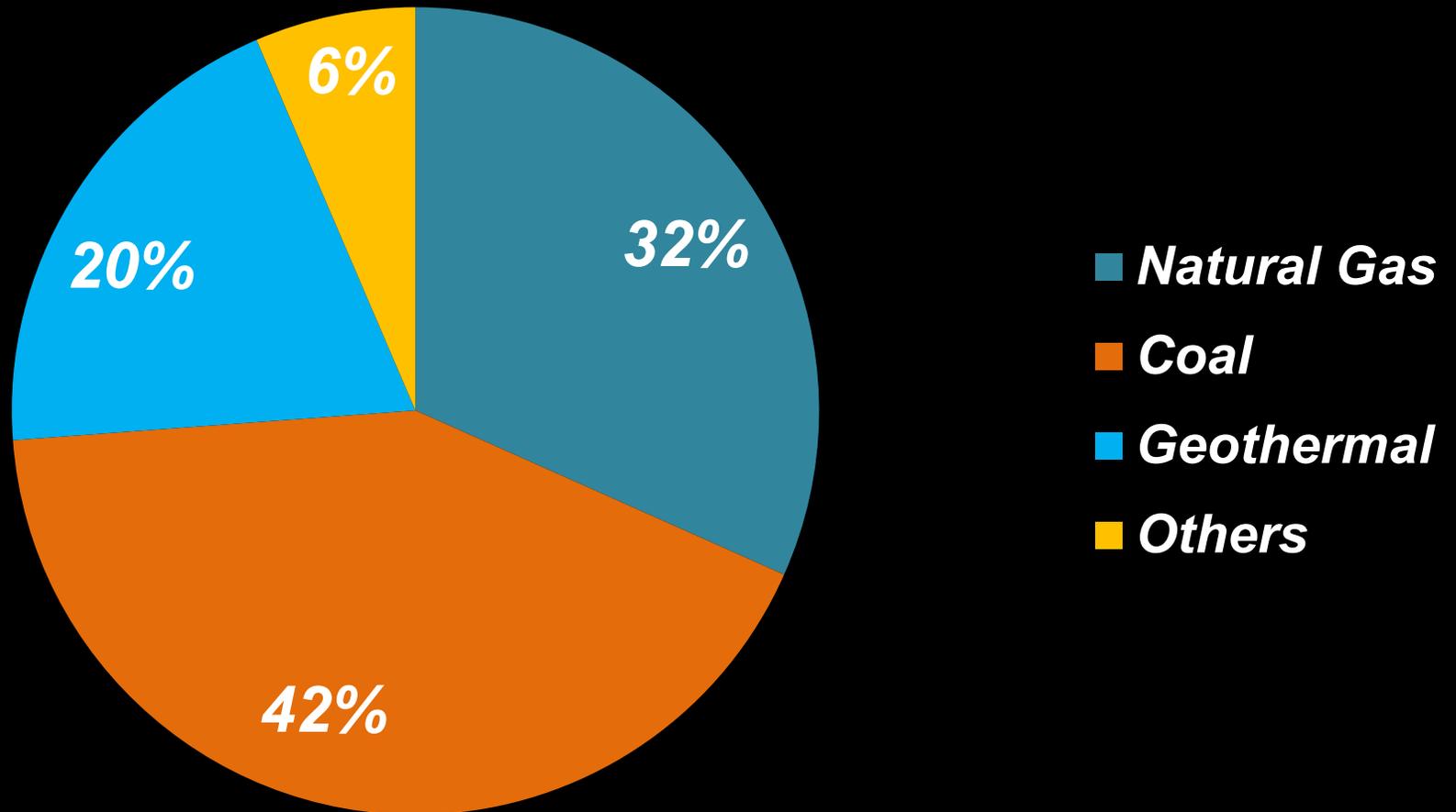
MERALCO VS VECO

	MERALCO	VECO*
<i>Area served (sq. km)</i>	9,337	672
<i>Customer Count</i>	5,282,519	341,611
<i>Population served (in M)</i>	25.5	1.7
<i>Peak Demand (MW)</i>	5,928	412
<i>Energy Sales (GWh)</i>	32,471	2,301

***2nd largest Philippine Distribution Utility, Under Aboitiz Power**

Source: MER disclosures

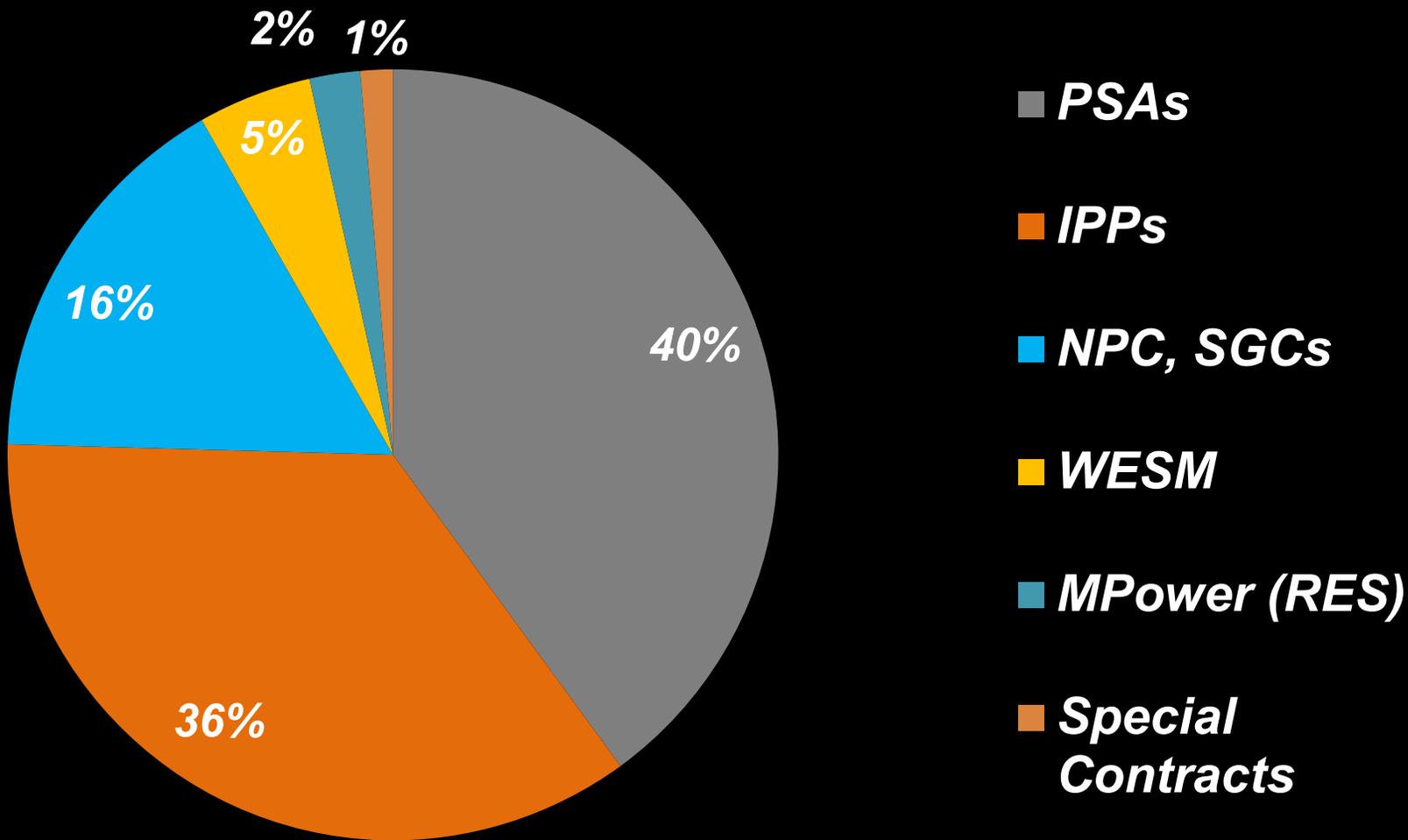
POWER PLANT FUEL SOURCE MIX



**2011-2013 Average*

Source: MER disclosures

ELECTRICITY SOURCES



**2011-2013 Average*

Source: MER disclosures

PARTNERS IN GENERATION

Aboitiz Power

- *Partner in RP Energy*
- *2nd largest player in the Philippine Generation sector: 2,470 MW capacity*
- *Own distribution utility firms Visayan Electric Company (VECO) and Davao Light and Power Company.*

Taiwan Cogeneration

- *Partner in RP Energy*
- *One of the biggest players in Taiwan's power industry*

EGCO

- *Partner in Quezon Power 2*
- *1st and only Independent Power Producer in Thailand*
- *Manages over 21 plants in the region*
- *6438 MW Equity*
- *2010 CSR Awards (Money and Banking magazine)*
- *2009 Top Corporate Governance Awards (Stock Exchange Thailand)*

Source: Company disclosures

OVERSEAS INVESTMENTS

PacificLight Power

Singapore

Technical Partnership

Nigeria

Various generation projects

Myanmar, Vietnam

Source: MER disclosures

SINGAPORE INVESTMENT

Become a regional player in the Southeast Asian power industry

Front-load cash flow for the company

Learn technology for future Philippine plants

Source: MER disclosures

NIGERIA INVESTMENT

Franchise Expansion and Power-related Privatization

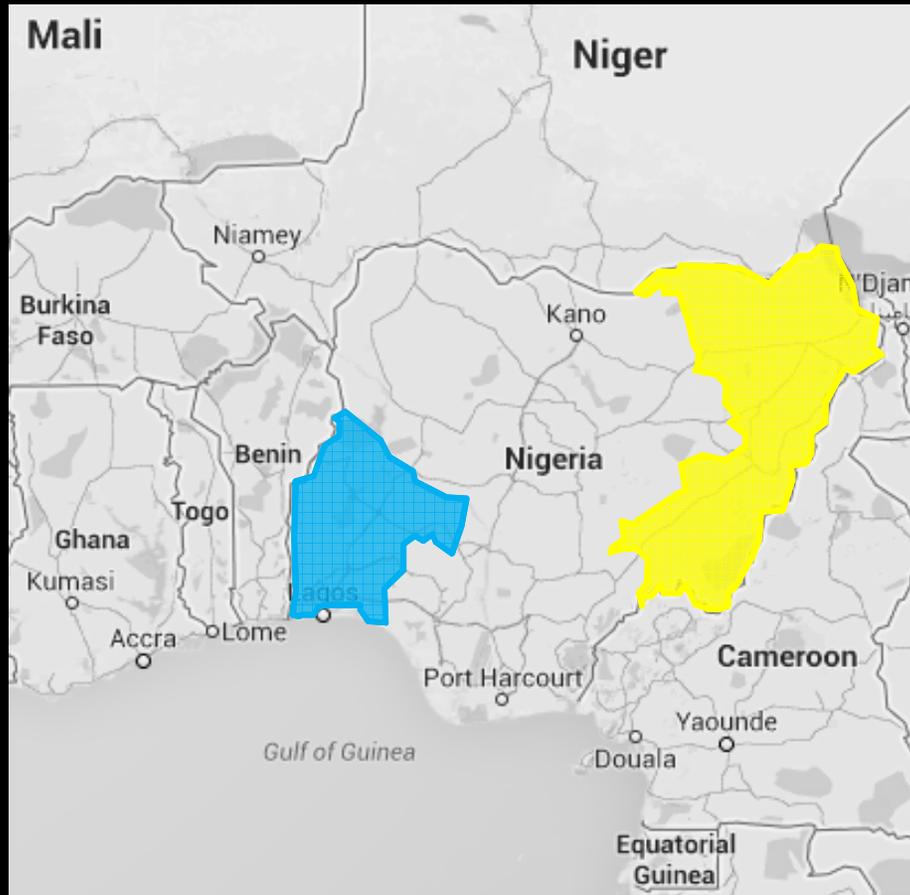
Bringing MERALCO's expertise overseas



- Technical partnership with Lagos-based Integrated Energy Distribution and Marketing Services Ltd. (IEDM)
- Take over 2 Nigerian distribution utilities privatized by the Nigerian government with a total franchise area of
 - Ibadan Electric Distribution Company Plc.
 - Yola Electricity Distribution Co. Plc.
- Current stake in IEDM of 5% - Option to increase this to 20%
- Nigeria is the largest country in sub-Saharan Africa in terms of population and economy
- More stable government implementing economic reform
- Predicted GDP growth of approximately 7%

Source: MER disclosures, The Philippine Star, TIME Magazine

IEDM AND MERALCO



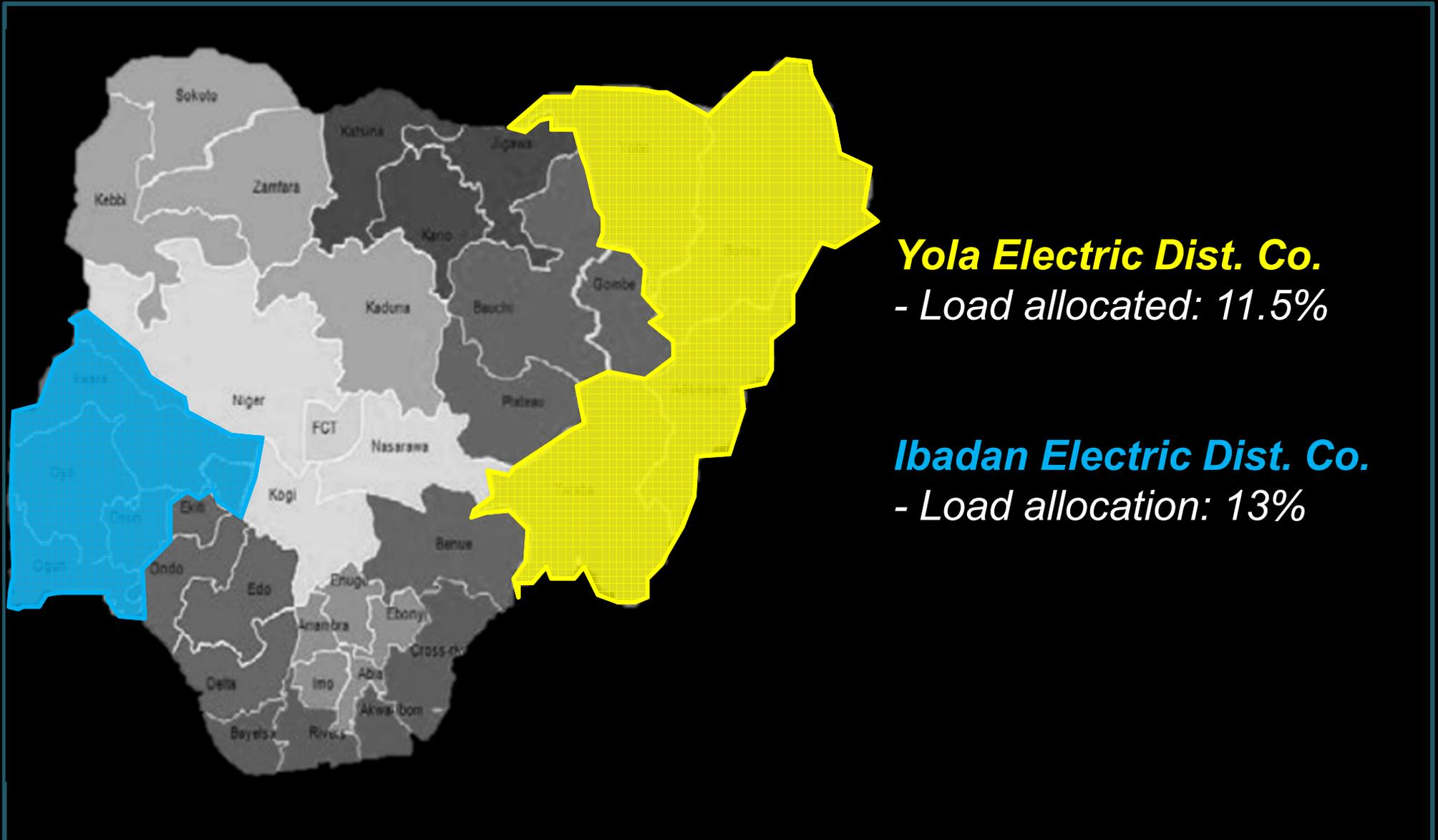
Meralco partners with Integrated Energy Distribution and Marketing Ltd. (IEDM)

IEDM

- ***Lagos-based Special Purpose Vehicle to takeover two DUs in Nigeria***
- ***Ibadan Electricity Dist. Co. Plc.***
Oyo, Ogun, Osun and Kwara
- ***Yola Electricity Dist. Co. Plc.***
Yola, Adamawa, Borno, Taraba and Yobe

Source: MER disclosures, IEDM

IEDM AND MERALCO



Source: : Monthly Energy Balance Sheet, October 2013, Transmission Company of Nigeria

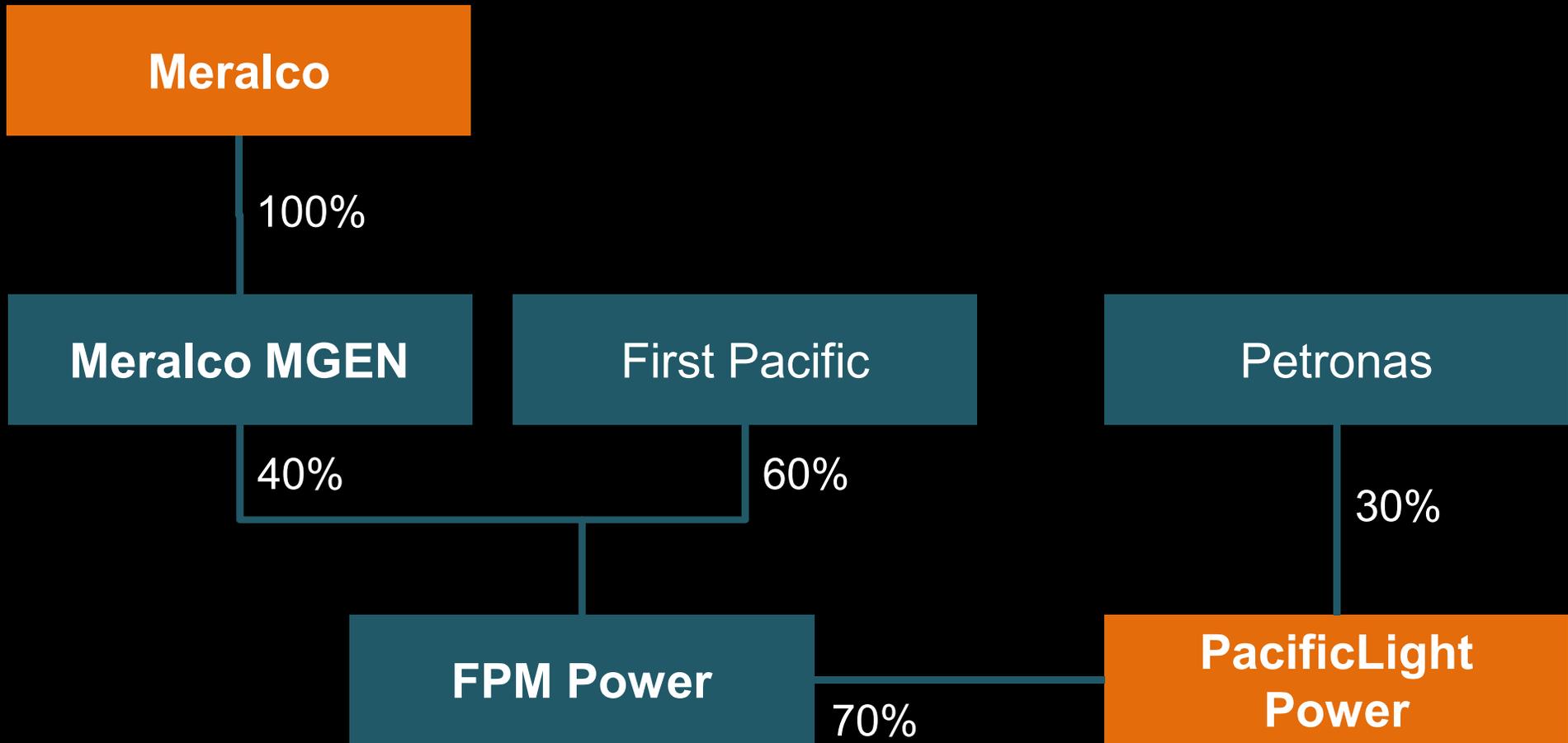
PACIFICLIGHT POWER

POWER PLANT FACTS

- Complete operations began January 2014
- Two gas-fired turbines of 400MW each, giving a total gross capacity of 800MW
- Located in Jurong Island, Singapore's oil, gas and petrochemical hub
- Represents 6.25% of Singapore's 12,800MW installed generation capacity
- First power plant in Singapore fully fuelled by LNG
- One of the first new generation facilities to be constructed in Singapore since 2007

Source: First Pacific Disclosures, PacificLight Website, Asia Outlook Magazine

PACIFICLIGHT OWNERSHIP STRUCTURE



Source: First Pacific Disclosures

PACIFICLIGHT MANAGEMENT



Aaron A. Domingo
Managing Director

- Also Executive Vice President and General Managing Director of Meralco PowerGen Corporation (MGEN)
- Former CEO of Asian Energy Ventures Group



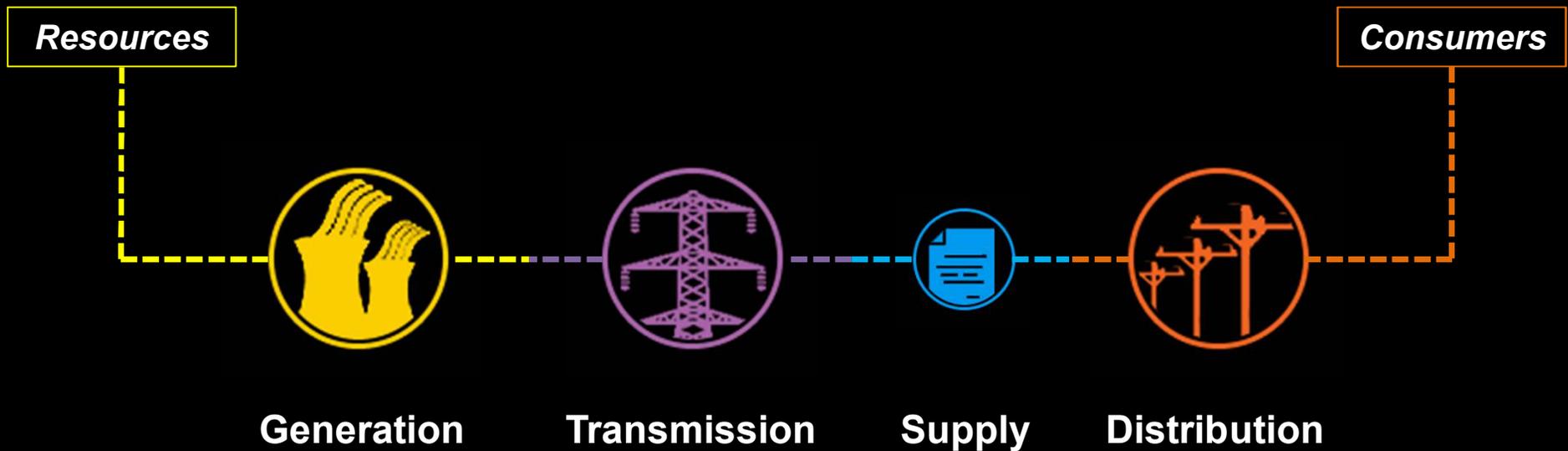
Yu Tat Ming
CEO

- Former Director of GMR Supply (Singapore) Pte. Ltd.
- Former Generation Licensee Representative of Singapore's Energy Market Company

Source: MER disclosures, PacificLight Website, Global Business Reports Roundup

POWER INDUSTRY

PHILIPPINE POWER INDUSTRY



OPEN AND COMPETITIVE

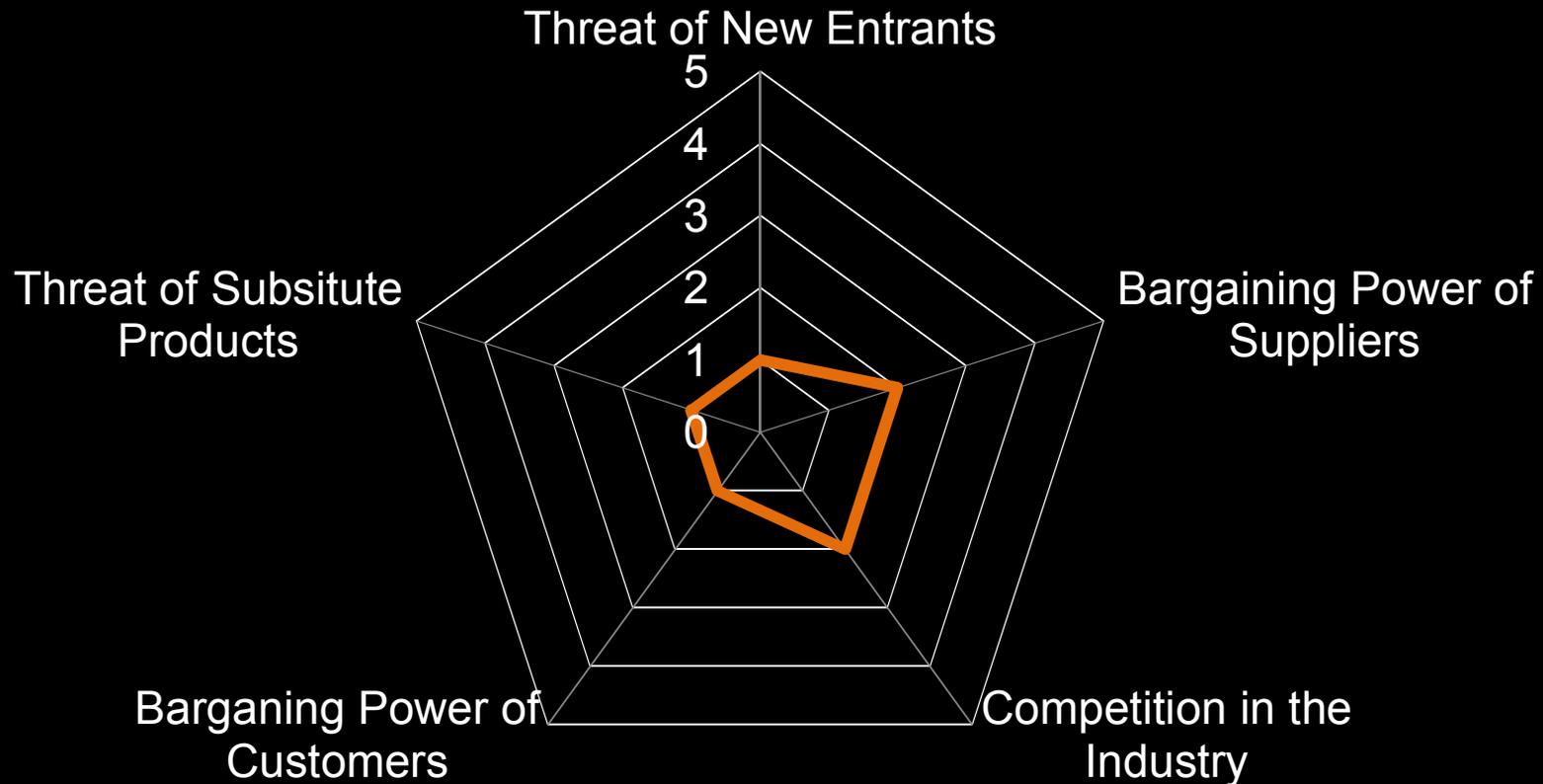
Generation
Supply

REGULATED

Transmission
Distribution

Source: EPIRA

FIVE FORCES ANALYSIS

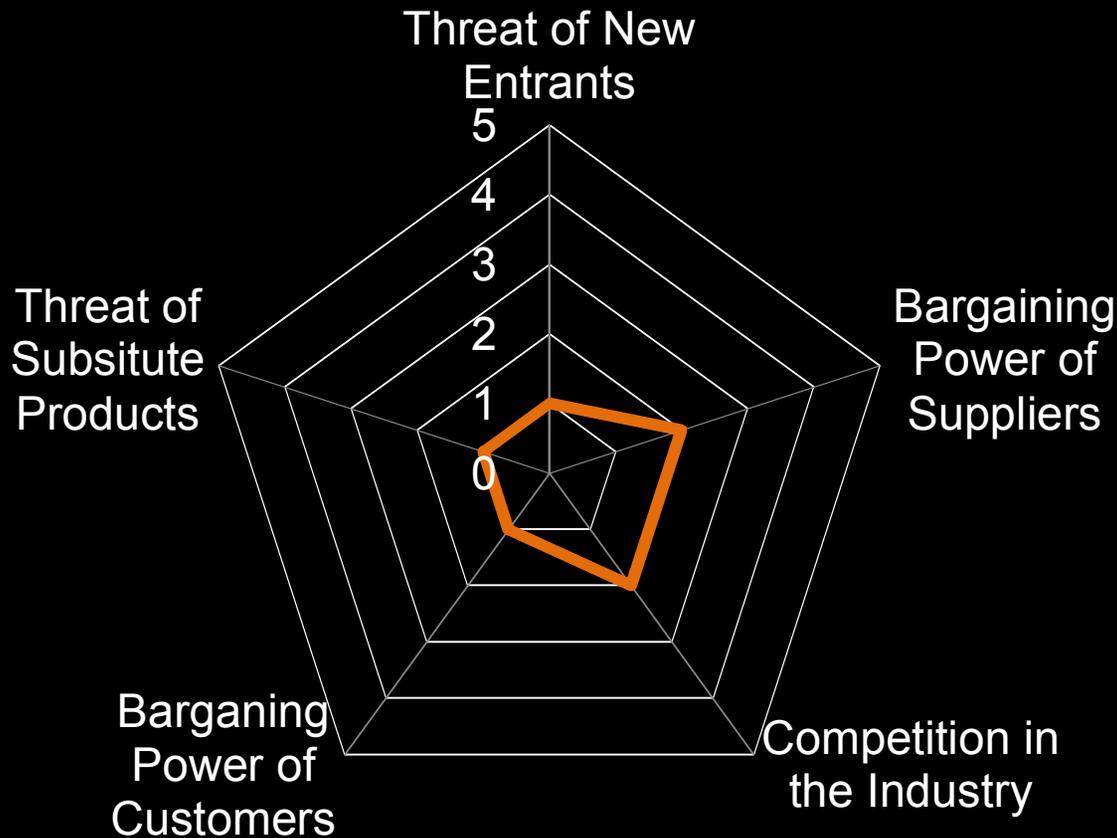


LEGEND

- 0 No threat to the business
- 5 High threat to the business

Source: Team analysis

FIVE FORCES ANALYSIS



Threat of New Entrants

- License granted by PH government
- High capital investments needed
- INSIGNIFICANT

Threat of Substitutes

- Exclusive franchise
- No alternatives
- INSIGNIFICANT

Bargaining Power of Customers

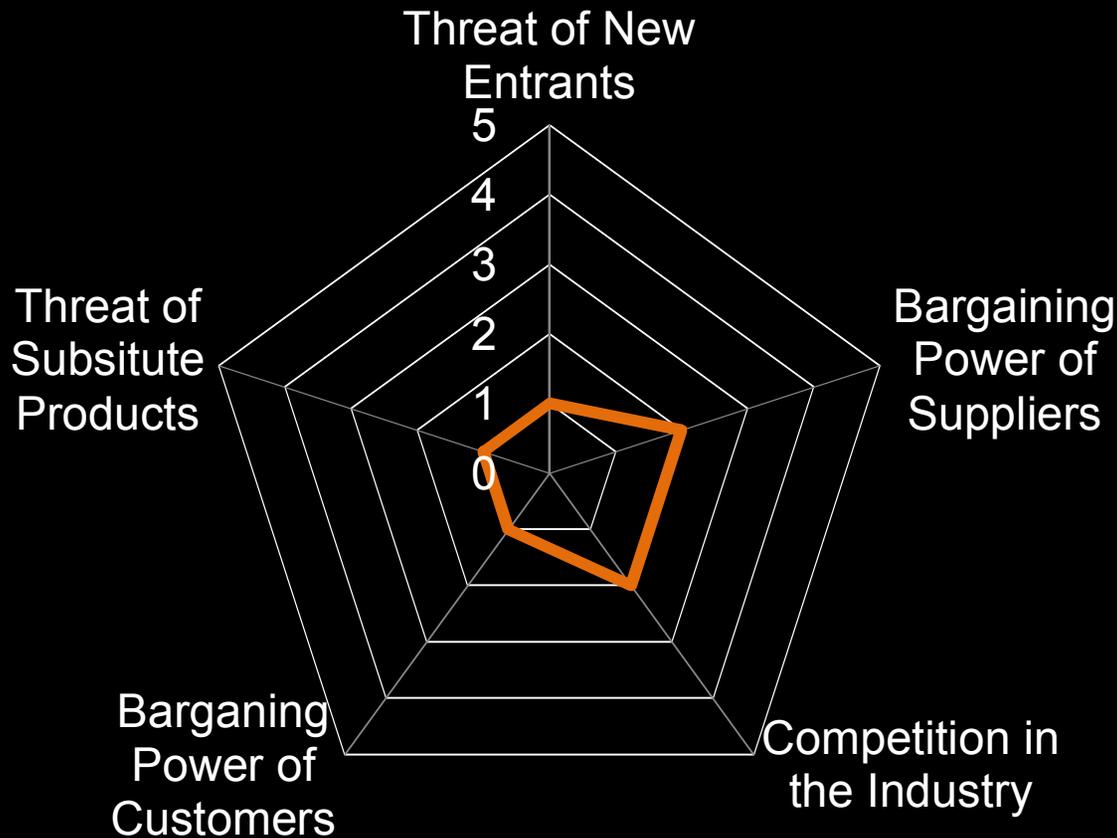
- Exclusive franchise
- INSIGNIFICANT

LEGEND

- 0 No threat to the business
- 5 High threat to the business

Source: Team analysis

FIVE FORCES ANALYSIS



Bargaining Power of Suppliers

- Low degree of differentiation
- high concentration of supplier to firm ratio
- LOW

Competition in the Industry

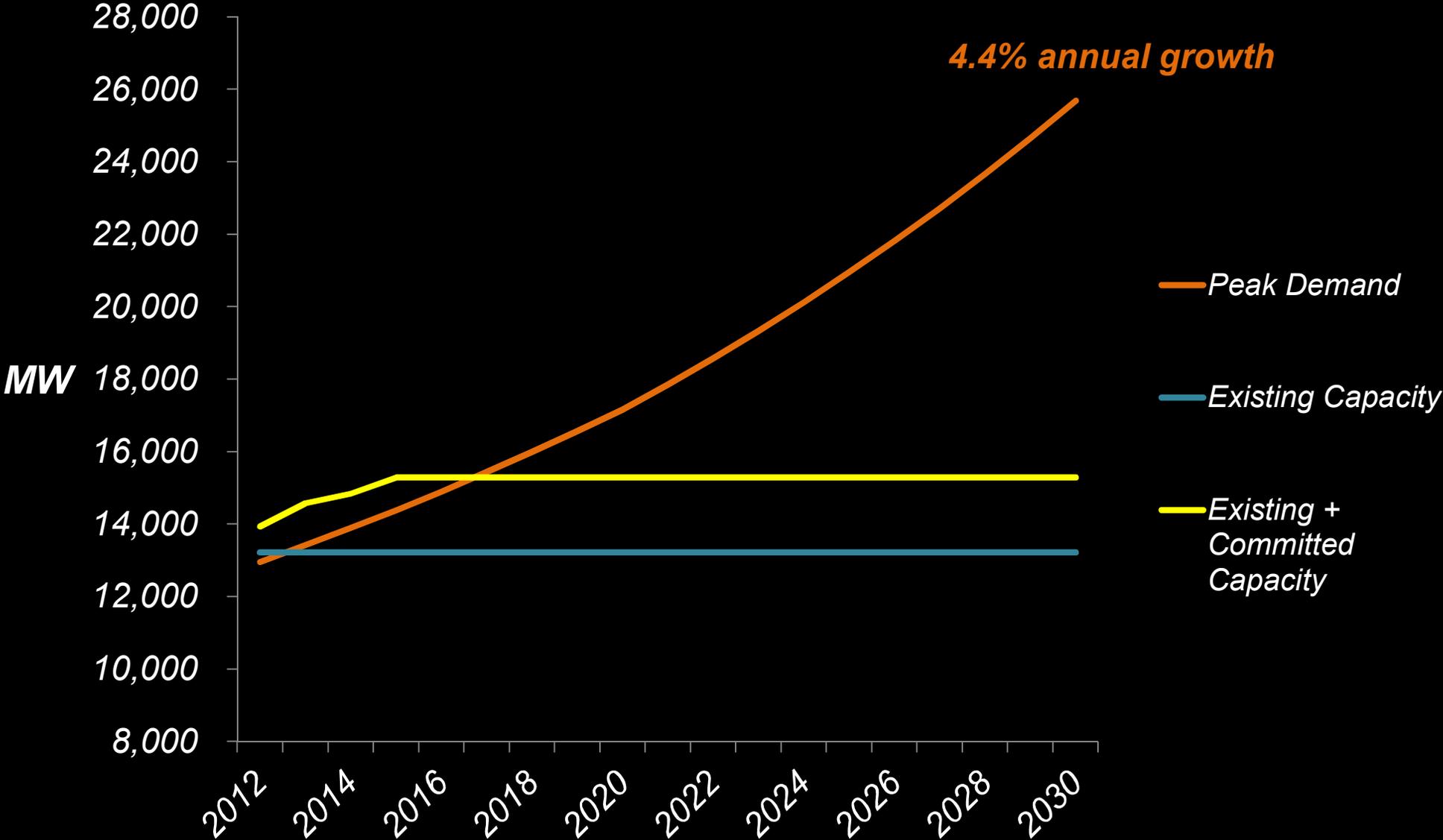
- Retail Competition and Open Access
- Loss in revenue accompanied by a decrease in cost
- LOW

LEGEND

- 0 No threat to the business
- 5 High threat to the business

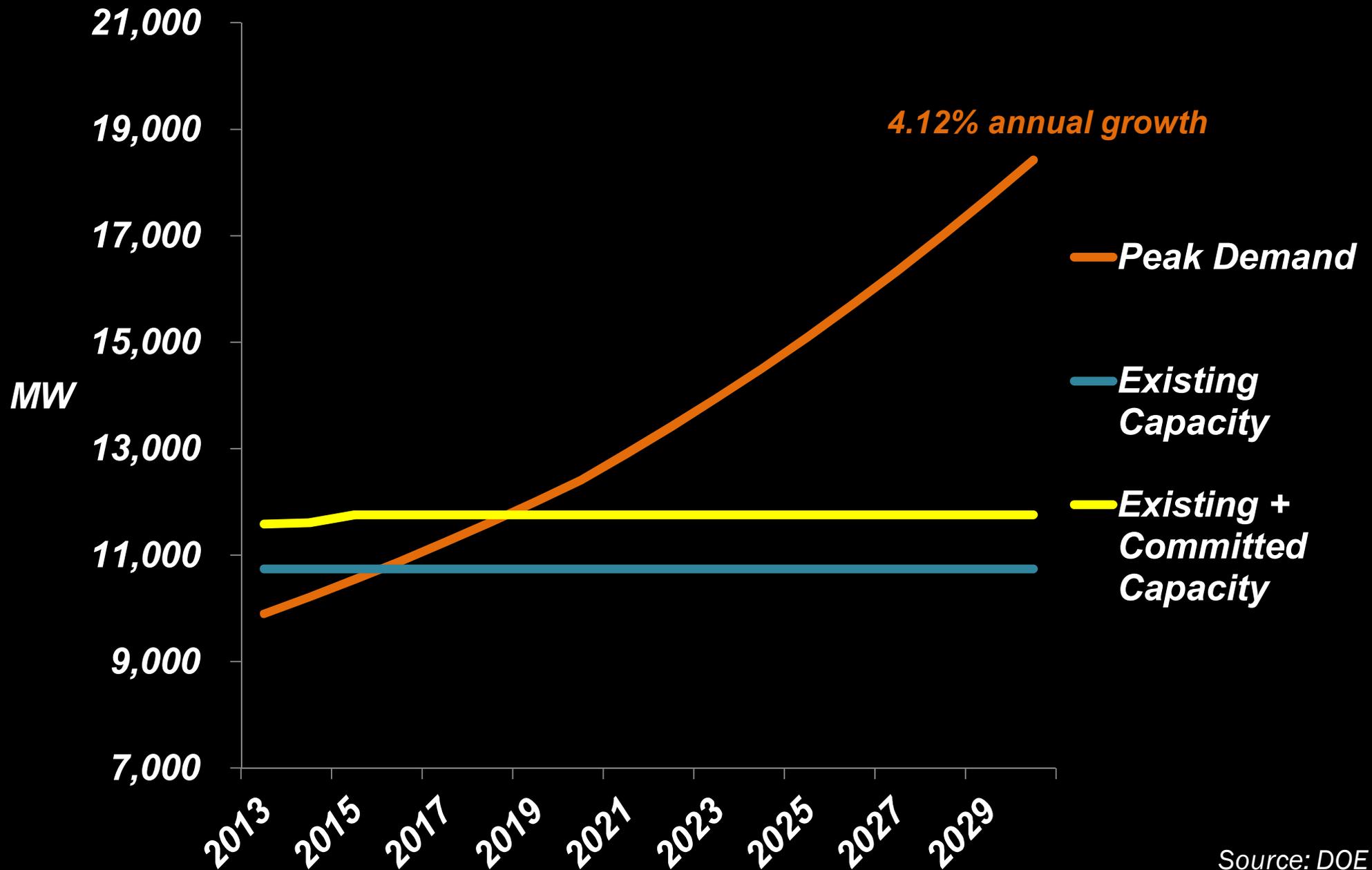
Source: Team analysis

ELECTRICITY SUPPLY SHORTAGE



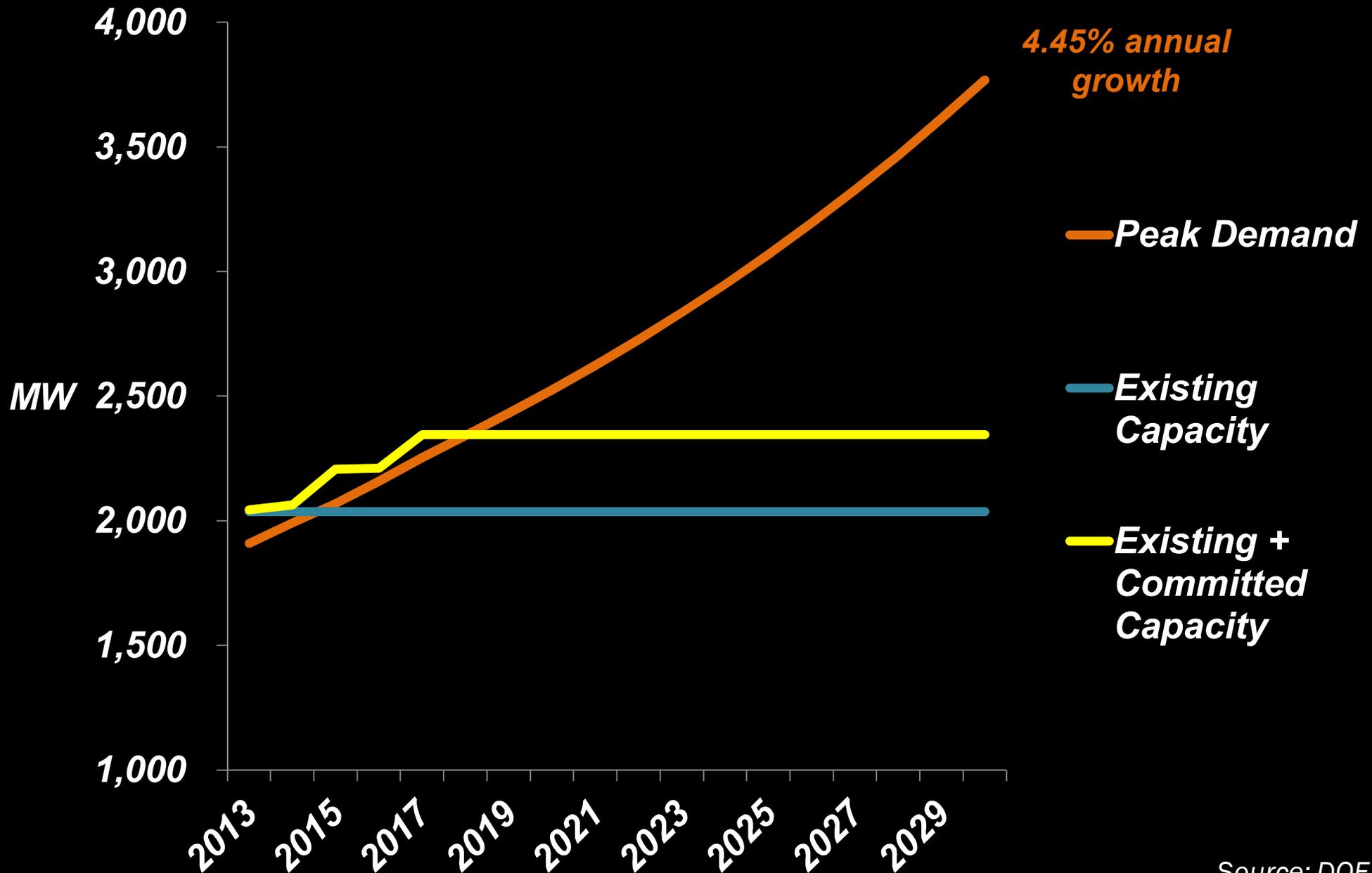
Source: Department of Energy

LUZON ELECTRICITY SUPPLY SHORTAGE



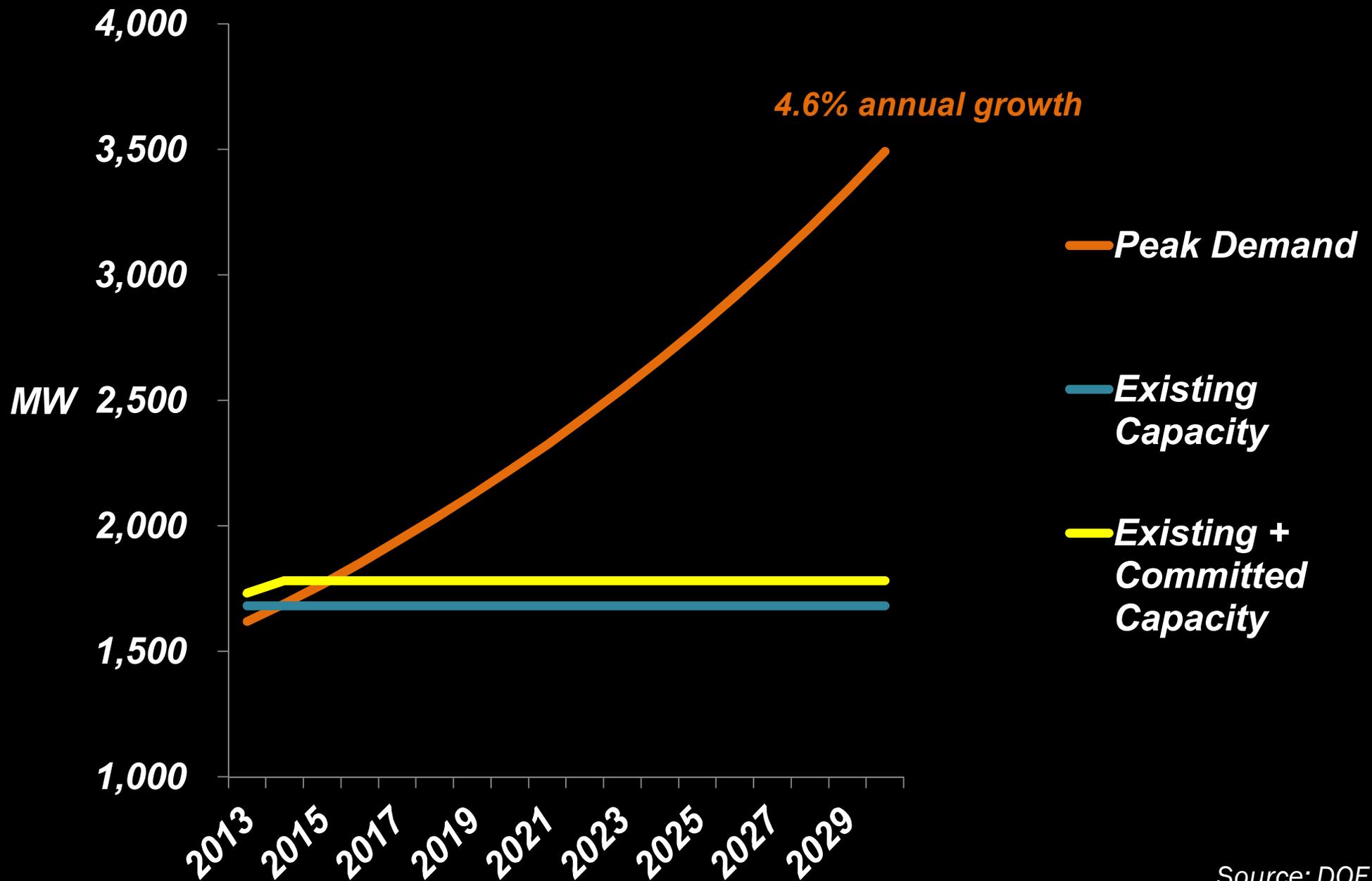
Source: DOE

VISAYAS ELECTRICITY SUPPLY SHORTAGE



Source: DOE

MINDANAO ELECTRICITY SUPPLY SHORTAGE



Source: DOE

ADMINISTRATIVE SUPPORT

*“I believe in renewable energy and we support its use, but there should also be baseload plants that can ensure a steady supply of electricity for our homes and industries. I wonder if those who are critical of the plants we want put up will be as noisy when they are busy fanning themselves during brownouts. All I am really saying is this: Let us help each other find a solution. The plant in Redondo, Zambales is a good example. A TRO (Temporary Restraining Order) was issued against the plant because of the argument that renewable energy is better. Did they happen to mention that **renewable energy is also more expensive** – from the cost of building the plants to the eventual price of energy? Did they mention that it cannot provide the baseload – the capacity required to make sure brownouts do not occur? If you put up a wind-powered plant, what do you do when there is no wind? If you put up a solar plant, what do you when the sky is cloudy?”*

- President Benigno Aquino III, in his 2013 State of the Nation Address

Source: The Philippine Star

PERFORMANCE BASED REGULATION

- *Transition from the Return on Rate Base System to the Performance-Based Regulation (PBR) Scheme in 2004*
- *Distribution utilities are allowed to recover “the just and reasonable costs of service and earn a fair rate of return on its investment”*
- *Distribution-related charges that DUs can charge customers over a four-year regulatory period are based on projected revenues subject to the approval of the ERC*
- *Rewards or penalties in the form of tariff adjustments are given based on the DU’s ability to meet certain performance targets set by the ERC*

Source: ERC

PBR VS. RORB

	<i>RORB</i>	<i>PBR</i>
<i>Return Cap</i>	<i>12%</i>	<i>No ceiling; Regulatory WACC</i>
<i>Asset Base</i>	<i>Sound Value</i>	<i>Optimized Depreciated Replacement Cost and Working Capital</i>
<i>OPEX and CAPEX Approval</i>	<i>Based on Historical expenditures</i>	<i>Includes projected expenditures for the succeeding regulatory period</i>
<i>Income Taxes</i>	<i>Not Recoverable</i>	<i>Recoverable through MAP Adjustment factor*</i>
<i>Rewards or Penalty System</i>	<i>None</i>	<i>Rewards or penalties are given based on performance targets</i>

Source: ERC

PBR VS. RORB

	RORB	PBR
Revenue Requirement	Total of Distribution, Transmission, and Generation	Distribution and Retail Only
Regulation	Unpredictable length of time for hearings and review. Time lag for electricity prices against costs incurred.	Time-bound review. Less delays are expected.
Frequency of Rate Review	As Requested	Every 4 years
Cost Recovery	Actual Costs only	Price Cap (MAP) includes adjustment factors (inflation, efficiency, etc.)

Source: ERC

BENEFITS OF PBR

Recovery of Expenses and Adjustments Based on Market Conditions

Rewards or Penalties Based on Performance

Improved Power Distribution

Improved Power Distribution

Lower System Losses

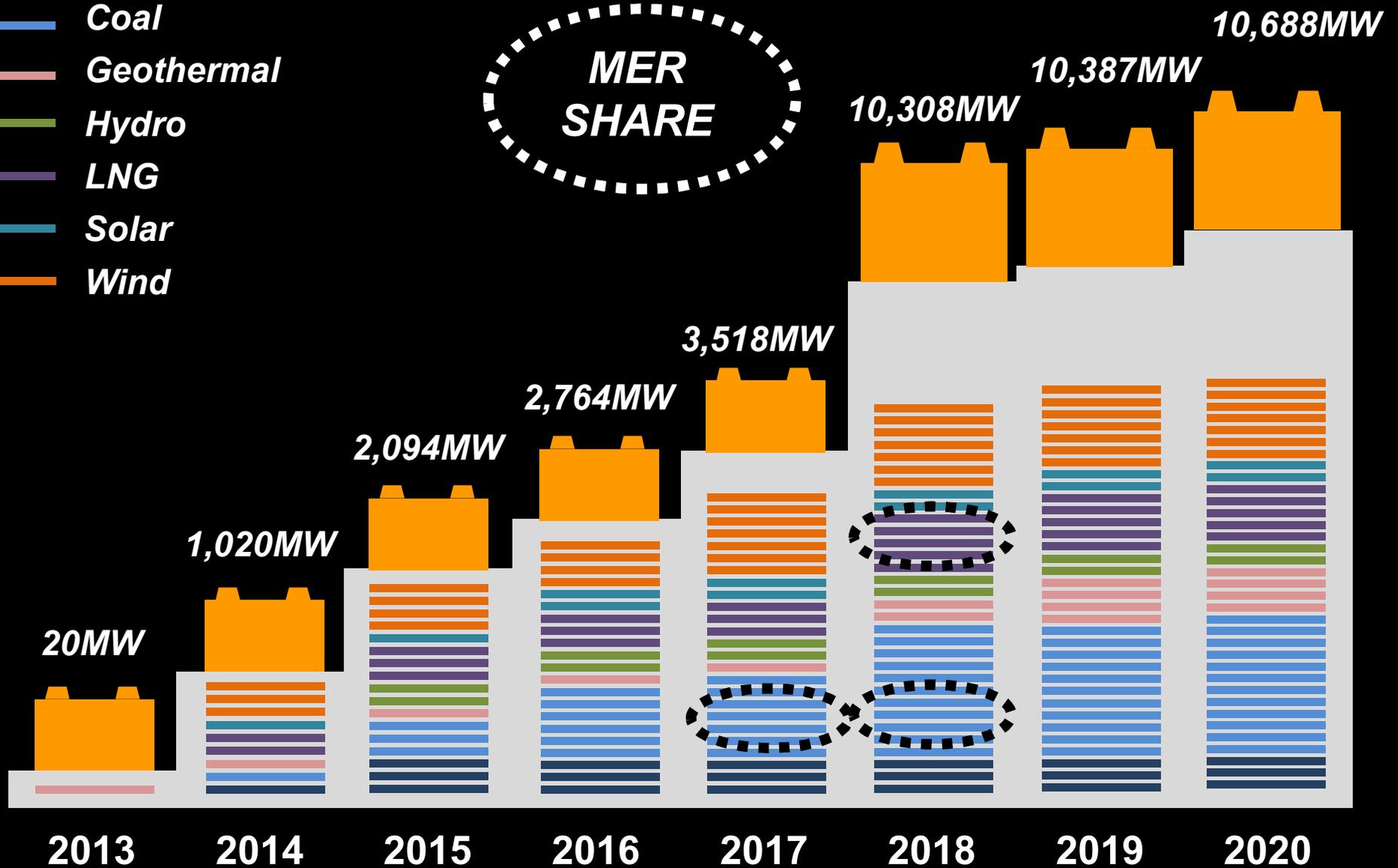
Less Blackouts and Service Interruptions

Decreasing Lost Energy Sales

Better Distribution Services

GENERATION PROJECTS IN THE PIPELINE

- Biomass
- Coal
- Geothermal
- Hydro
- LNG
- Solar
- Wind



Source: DOE

SINGAPORE ENERGY INDUSTRY

- *Majority of power output generated from natural gas*
- *Single supplier for LNG needs: BG Group*
- *Electricity demand projected to grow from 1.3 - 2.9% annually*
- *Most of electricity output sold through retail*
- *Government ensures the purchase of a certain percentage of output from generation companies through vesting contracts*

Source: SG Energy Market Authority, Energy Studies Institute (2013)

PHILIPPINE VS SINGAPORE ENERGY MARKET

	<i>Philippines</i>	<i>Singapore</i>
<i>Prevalent Fuel type</i>	<i>Coal and Diesel</i>	<i>Natural gas</i>
<i>Fuel source</i>	<i>Imports</i>	<i>Imports</i>
<i>Sold through</i>	<ul style="list-style-type: none"><i>Power Supply Agreements</i><i>WESM</i>	<ul style="list-style-type: none"><i>Retail</i><i>Government Vesting Contracts</i>
<i>Annual demand growth</i>	<i>4.4%</i>	<i>1.3 - 2.9%</i>

Source: ERC, DOE, SG Energy Market Authority, Energy Studies Institute (2013), APEC Energy Demand and Supply Outlook – 5th Edition

FIRST ENTRANTS UNDER PBR

Manila Electric Company (MERALCO)

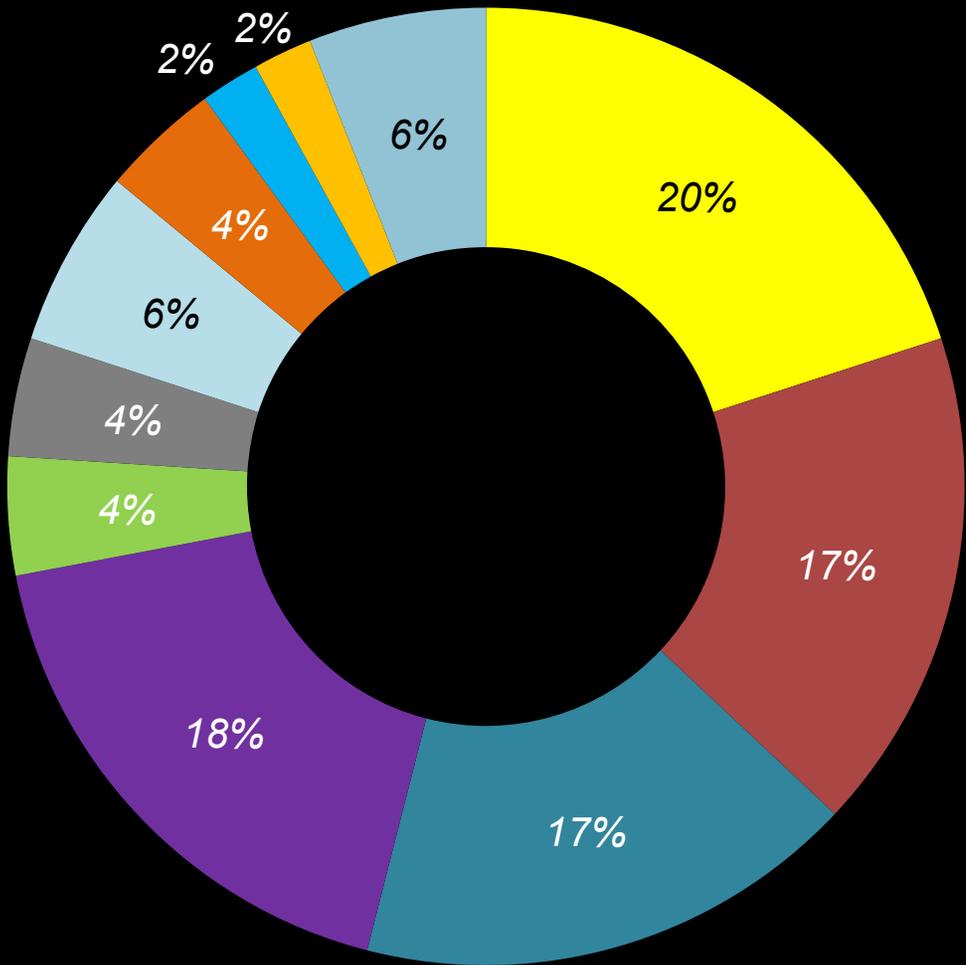
Cagayan Electric Power and Light Company

Dagupan Electric Corporation (DECORP)

Source: ERC

PLAYERS IN GENERATION

Philippine Market Share (12,727 MW)

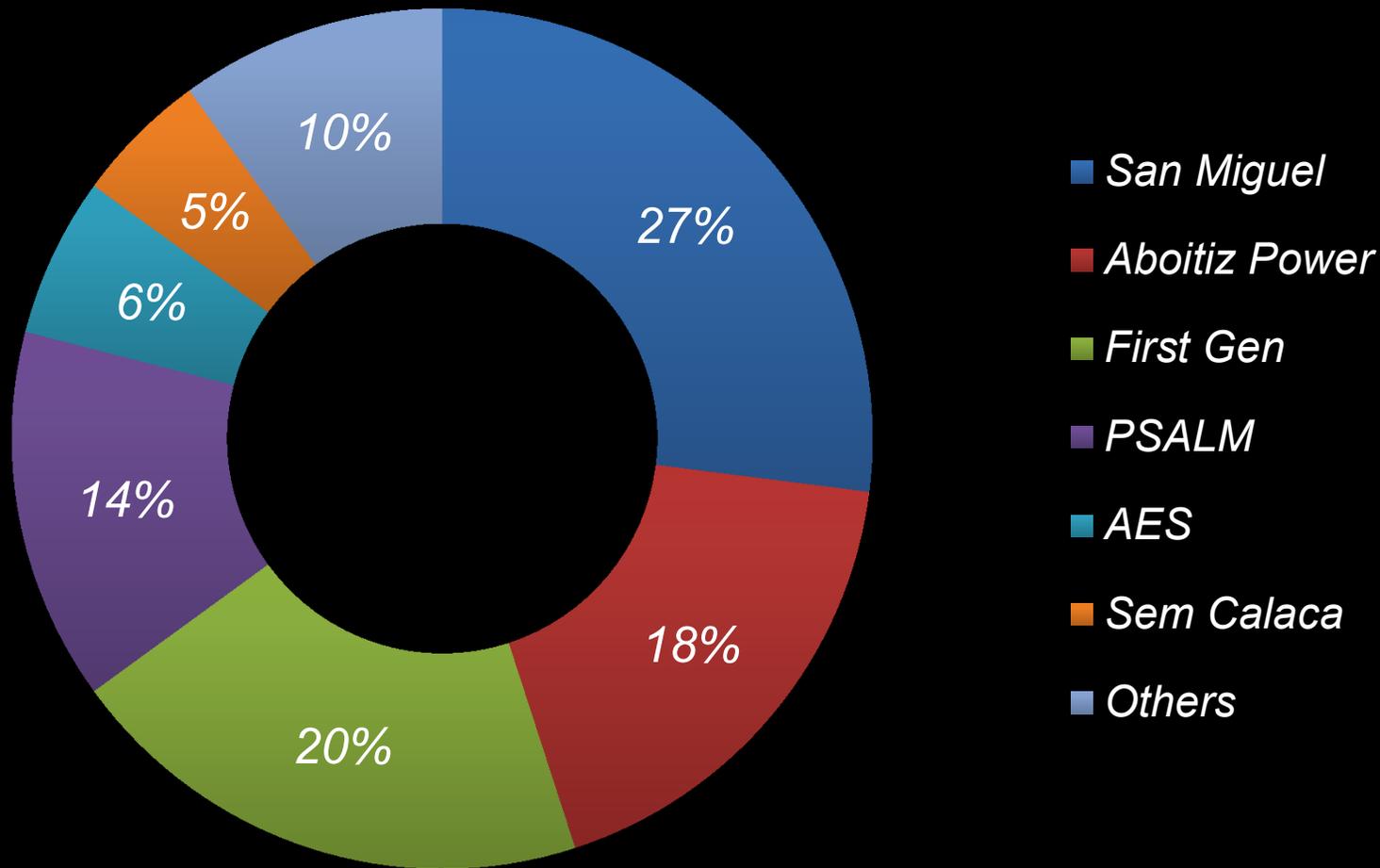


- San Miguel
- Aboitiz Power
- First Gas/First Gen
- PSALM
- AES Transpower
- SEM Calaca
- NPC
- Global Business Power Corp.
- Salcon Phils./ATLAS
- K-Water
- Others

Source: Department of Energy, KPMG

PLAYERS IN GENERATION

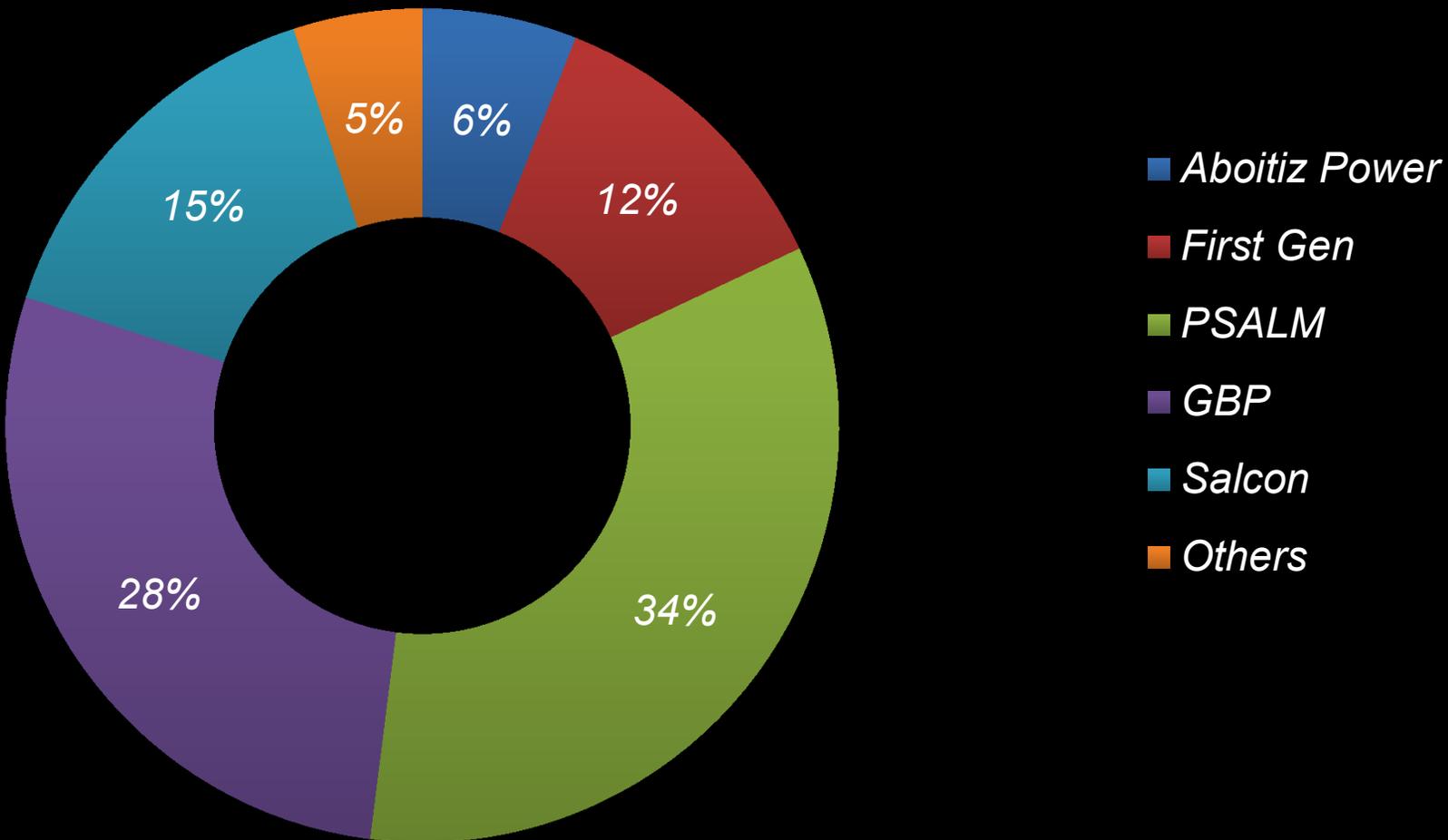
Luzon Market Share



Source: Department of Energy, KPMG

PLAYERS IN GENERATION

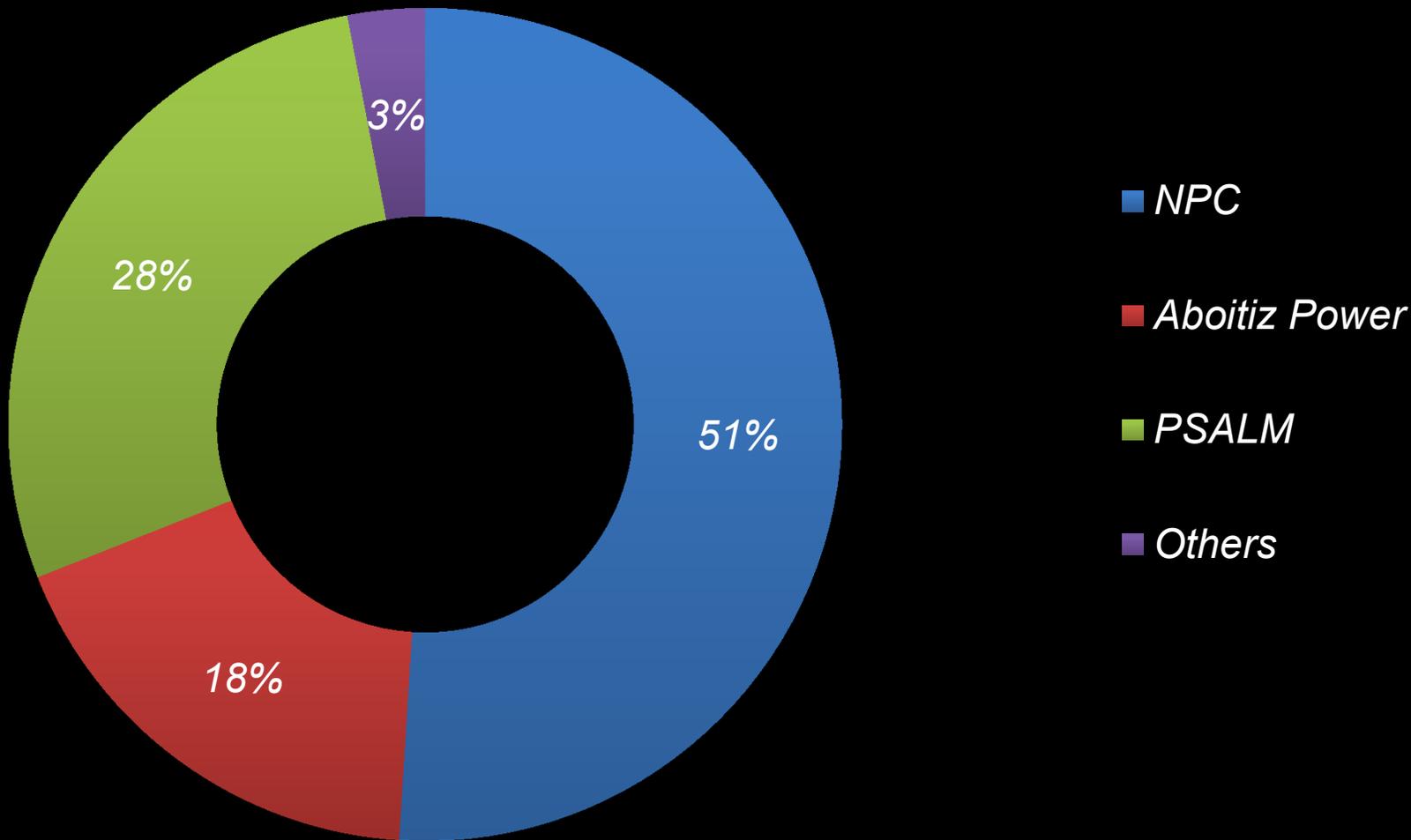
Visayas Market Share



Source: Department of Energy, KPMG

PLAYERS IN GENERATION

Mindanao Market Share (MW)



Source: Department of Energy, KPMG

PLANS OF PLAYERS IN GENERATION

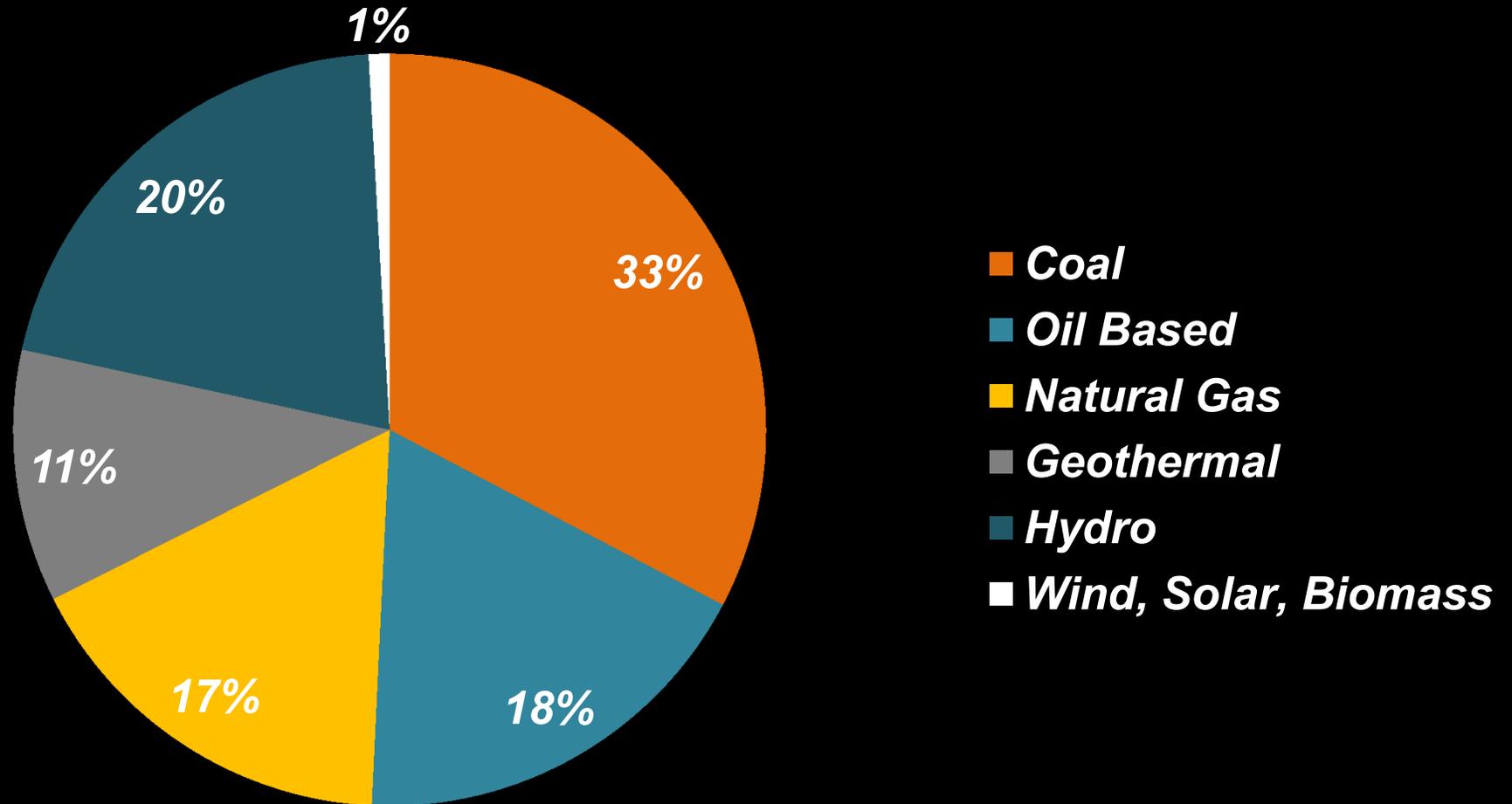
<i>Company</i>	<i>Planned Capacity</i>	<i>Committed Capacity</i>	<i>Location</i>	<i>Date of Commissioning</i>
<i>San Miguel</i>	<i>3,000MW</i>	<i>300 MW</i>	<i>Limay, Bataan</i>	<i>150 MW – Dec 2015 150 MW – May 2016</i>
<i>AboitizPower</i>	<i>2,500MW</i>	<i>400 MW 600 MW 14 MW</i>	<i>Pagbilao, Quezon Redondo, Subic Sabangan</i>	<i>2017 2018</i>
<i>First Gen</i>	<i>ND* on total</i>	<i>300 MW 550 MW 87 MW</i>	<i>Batangas Batangas Burgos</i>	<i>2014 2015 2014</i>

**ND – no disclosure yet*

Source: DOE

PHILIPPINE ENERGY MIX

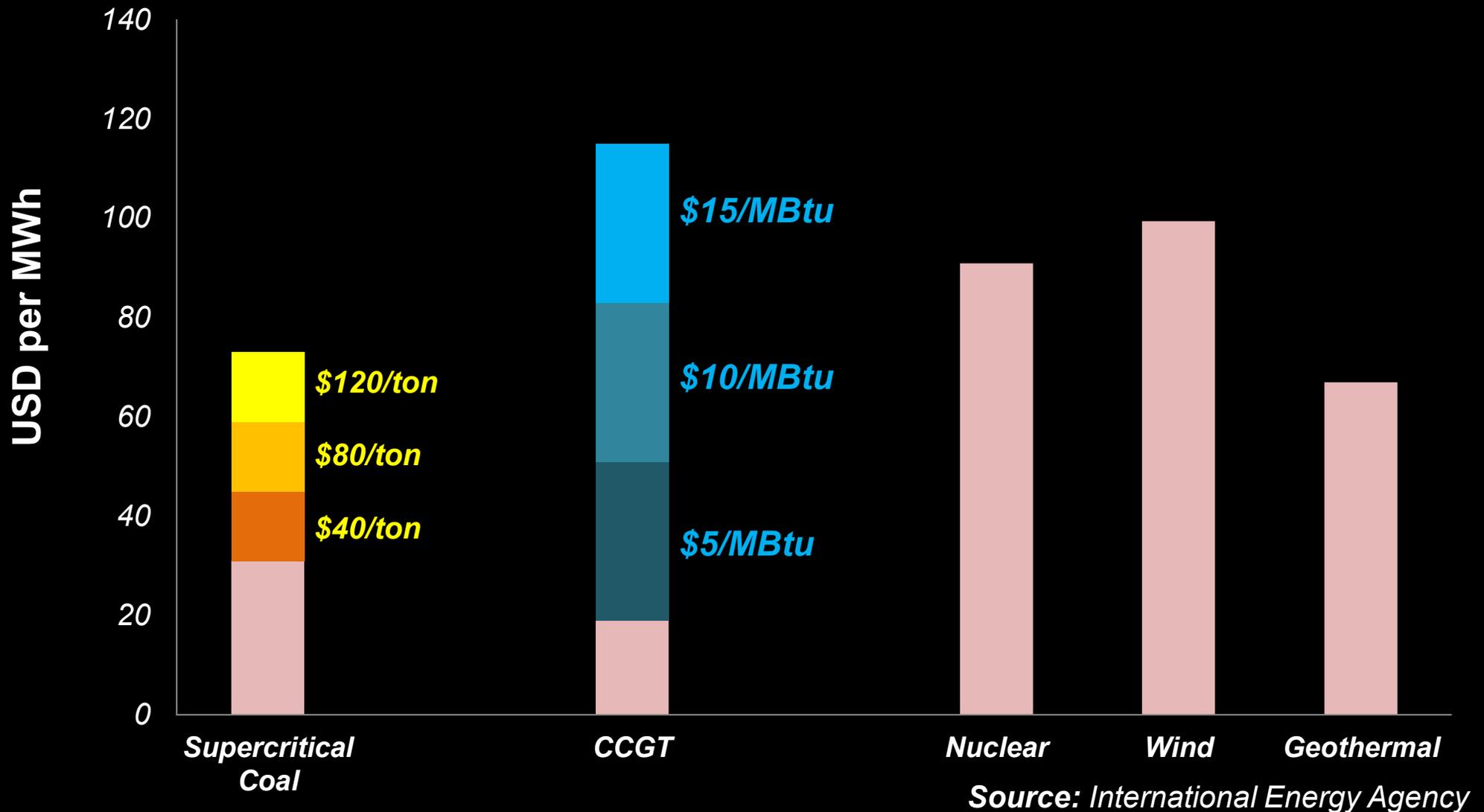
Philippine Installed Capacity 2012



Source: DOE

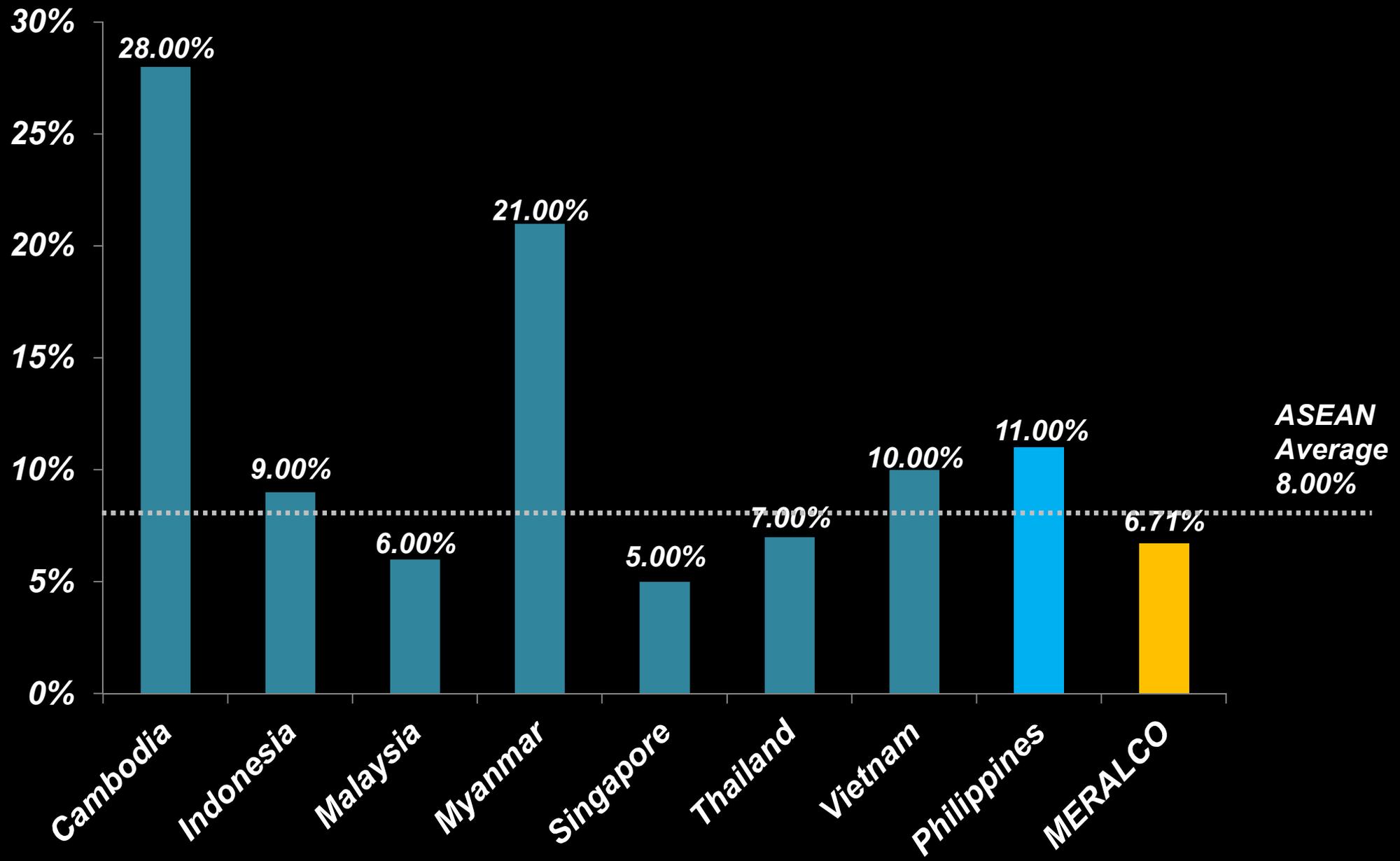
LEVELIZED COST OF ELECTRICITY

Electricity Generation Costs in ASEAN under Different Coal and Gas Price Assumptions, 2020-2035



Source: International Energy Agency

REGIONAL SYSTEM LOSS PERFORMANCE



Source: World Bank, MER disclosures

PHILIPPINE COST OF ELECTRICITY

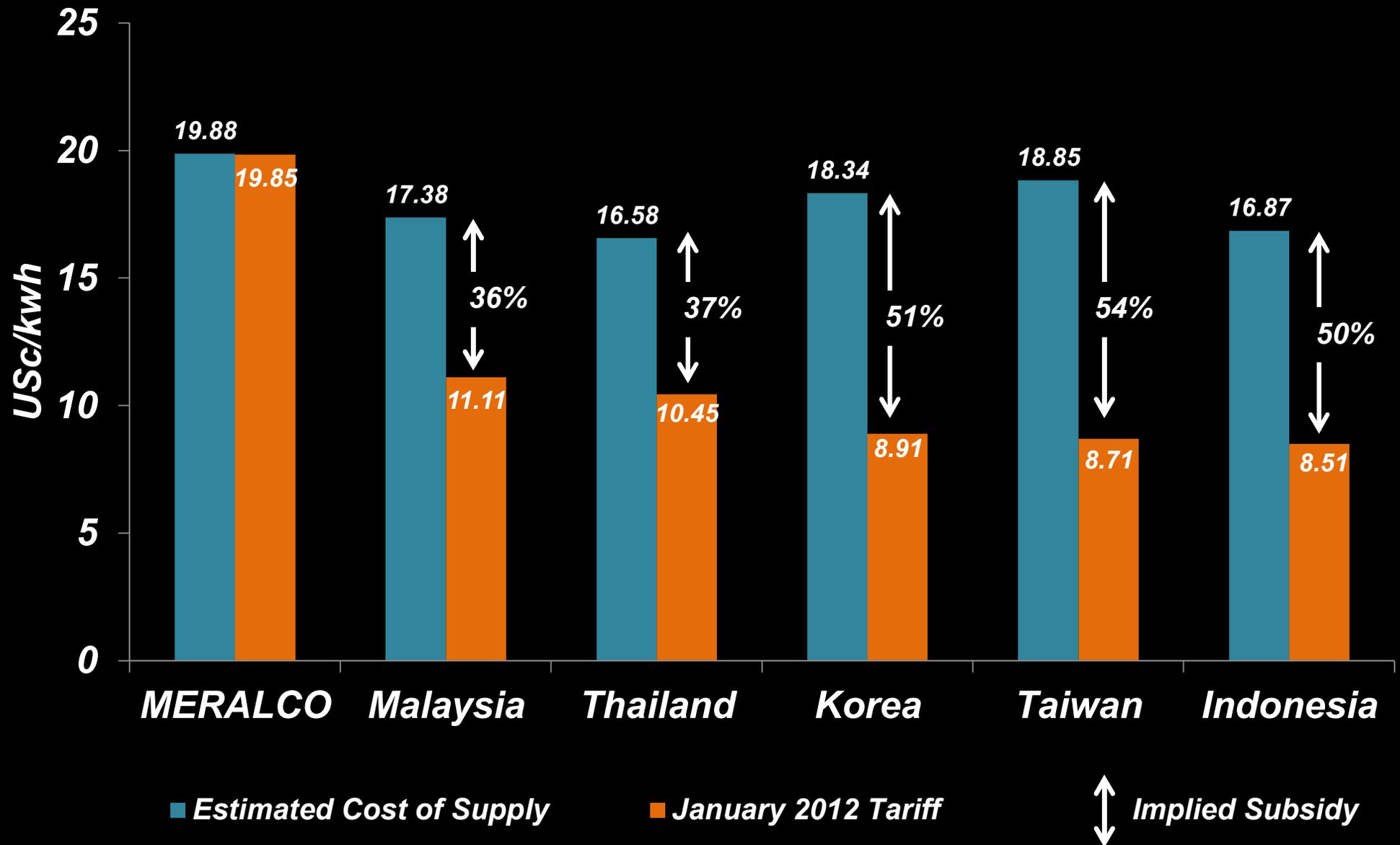
2nd highest in Southeast Asia

Reasons behind high rates

- ***No government subsidy***
- ***Higher costs of supply***
- ***Island nation/archipelago***

Source: International Energy Consultants (2012)

REGIONAL COMPARISON OF SUBSIDIES



Source: International Energy Consultants (2012)

RETAIL COMPETITION & OPEN ACCESS

SALIENT POINTS

<i>Key Points</i>	<i>Summary</i>
<i>Definition of RCOA</i>	<i>RCOA refers to the provision of electricity to a Contestable Customer (CC) by a Retail Electricity Supplier (RES) through open access</i>
<i>Definition of an RES</i>	<i>Any entity authorized to sell electricity to CCs</i>
<i>Changes brought about by RCOA</i>	<ul style="list-style-type: none"><i>• CC can choose an RES</i><i>• RES will do the buying and selling</i><i>• Distribution Utility will deliver electricity</i>
<i>Choosing an RES</i>	<i>Various licensed RES may now market their services to customers</i>
<i>RES prices</i>	<i>RES will earn a margin on generation charges; RES retail rate is based on agreements between the CC and RES</i>

Source: ERC, Department of Trade and Industry

Distribution Utilities

- *20 Private utilities*
- *128 Electric cooperatives*
 - *Control a smaller franchise area*
 - *Less financial flexibility*
 - *A lot go bankrupt because they can not pay their debts to the generation companies*

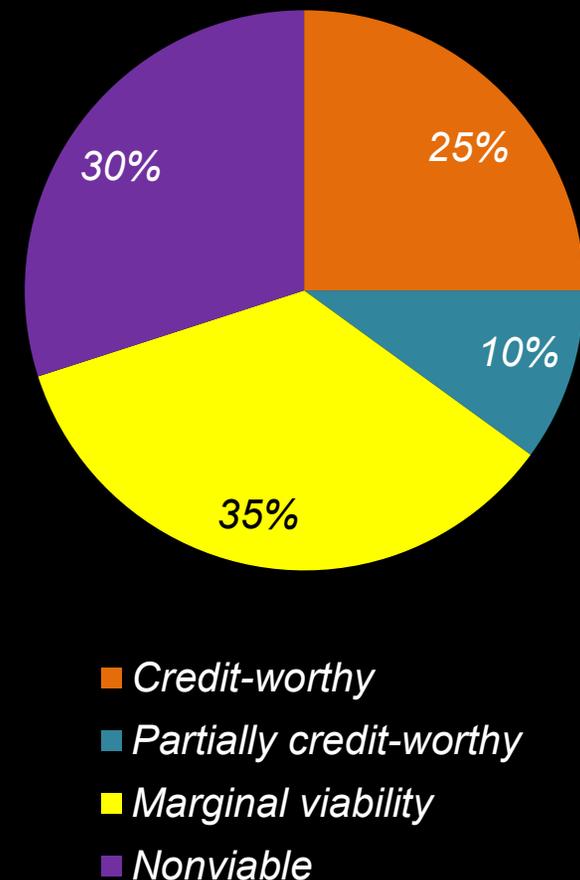
Source: Energy Regulatory Commission, The Committee on Legislative Franchises

OTHER DISTRIBUTION UTILITIES

Classification of electric cooperatives (EC) based on credit-worthiness

- 1. Credit-worthy, financially self-sufficient*
- 2. Partially credit-worthy, large size and density with potential efficiency gains*
- 3. Marginal viability, unable to attract private financing at present*
- 4. Nonviable, operating in low density and disadvantaged areas*

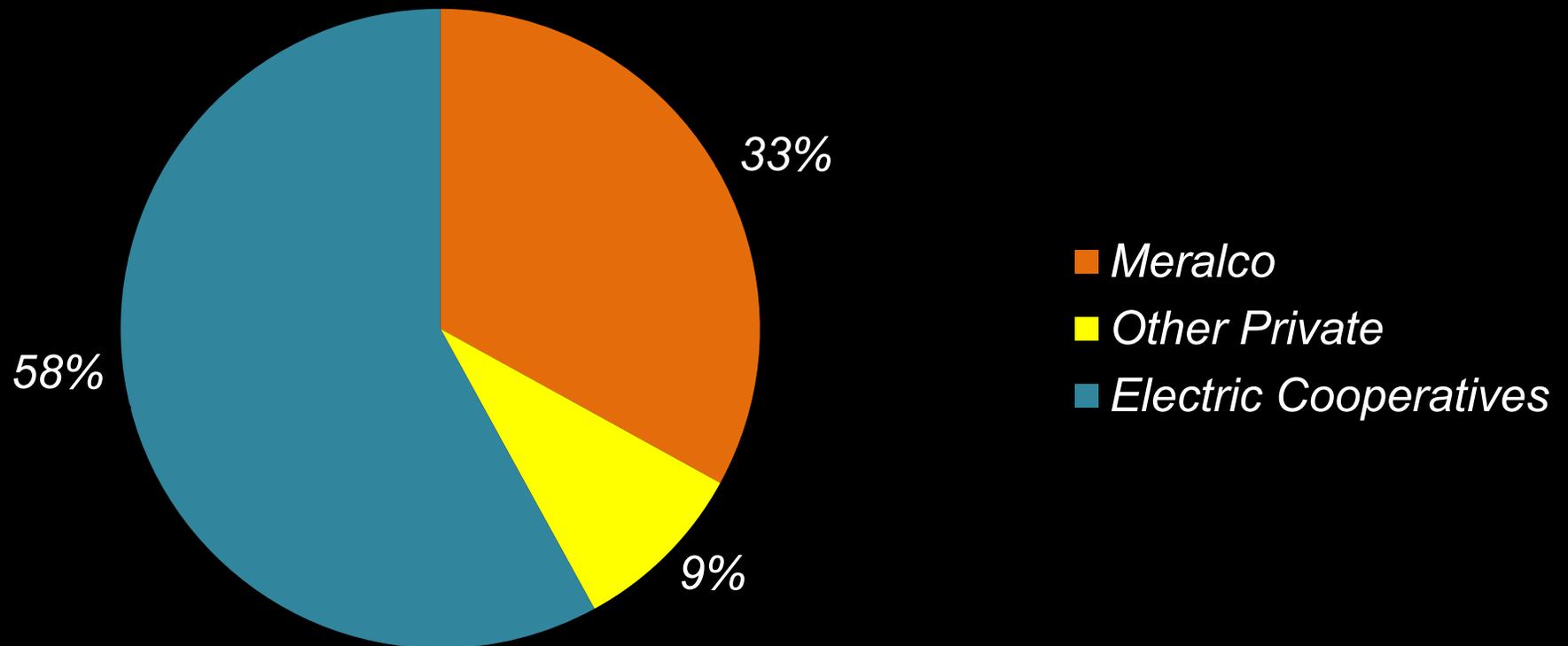
Out of 119 ECs and 19 private utilities (2007)



Source: Asian Development Bank (2007)

OTHER DISTRIBUTION UTILITIES

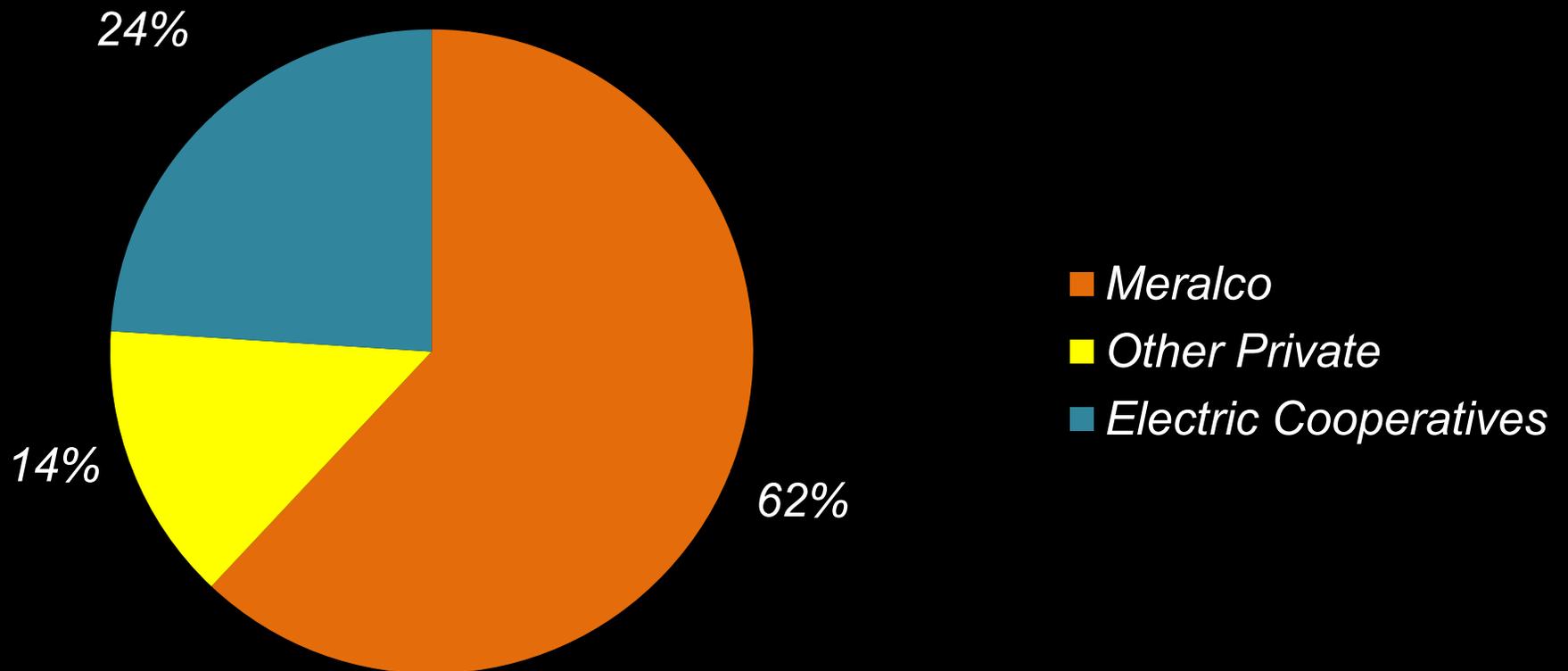
*No. of Consumers
(As of 2007)*



Source: Asian Development Bank

OTHER DISTRIBUTION UTILITIES

Electricity Consumption
(As of 2007)



Source: Asian Development Bank

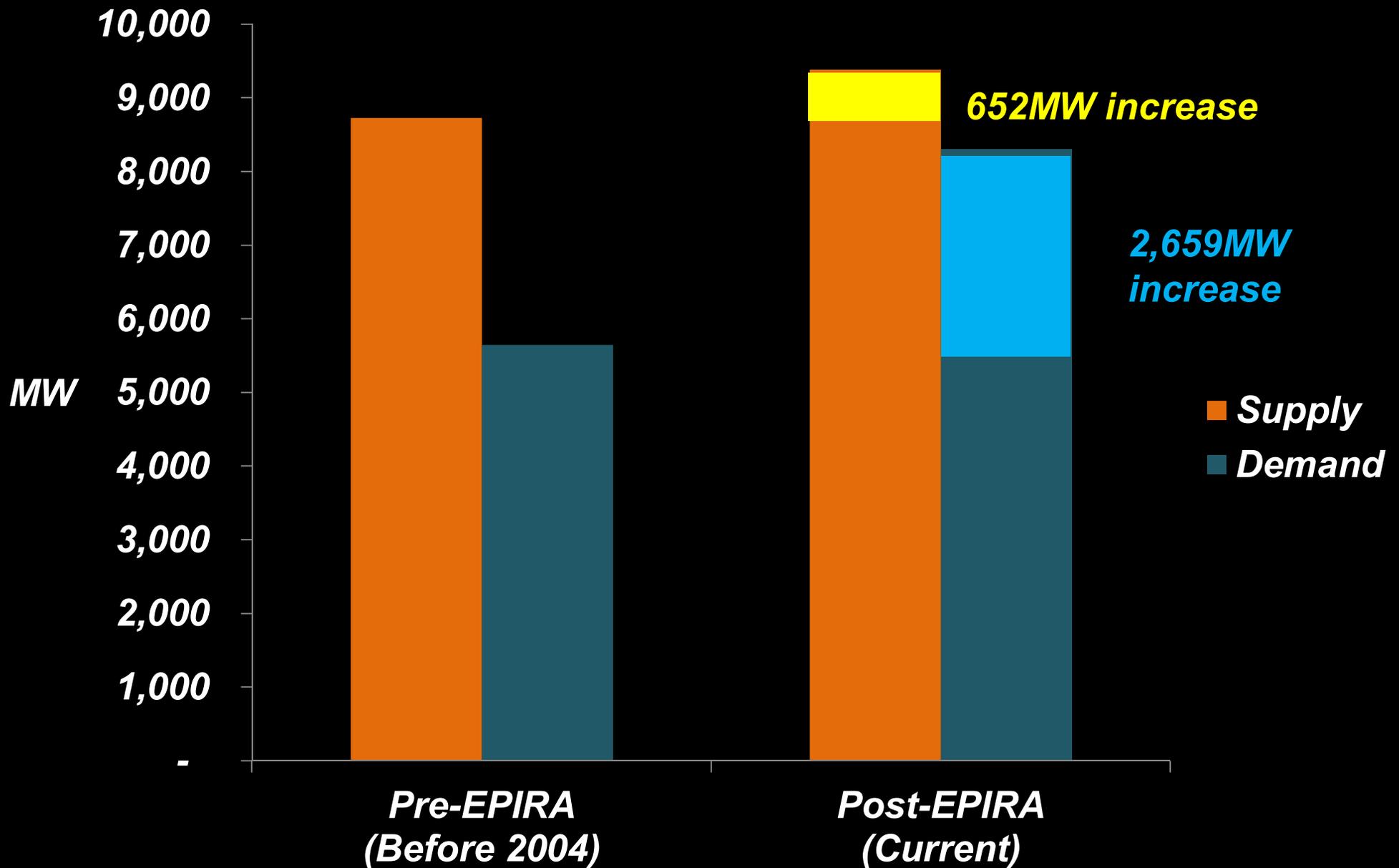
PHILIPPINE ELECTRICITY SPOT MARKET



Source: Philippine Energy Market Corporation

EPIRA

LUZON GRID SINCE EPIRA



Source: DOE, The Philippine Star

REGULATORY LIMITS ON GENERATION



Average Demand Limit

50% max
of **average demand** of the utility

Luzon Grid Limit*

30% max
of the **installed capacity in Luzon**

National Grid Limit*

25% max
of the **installed capacity in country**

Meralco's 1060MW (of planned 3000 MW) is not counted within the grid limits because it does not have a controlling interest.

Source: EPIRA, Energy Regulatory Commission, Company Data

REGULATORY LIMITS ON GENERATION



Average Demand Limit

Average demand: **34.6 GWh**

Max affiliate sourcing: **17.3 GWh**

Current affiliate sourcing: 0 GWh

Luzon Grid Limit*

Luzon grid capacity: **9,384 MW**

Max allowed: **2,186 MW**

Meralco-controlled: 0 MW

National Grid Limit*

National grid capacity: **12,727 MW**

Max allowed: **3,182 MW**

Meralco-controlled: 0 MW

* Meralco's 1060MW (of planned 3000 MW) is not counted within the grid limits because it does not have a controlling interest.

Source: EPIRA, Energy Regulatory Commission, Company Data

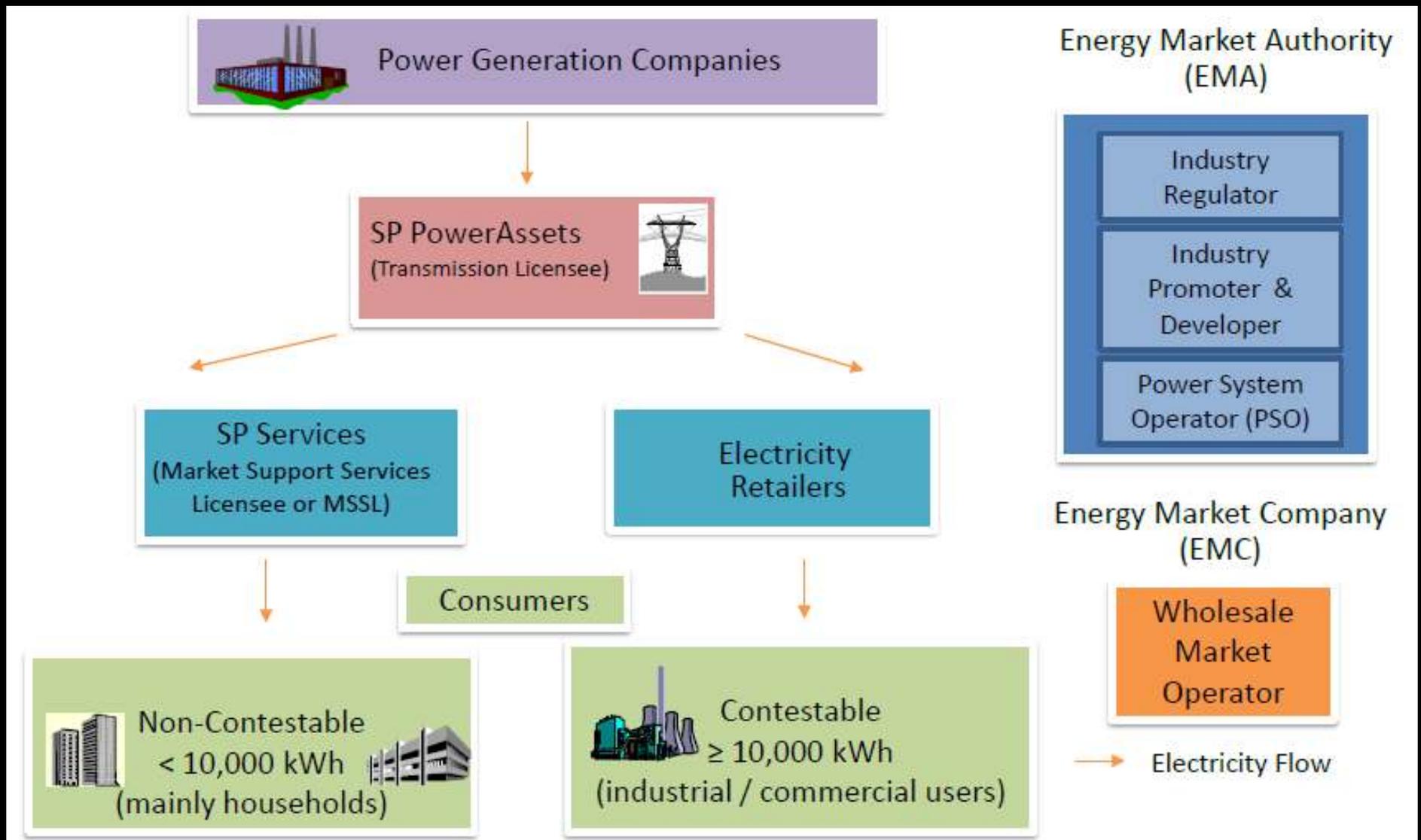
SINGAPORE DATA

PHILIPPINE VS SINGAPORE ENERGY MARKET

	<i>Philippines</i>	<i>Singapore</i>
<i>Prevalent Fuel type</i>	<i>Coal and Diesel</i>	<i>Natural gas</i>
<i>Fuel source</i>	<i>Imports</i>	<i>Imports</i>
<i>Sold through</i>	<ul style="list-style-type: none">• <i>Power Supply Agreements</i>• <i>WESM</i>	<ul style="list-style-type: none">• <i>WES</i>• <i>Retail</i>• <i>Government Vesting Contracts</i>
<i>Annual demand growth</i>	<i>4.4%</i>	<i>1.3 - 2.9%</i>

Source: ERC, DOE, SG Energy Market Authority, Energy Studies Institute (2013), APEC Energy Demand and Supply Outlook – 5th Edition

INDUSTRY OVERVIEW



Source: Energy Market Authority

INDUSTRY OVERVIEW

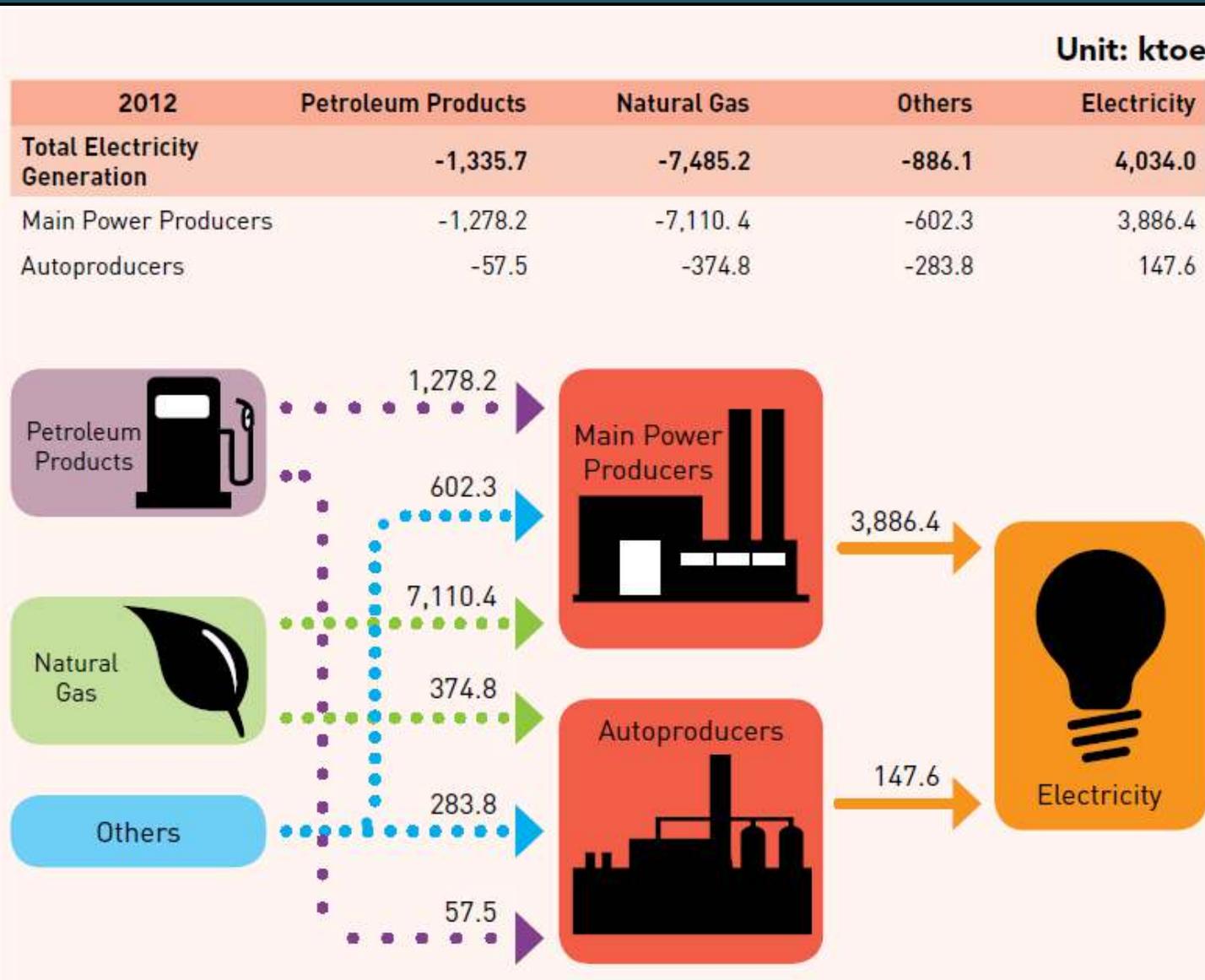
Contestable Sector (Gencos, Retailers)	Monopoly Sector (SP PowerAssets, SP Services, EMC)
<ul style="list-style-type: none">❖ Rely on market signals❖ Ensure level playing field❖ Low barriers to entry❖ Transparent rules and consistent application of rules	<ul style="list-style-type: none">❖ Regulate revenue/prices❖ Incentivise efficient behaviour❖ Set performance standards to prevent “cutting of corners”❖ Share cost savings with consumers❖ Open access

PRIVATIZED

LICENSED BY GOV'T

Source: Energy Market Authority

ENERGY TRANSFORMATION

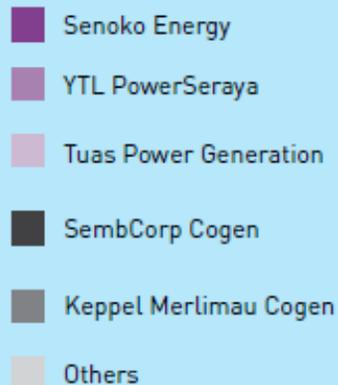
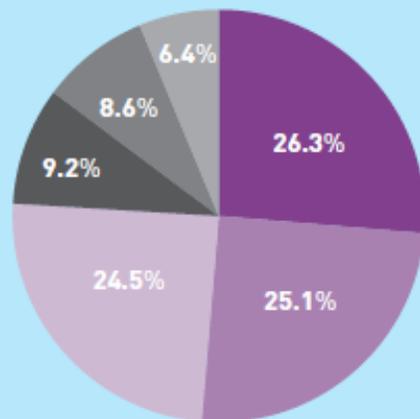


Source: Energy Market Authority

ENERGY SNAPSHOT SUPPLY SIDE

EMA's role:
Regulator of Singapore's
electricity and gas
industries and the Power
System Operator

Market Share of
Generation Companies



14 Generation Licensees with **10,477.5 MW** of installed generation capacity.

Refinery operations in Singapore produced **53.7 million** tonnes of oil equivalent (Mtoe) of refined products in 2011.

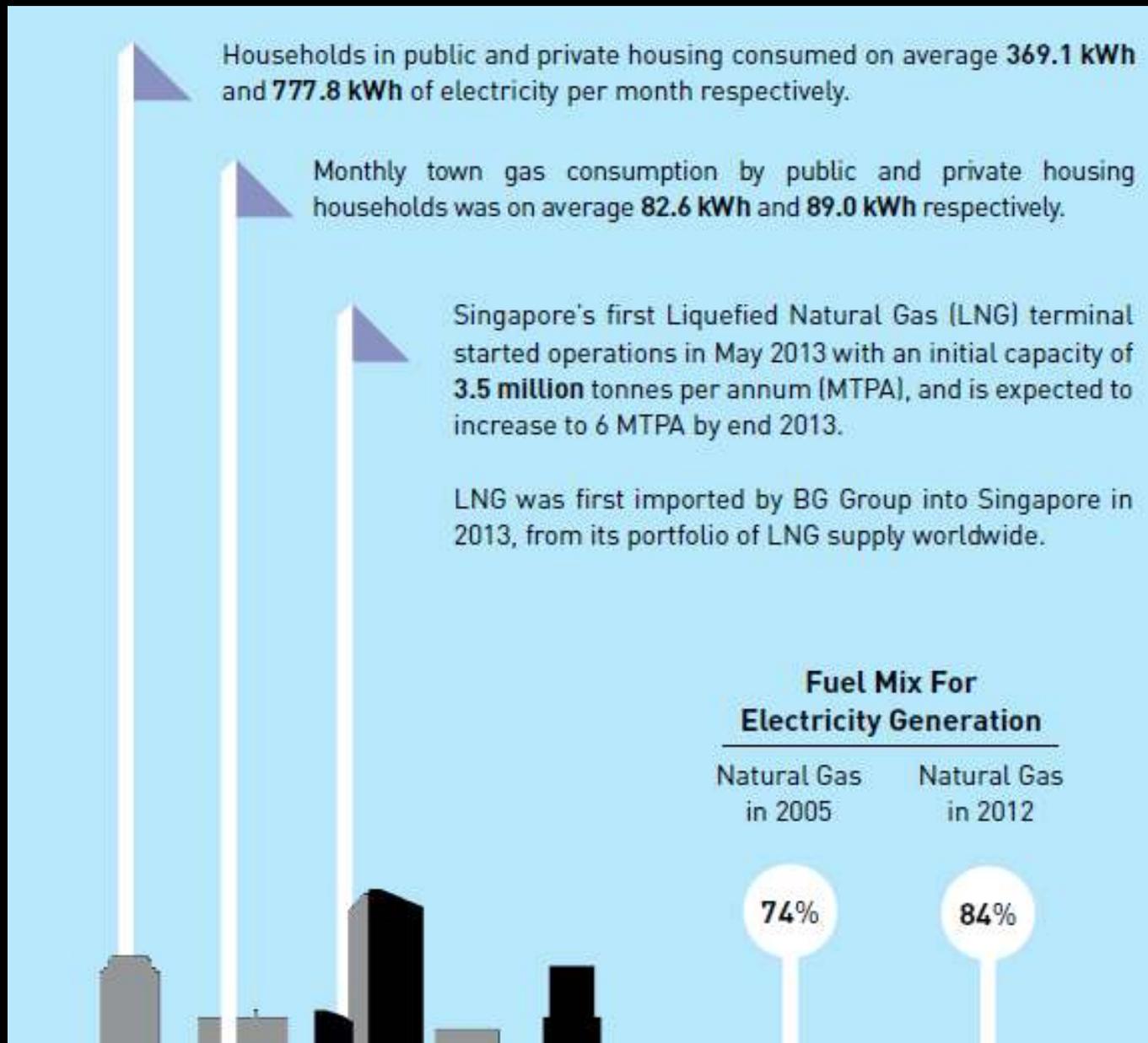
Contestable consumers accounted for **67%** of total electricity sales in 2012.

Total
Electricity Generated



Source: Energy Market Authority

ENERGY SNAPSHOT DEMAND SIDE



Source: Energy Market Authority

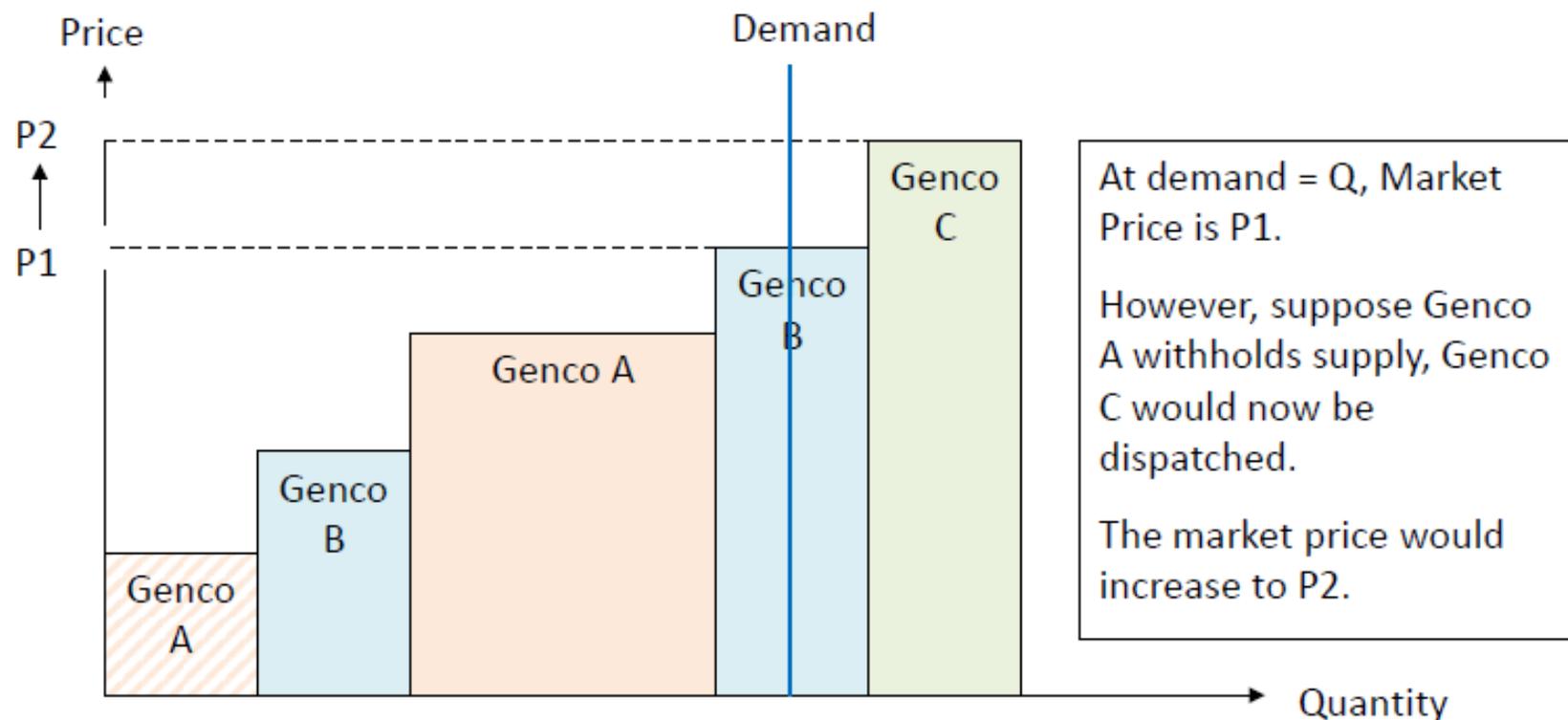
WHOLESALE ELECTRICITY MARKET

- **Power Generation companies bid half-hourly** to sell electricity, retailers/CCs buy the electricity (Auction system)
- **Market is operated by Energy Market Company** (EMC) who performs the market settlement/clearing function which is owned by the EMA and M-Co of New Zealand, but EMA still holds majority ownership
- **Price is determined by the Market Clearing Engine**- a computer model that takes into account system constraints and generates prices (nodes) that vary from different points in the network to take into account transmission losses/physical restrictions in the system
- **Generators are paid the market price** of the node it has been assigned
- If the generators provide reserve or regulation, they are paid the price for that. This varies depending on the type of group these players belong to.
- **Buyers pay the Uniform Singapore Energy Price** (USEP) which is the weighted-average nodal prices at all off-take nodes

Source: Energy Market Authority

WHOLESALE ELECTRICITY MARKET

- Wholesale electricity market is dominated by three large gencos, with combined market share of close to 80%.
- Gencos can potentially push prices up by withholding supply.



Source: Energy Market Authority

- Introduced in 2004 as a regulatory instrument to curb the potential exercise of market power by the generation companies
- Vesting Contracts:
 - Commit generation companies to sell a specified amount of electricity at a specified price
 - Removes incentive for generation companies to withhold capacity to bid up spot prices in the wholesale electricity market

Source: Energy Market Authority

VESTING CONTRACTS

$$\text{Hedged Price} \quad = \quad \text{LRMC} \quad \times \quad \frac{\text{Current Cost}}{\text{Base Cost}}$$

Per Half-Hour *Long-Run Marginal Cost*

Variable	Determination
LRMC	<ul style="list-style-type: none"> (1) Applied using the LRMC of the most efficiently configured Generating Unit of the most economic generating technology in operation in SG (2) Determined by the Energy Market Authority (EMA) using economic and technological parameters
Current Cost	<ul style="list-style-type: none"> (1) Quarterly cost of operating the Generating Unit for the quarter which the hedged price is being determined (2) Fuel, Capital, and Overhead Costs incurred during the base quarter, adjusted for their respective price indices
Base Cost	<ul style="list-style-type: none"> (1) Quarterly cost of operating the Generating Unit for a specified base quarter (2) Fuel, Capital, and Overhead Costs incurred during a base quarter

Source: Energy Market Authority

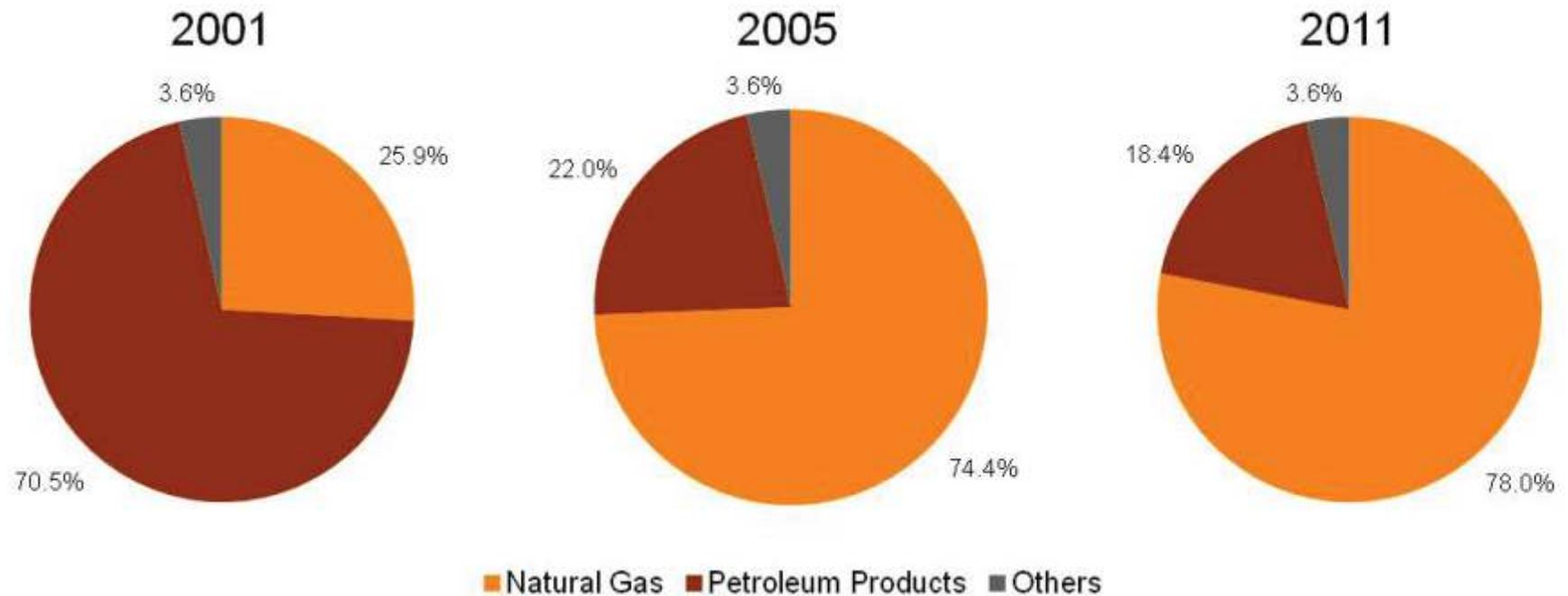
BG Singapore Gas Marketing Pte Ltd (BG)

- *LNG Aggregator in Singapore until 2028*
- *Appointed by the Singapore Energy Market Authority (EMA)*
- *Exclusive license to supply 3 million tons p.a. of LNG*

Source: Pacific Light Website, BG Group Website

SINGAPORE ENERGY MARKET

Singapore Fuel Mix for Electricity Generation



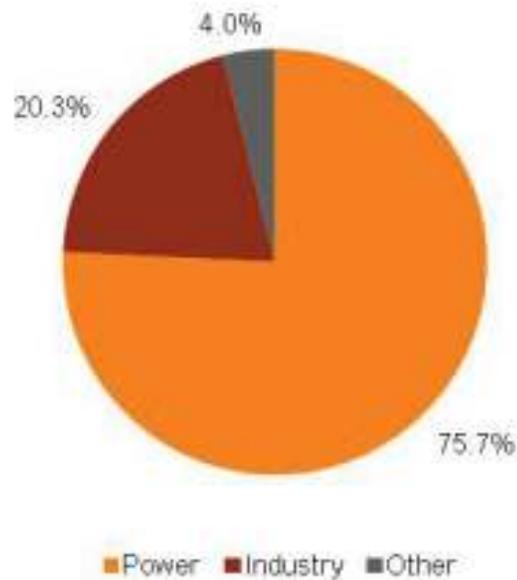
Natural gas is critical to Singapore's power sector and economy

Source: EMA Singapore Energy Statistics Report 2012, EMA Annual Report 2004/5

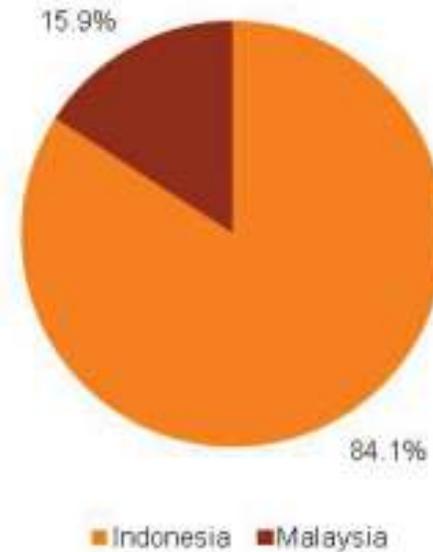
Source: P. Turner, A. Barker, BG Group

SINGAPORE ENERGY MARKET

2011 Gas Demand



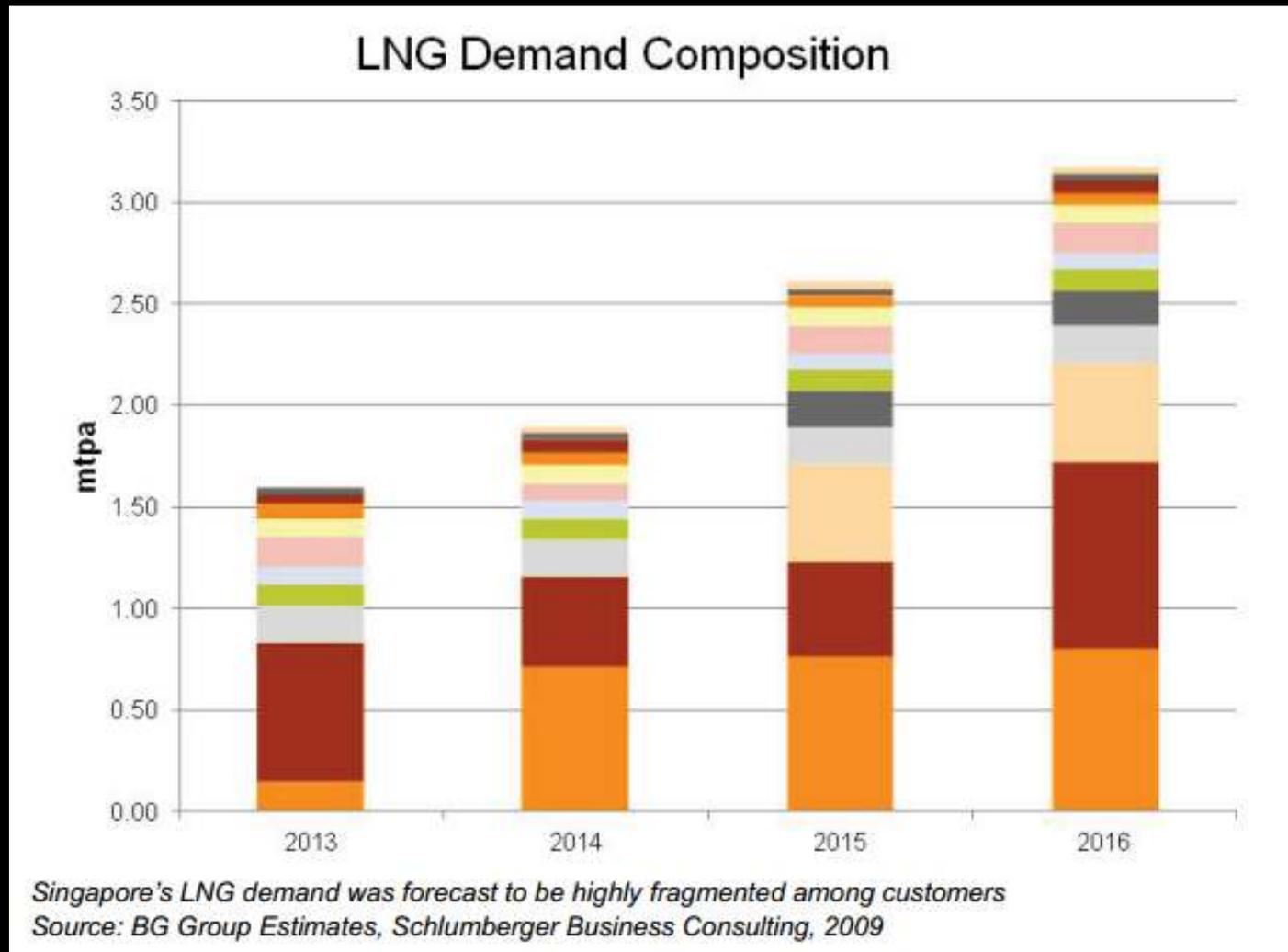
2011 Gas Supply



Singapore primarily sources gas supply from Indonesia for use in the power sector
Source: Wood Mackenzie, November 2012

Source: P. Turner, A. Barker, BG Group

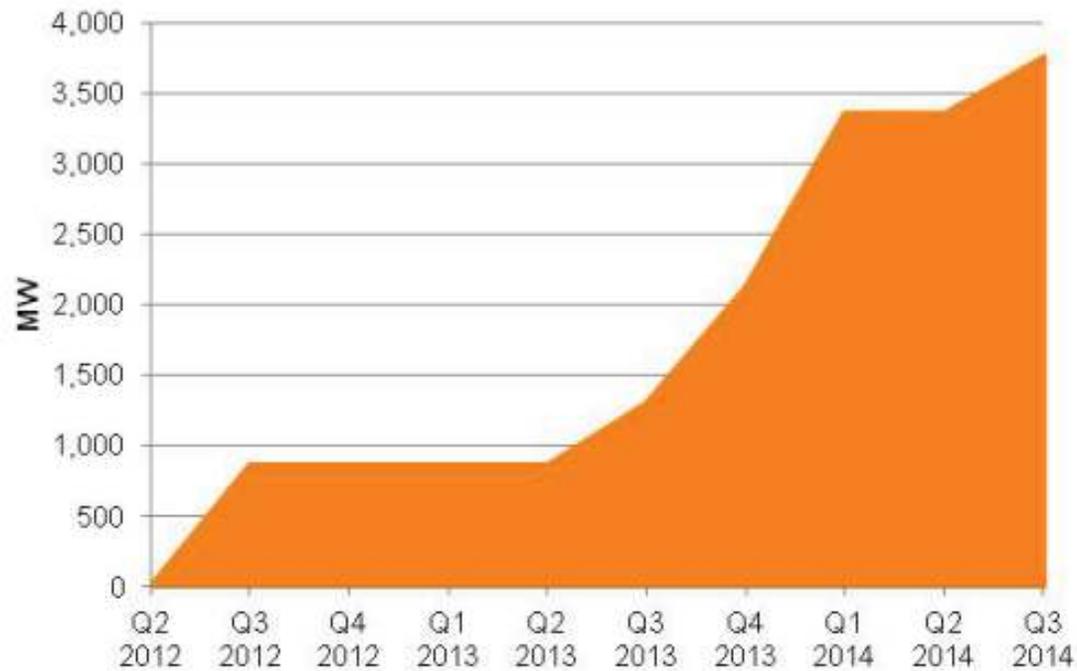
SINGAPORE ENERGY MARKET



Source: P. Turner, A. Barker, BG Group

SINGAPORE ENERGY MARKET

Incremental Gas Fired Generation Capacity

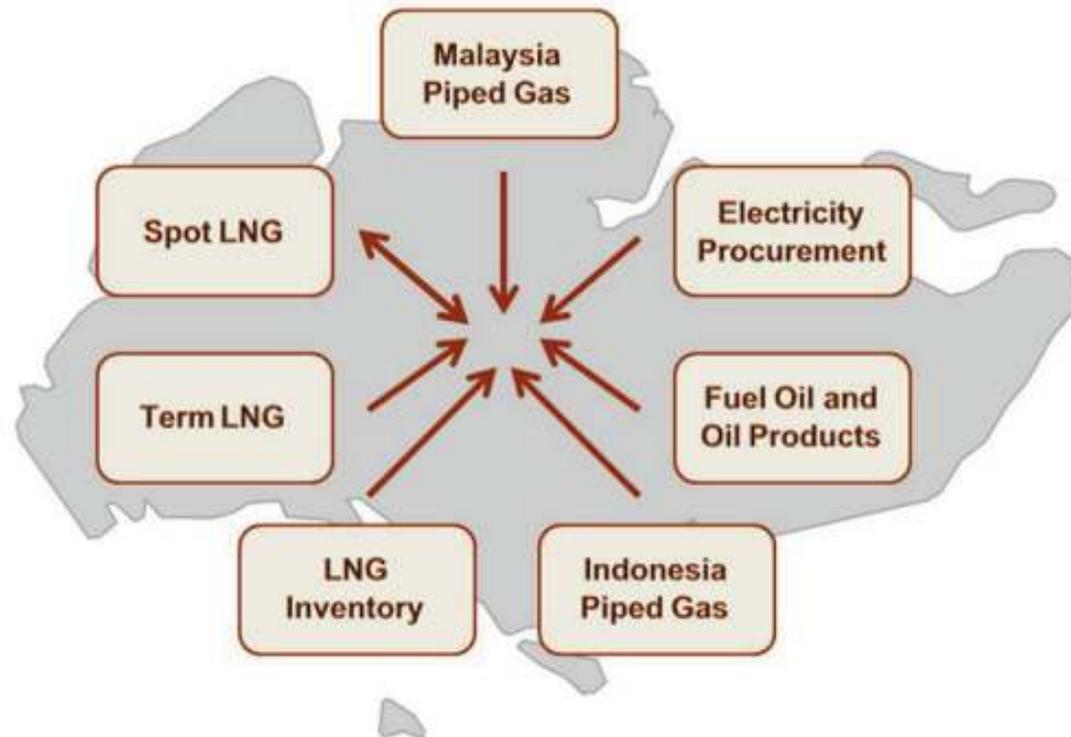


Significant investment in high efficiency gas fired generation coincides with the arrival of regasified LNG and the start of regasified LNG vesting contracts

Source: Tri-Zen Consulting, BG Group Estimates, May 2012

Source: P. Turner, A. Barker, BG Group

SINGAPORE ENERGY MARKET

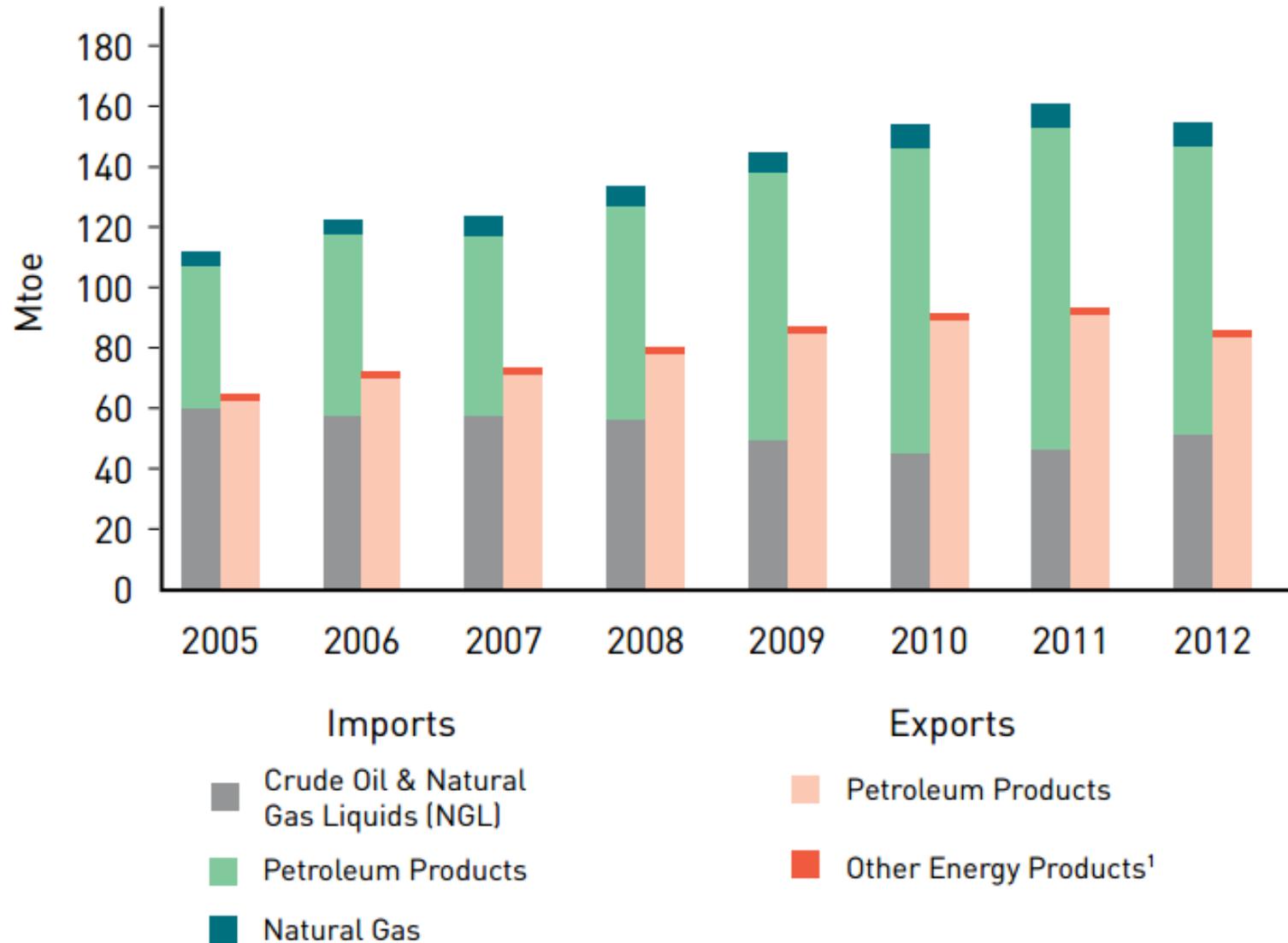


*Schematic illustrating the potential for fuel competition within Singapore
Source: BG Group, November 2012*

Source: P. Turner, A. Barker, BG Group

SINGAPORE ENERGY MARKET

Imports and Exports of Energy Products



Source: Singapore Energy Statistics 2013

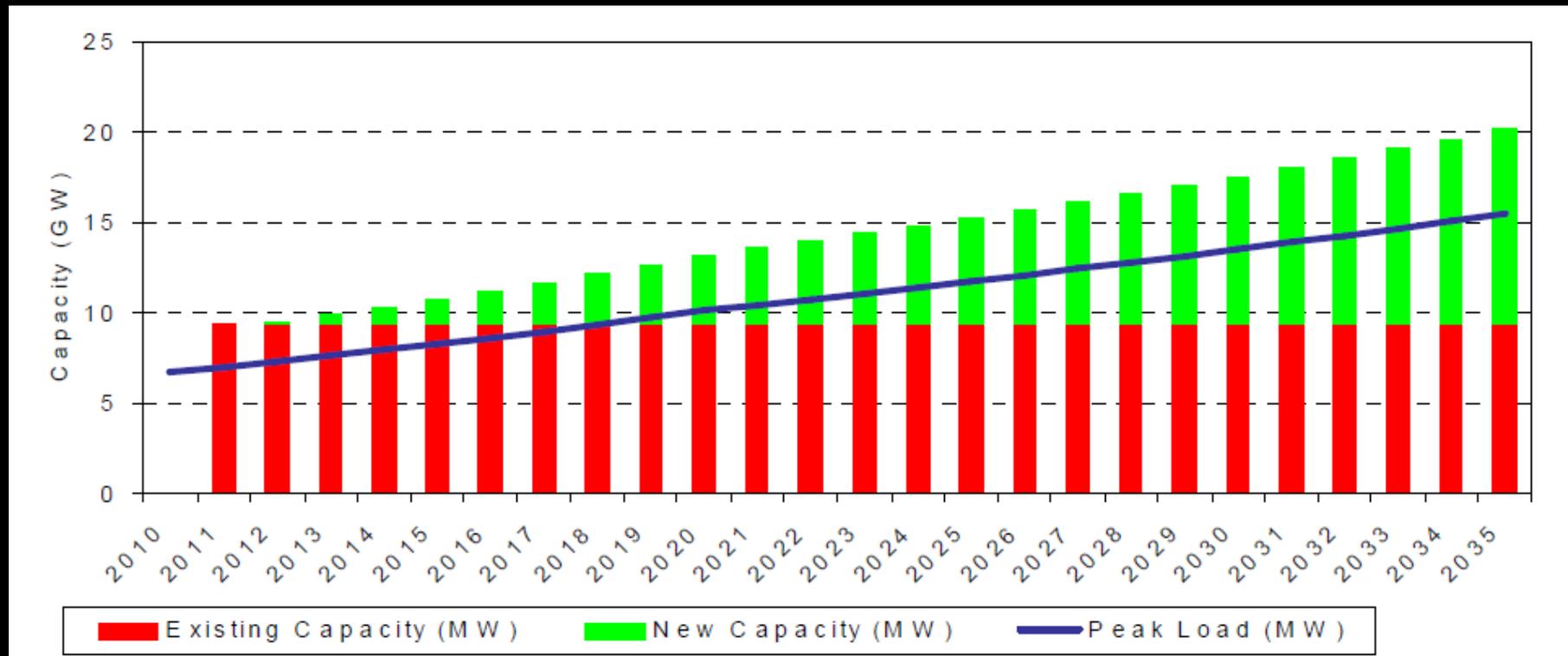
SINGAPORE ENERGY MARKET

Economy	Final Electricity Demand (TWh)			CAGR	
	1990	2009	2035F	1990-2009	2009-2035
Australia	129	214	318	2.70%	1.50%
Brunei Darussalam	1	3	4	6.30%	0.50%
China	482	3065	8765	10.20%	4.10%
Hong Kong, China	24	42	56	3.00%	1.20%
Indonesia	28	135	546	8.60%	5.50%
Japan	750	934	957	1.20%	0.10%
Korea	94	406	573	8.00%	1.30%
Malaysia	20	96	206	8.60%	3.00%
New Zealand	28	38	50	1.60%	1.10%
Papua New Guinea	2	3	11	3.50%	5.00%
Philippines	21	51	157	4.70%	4.40%
Singapore	13	36	51	5.50%	1.30%
Chinese Taipei	77	202	312	5.20%	1.70%
Thailand	38	135	339	6.90%	3.60%
Viet Nam	6	77	385	14.20%	6.40%

Source: APEC Energy Demand and Supply Outlook – 5th Edition

SINGAPORE ENERGY MARKET

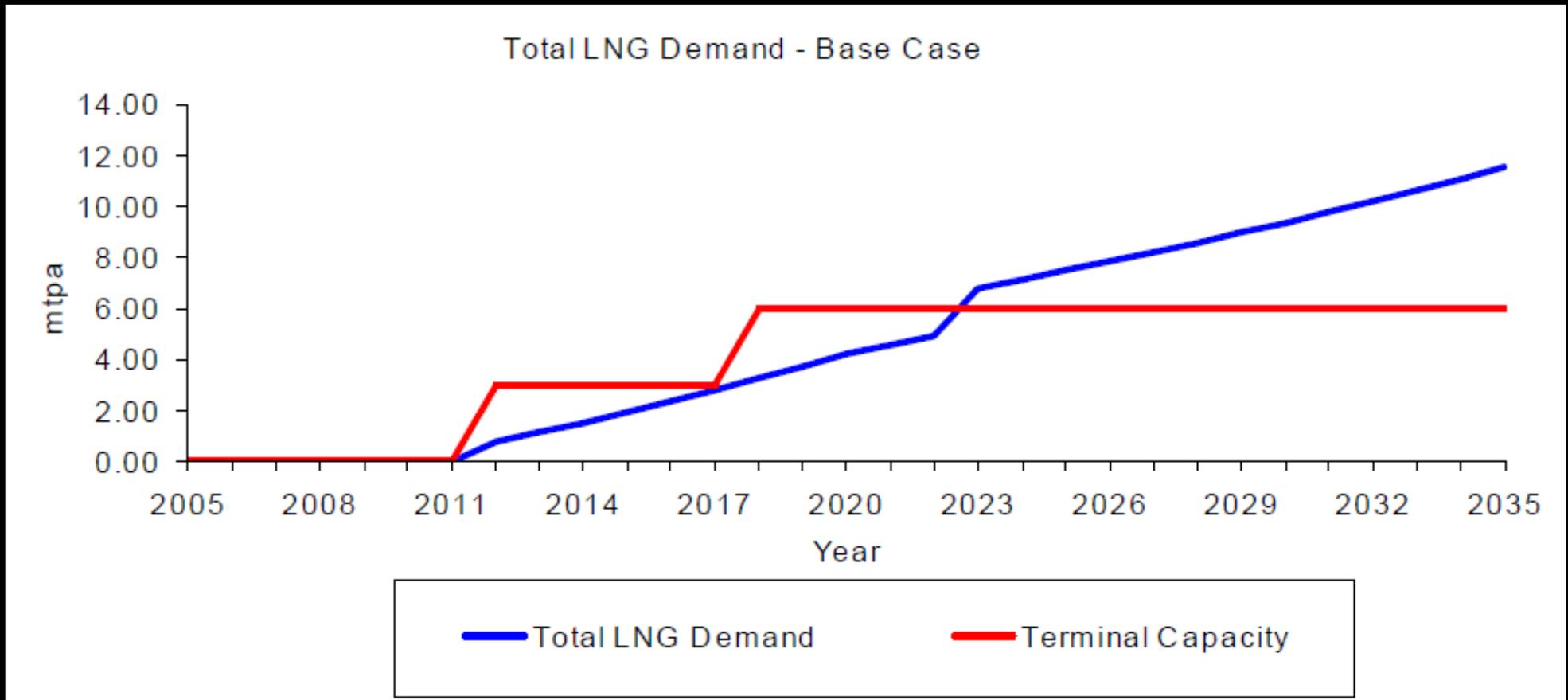
Electricity Demand Forecast



Source: Energy Market Authority

SINGAPORE ENERGY MARKET

LNG Terminal Demand and Capacity Profile



Source: Energy Market Authority – 5th Edition

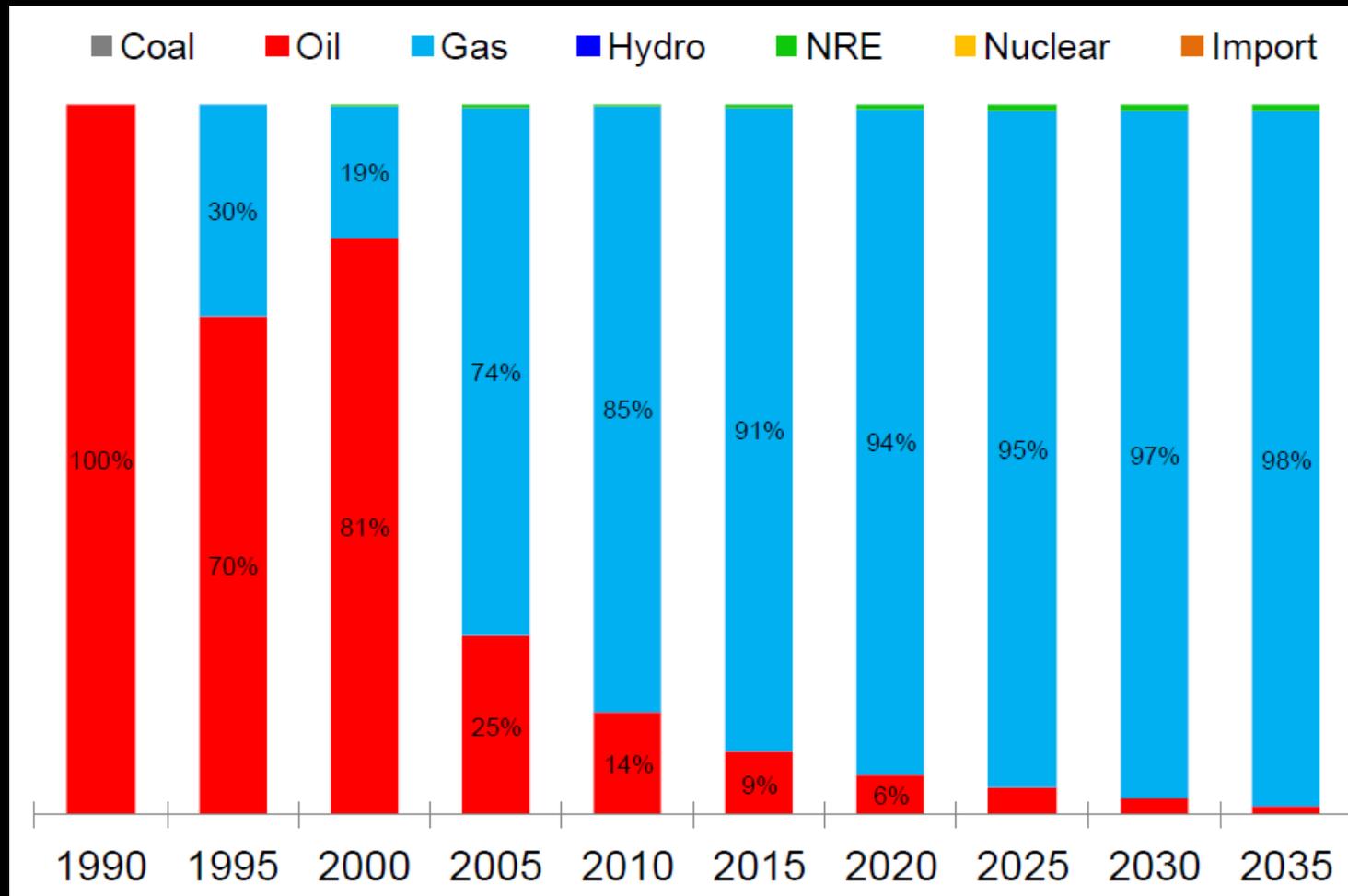
LNG Demand Forecast and Importation Expectations

- (1) Switching is expected when LNG Prices become more competitive than PNG (0.5 mpta in the base case)*
- (2) Switching is expected given the prices of oil which remain to be high*
- (3) Total gas demand is expected to be independent of LNG / PNG prices*

Source: Energy Market Authority

SINGAPORE ENERGY MARKET

Forecasted Electricity Generation Mix (High Gas Scenario)

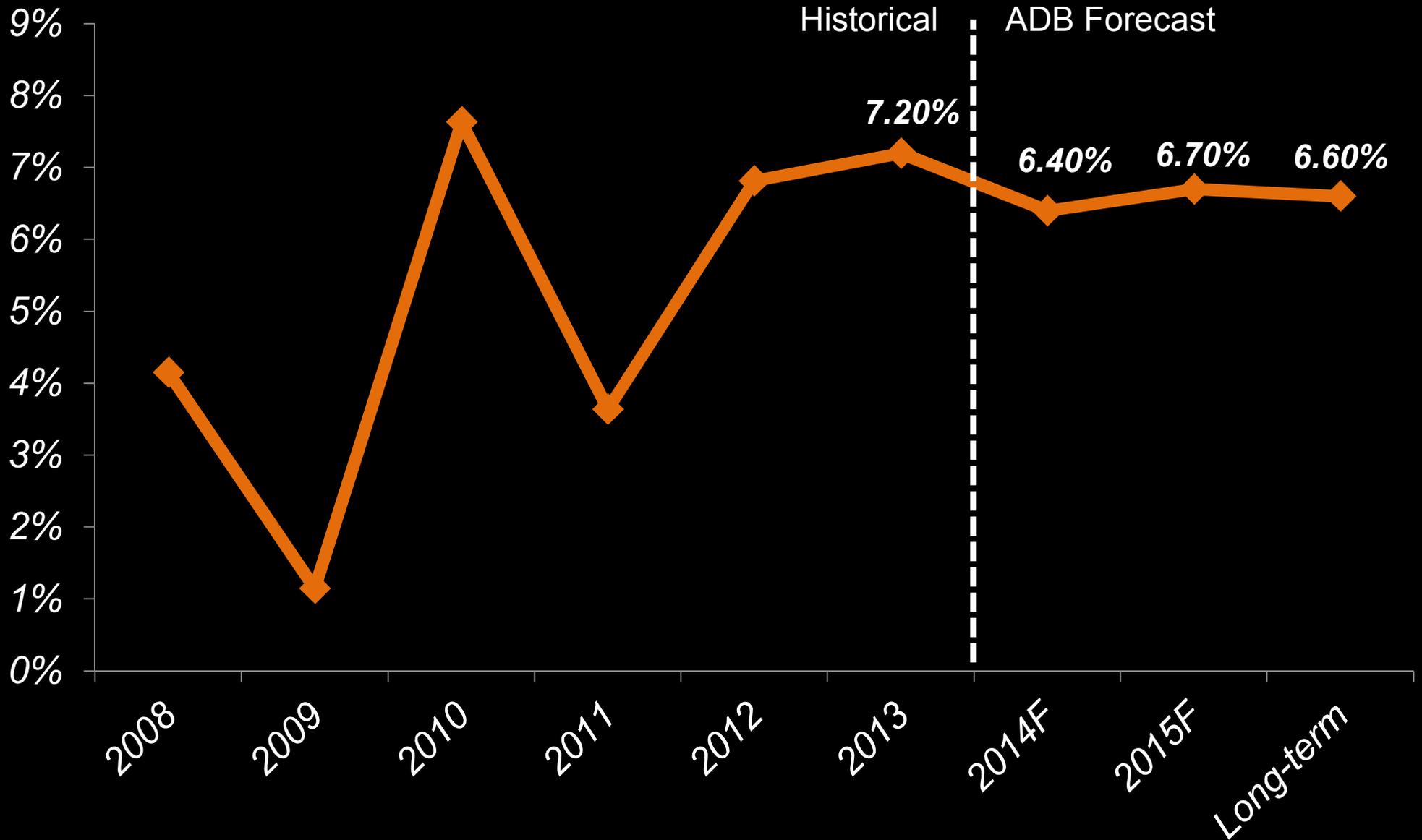


Source: APEC Energy Demand and Supply Outlook



GENERAL ECONOMY

GDP GROWTH RATE



Source: Bangko Sentral ng Pilipinas, Asian Development Bank

Foreign Direct Investments (FDI)

- *33% actual growth in 3Q13*

Consumption

- *5.6% Growth in 2014*

Infrastructure

- *3.5% of GDP per Government Program*

Manufacturing

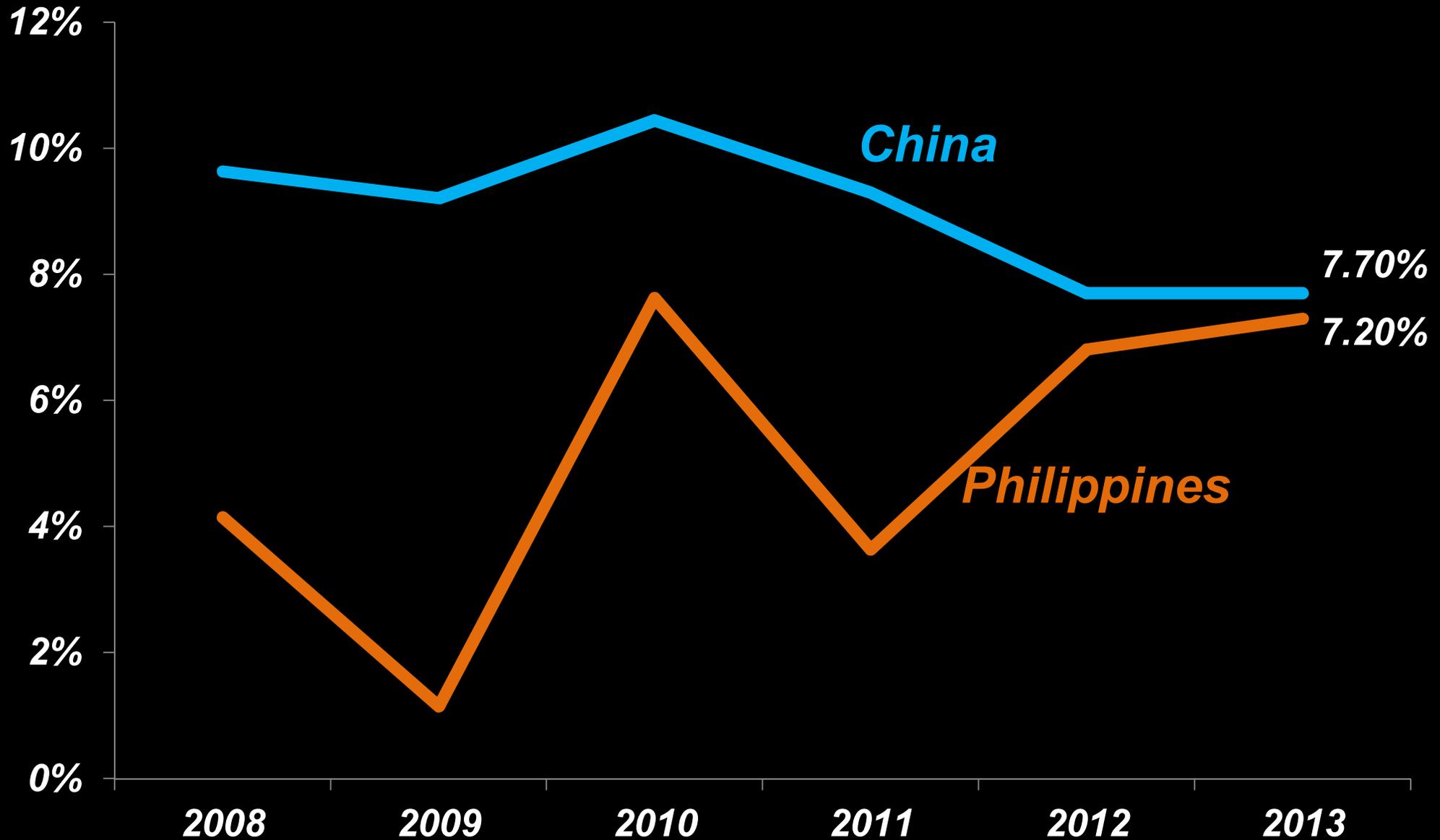
- *12% Actual Growth in 3Q13*

Source: Moody's Investor Services

Credit Rating Upgrade

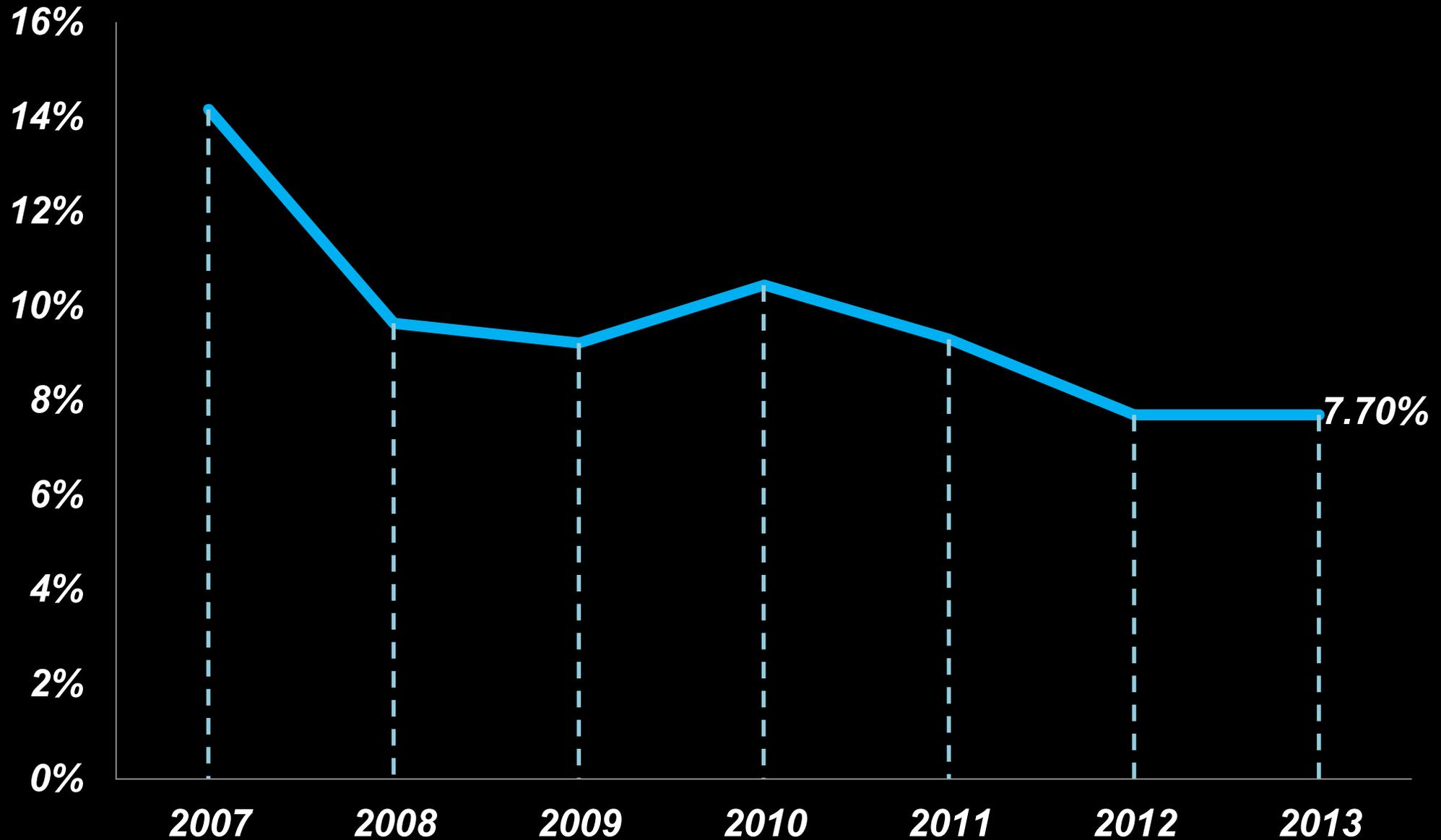
<i>S&P</i>	<i>BBB-</i>	<i>Investment Grade</i>
<i>Moody's Investor Service</i>	<i>Baa3</i>	<i>Investment Grade</i>
<i>Fitch</i>	<i>BBB-</i>	<i>Investment Grade</i>

PH AND PRC GDP



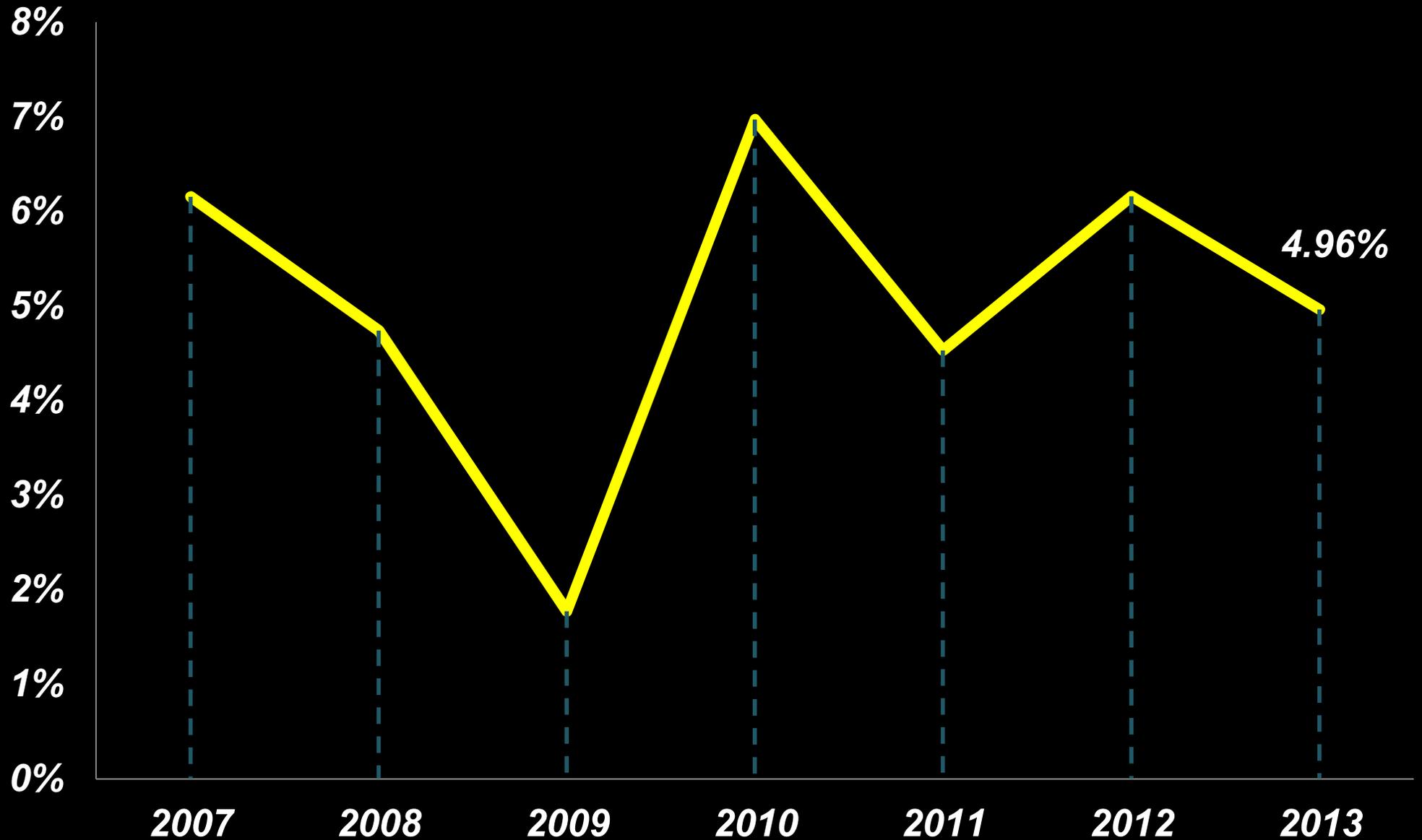
Source: Bangko Sentral ng Pilipinas, International Monetary Fund

PRC GDP GROWTH RATE



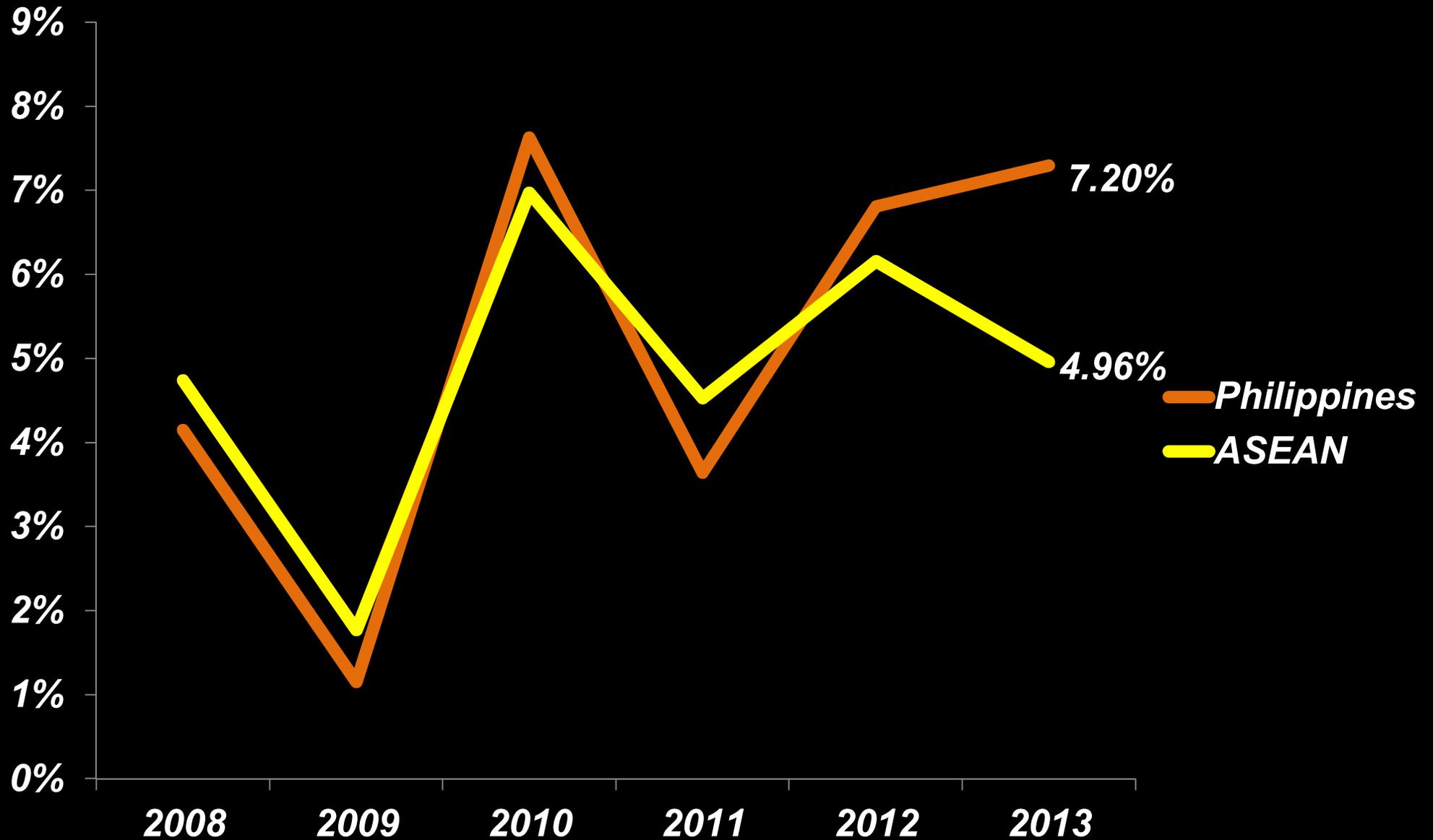
Source: International Monetary Fund

ASEAN GROWTH RATE



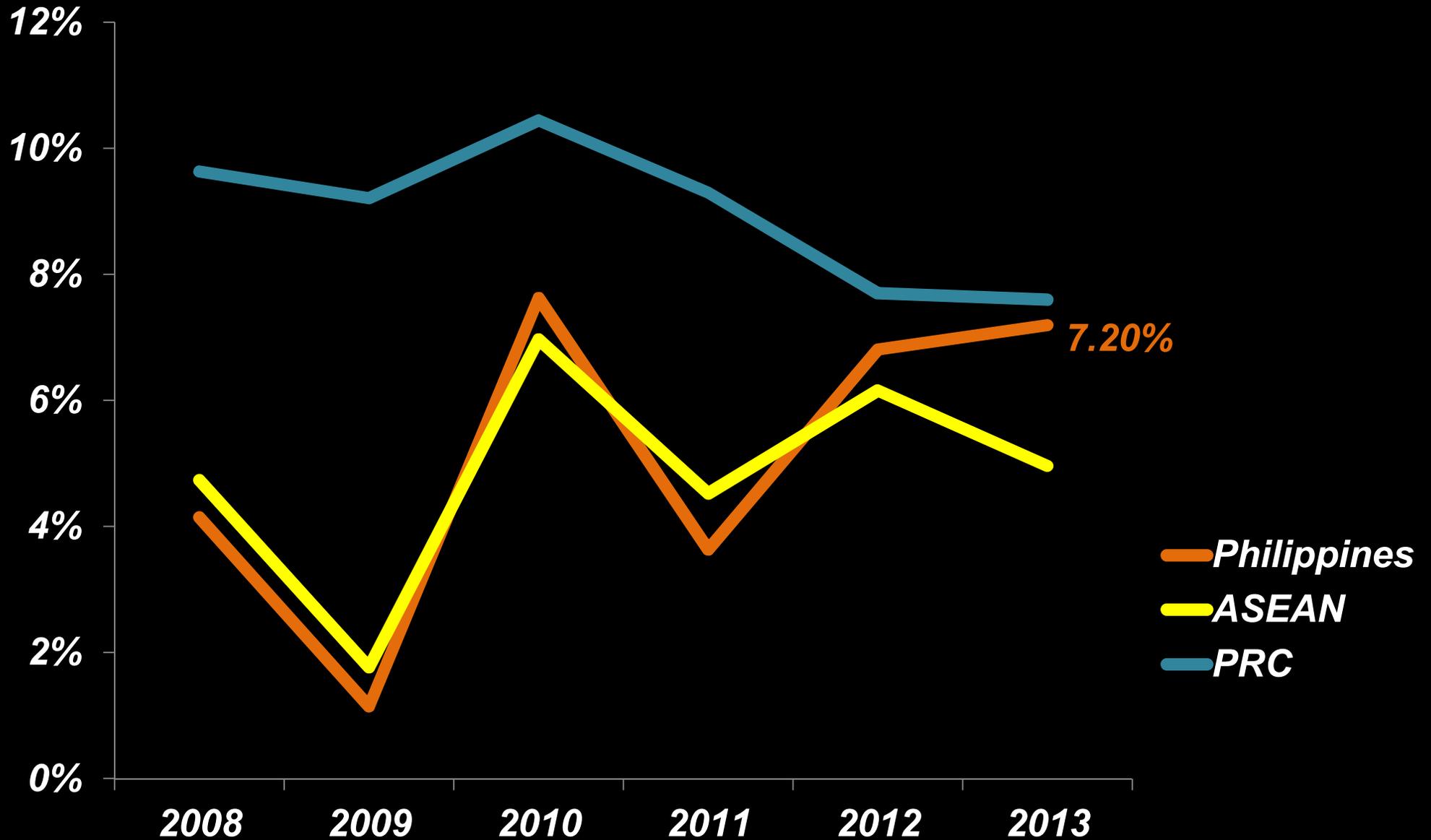
Source: International Monetary Fund

PH AND ASEAN GDP



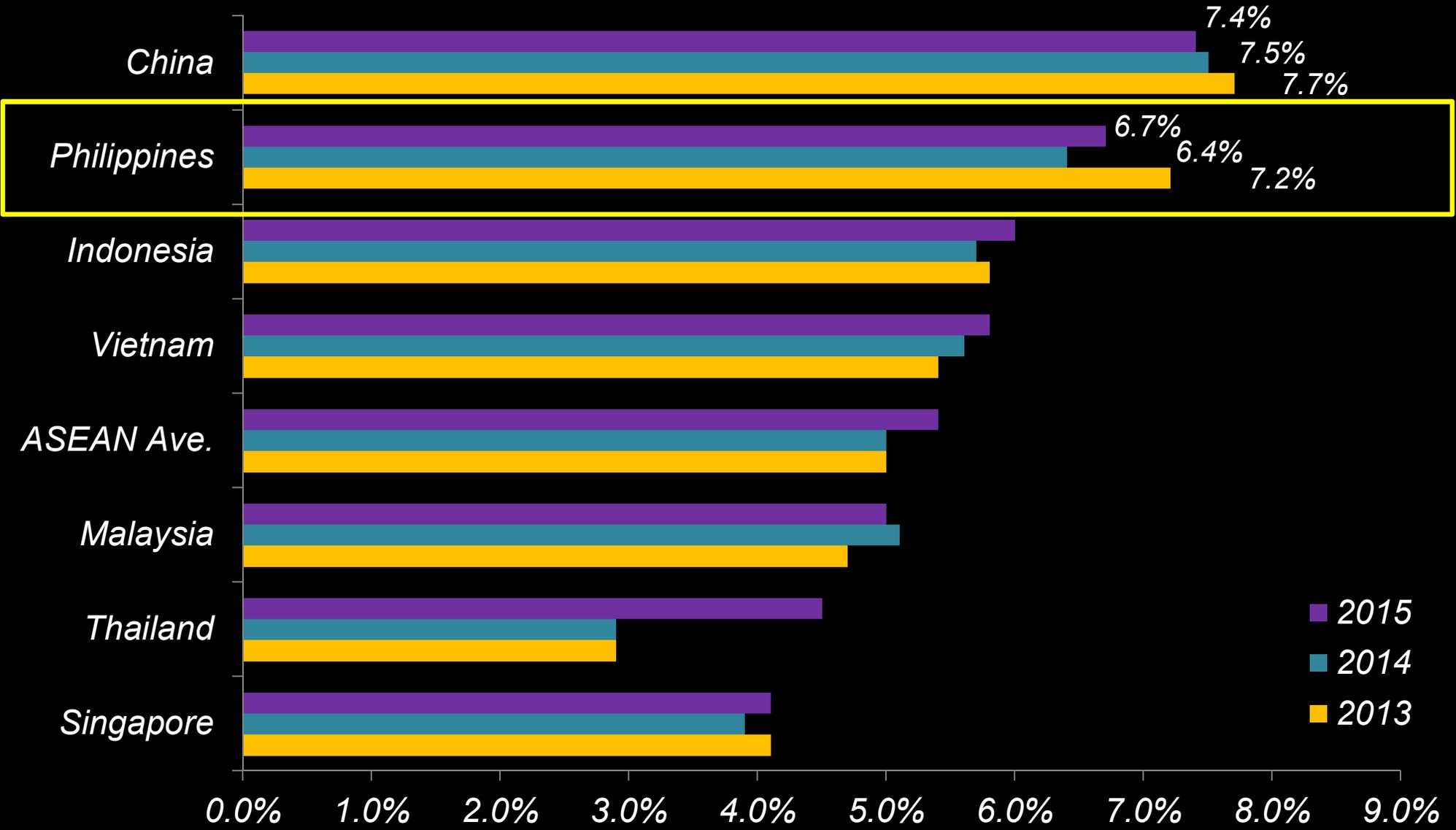
Source: Bangko Sentral ng Pilipinas, International Monetary Fund

PH ASEAN & PRC GDP



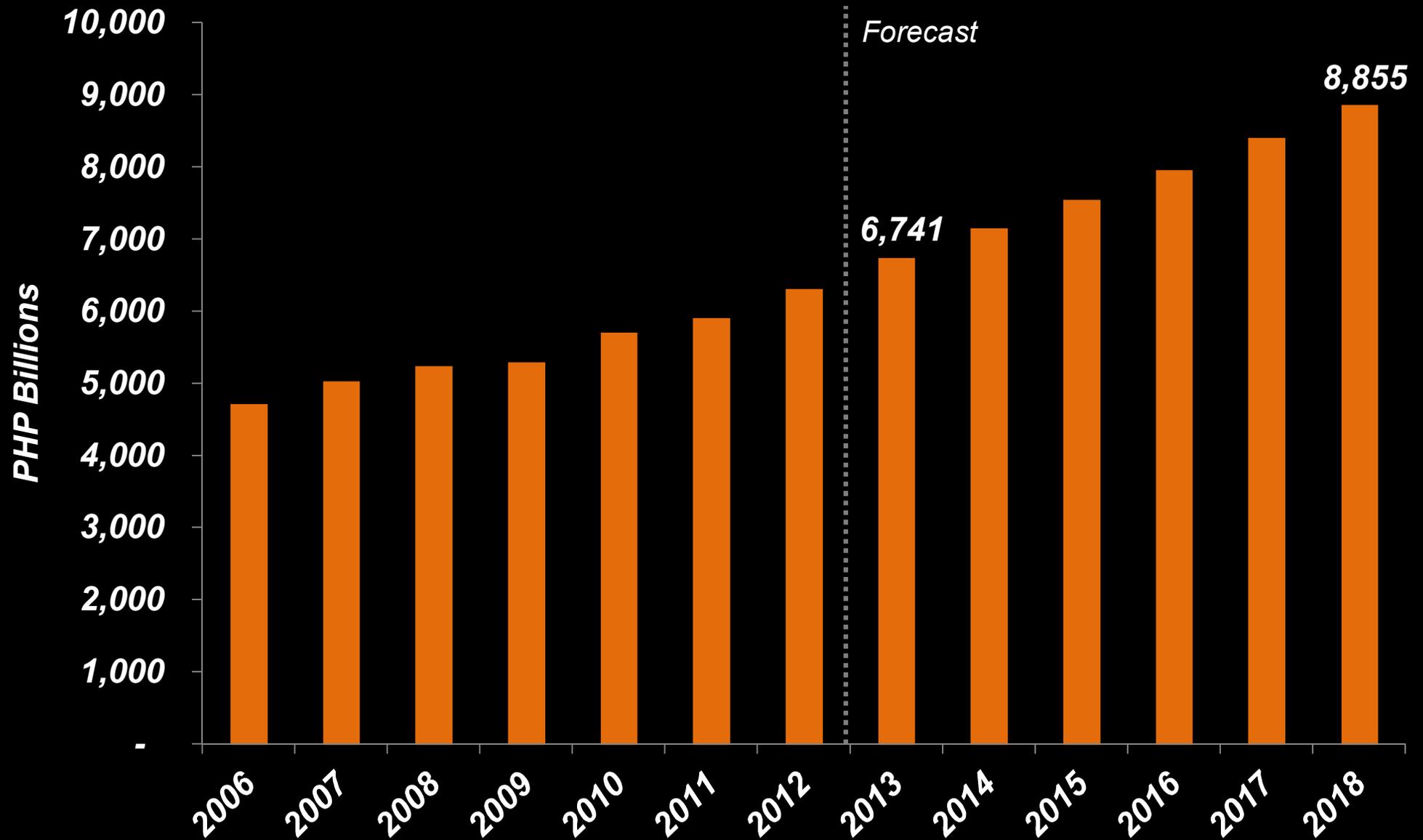
Source: Bangko Sentral ng Pilipinas, International Monetary Fund

REGIONAL GDP GROWTH RATES



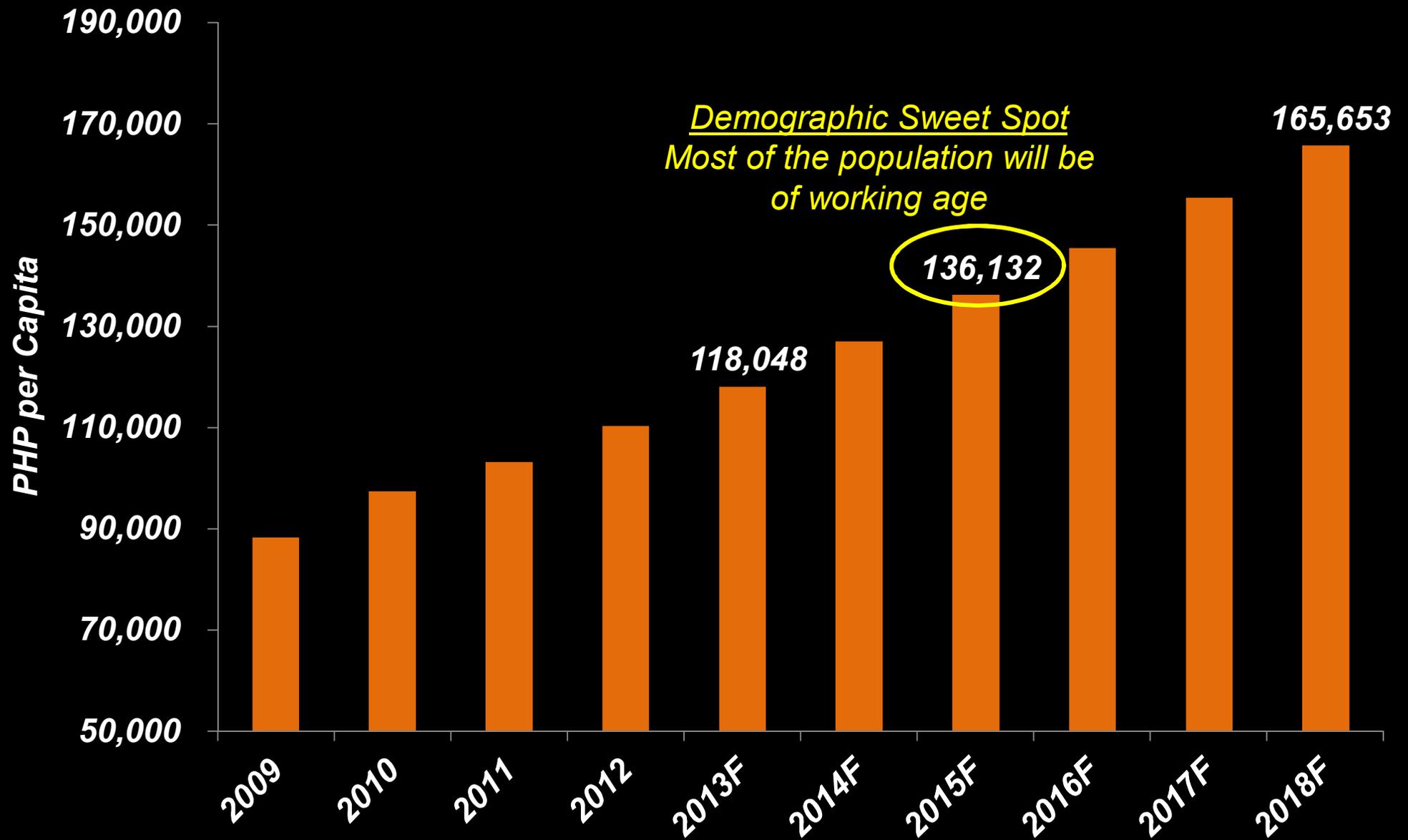
Source: Asian Development Bank

PHILIPPINE GDP



Source: Bangko Sentral ng Pilipinas, International Monetary Fund

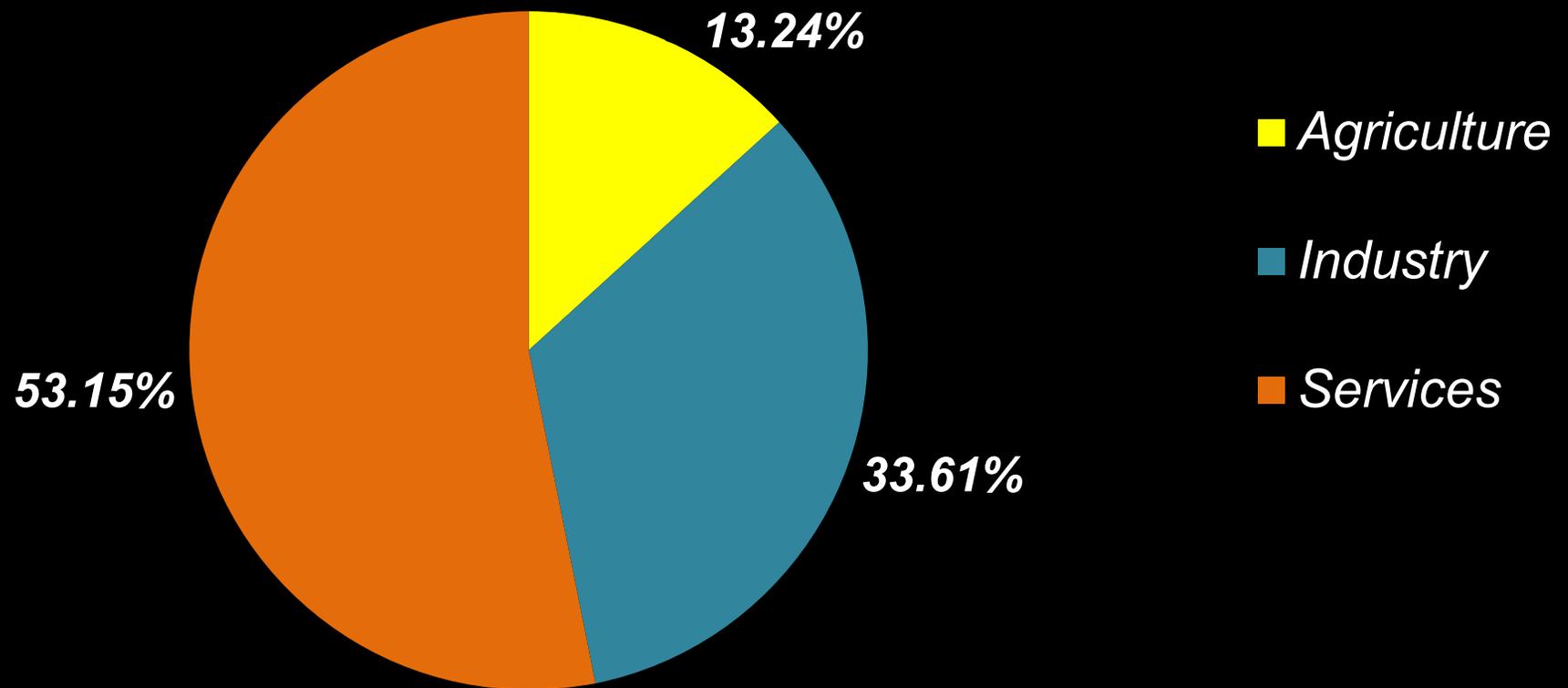
GDP PER CAPITA



Source: Bangko Sentral ng Pilipinas, International Monetary Fund

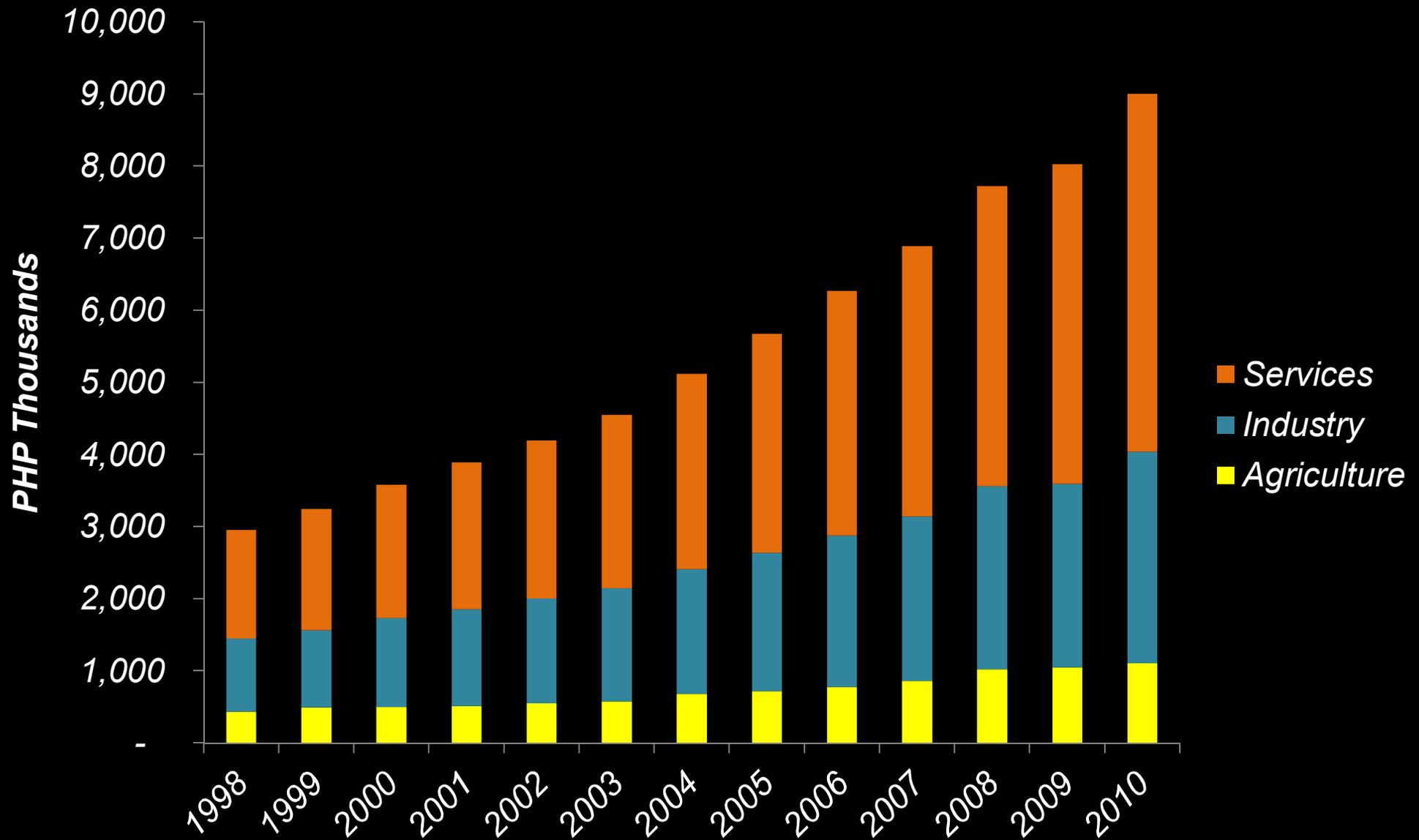
AVERAGE GDP BREAKDOWN

*Average Percentage of GDP
(1998-2010)*



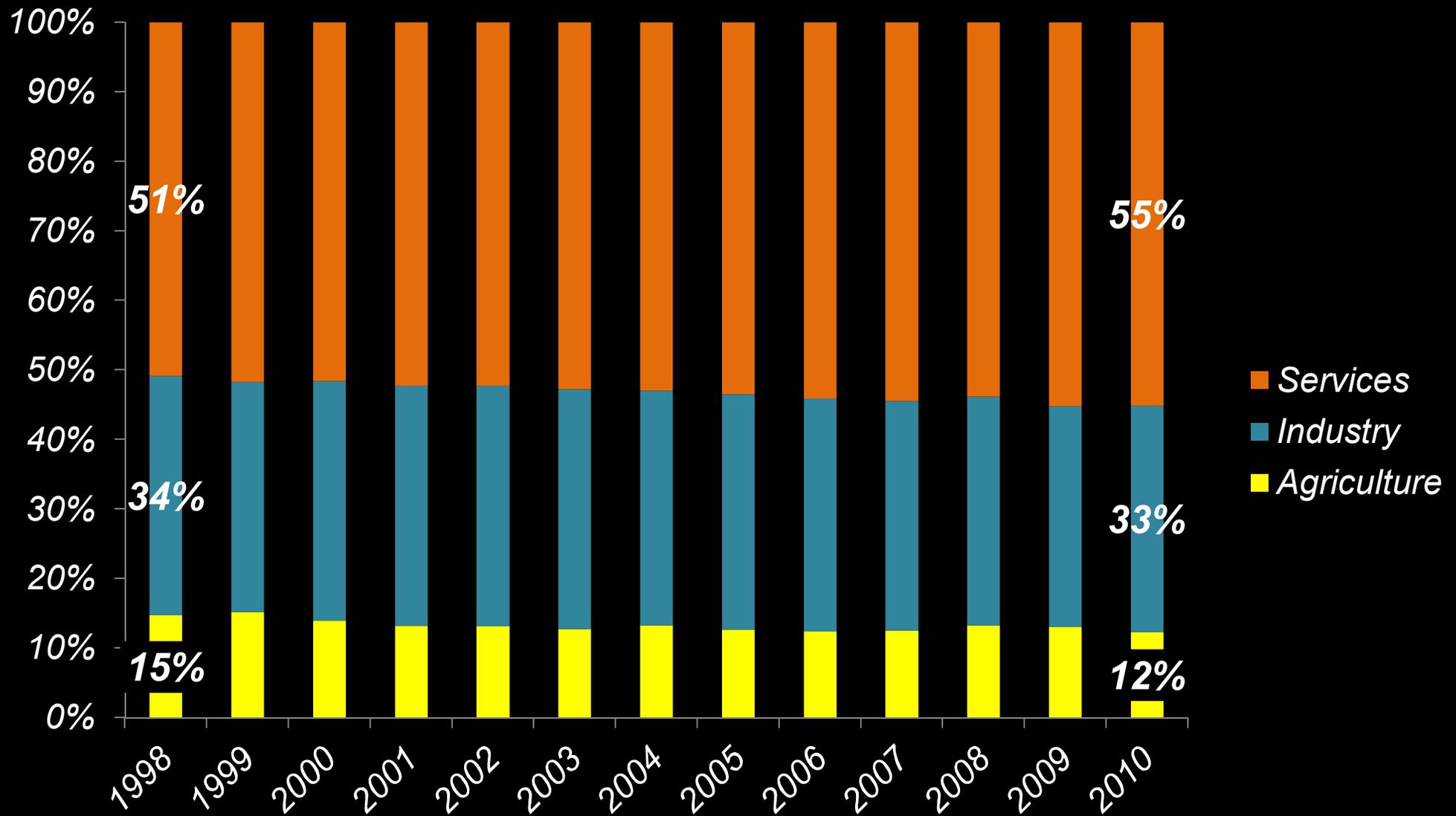
Source: Philippine National Statistical Coordination Board

AVERAGE GDP BREAKDOWN



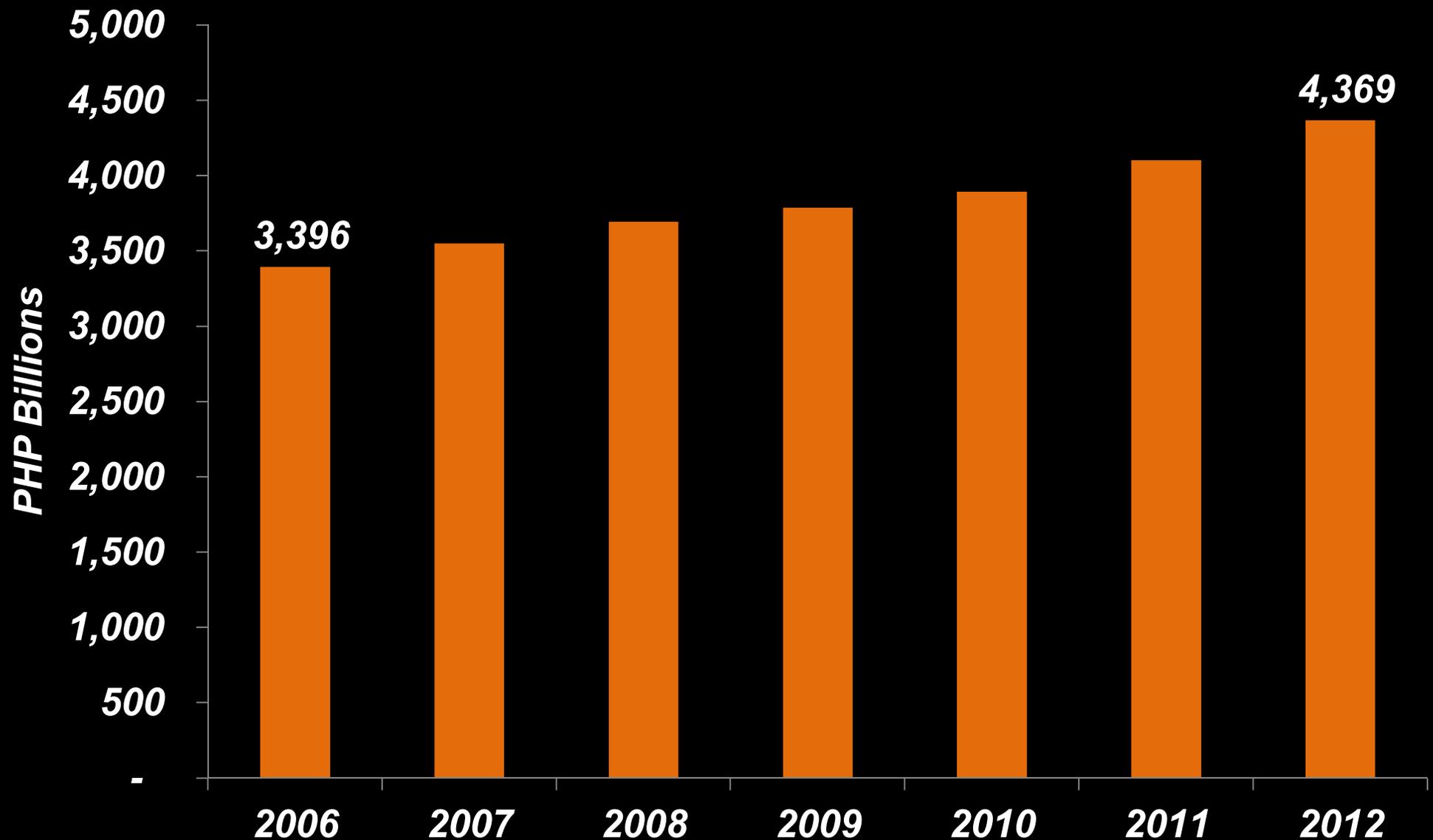
Source: Philippine National Statistical Coordination Board

AVERAGE GDP BREAKDOWN



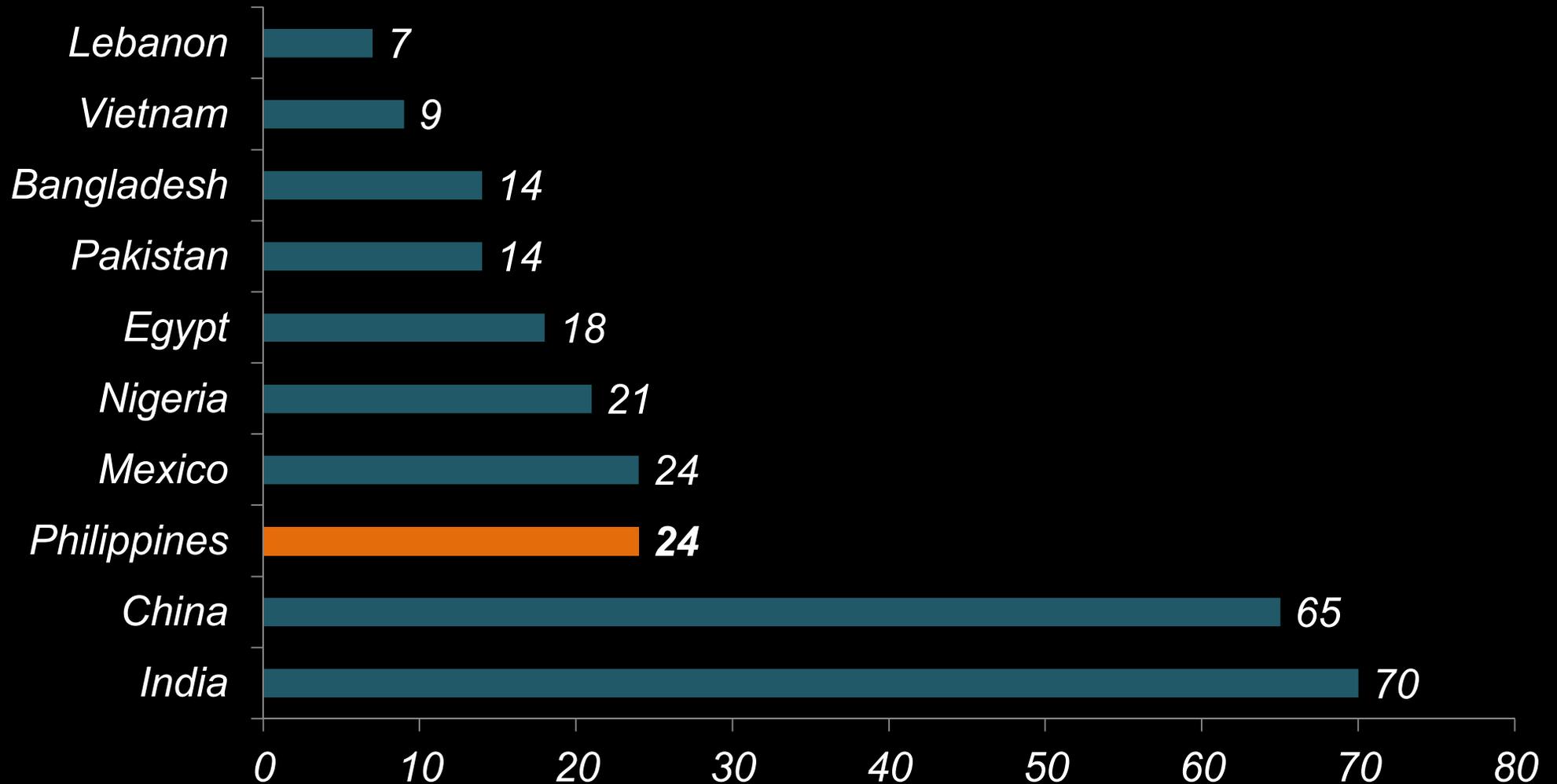
Source: Philippine National Statistical Coordination Board

HOUSEHOLD FINAL CONSUMPTION EXPENDITURE



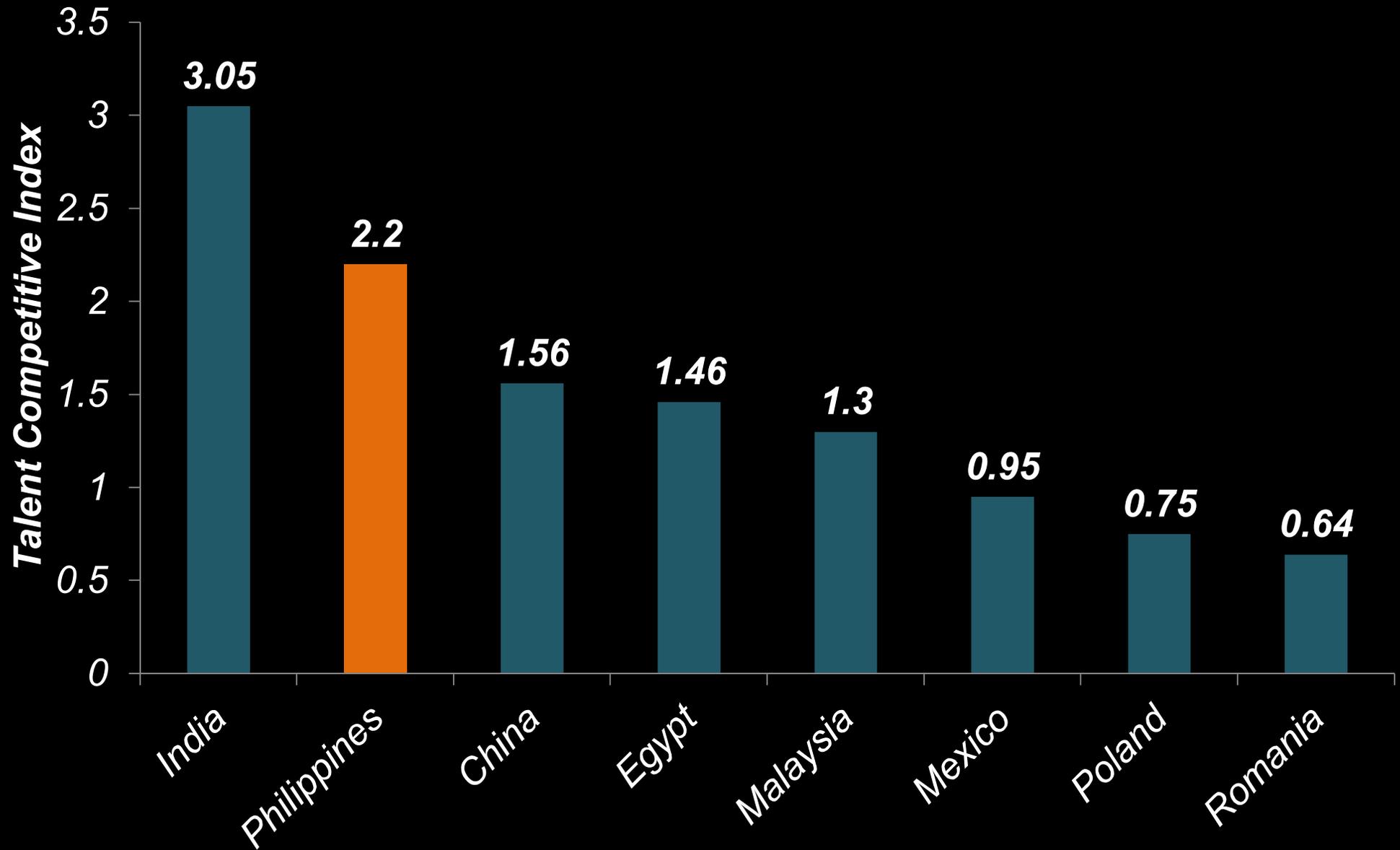
Source: Philippine National Statistical Coordinating Board

Influx of Remittances (in USD Billions)



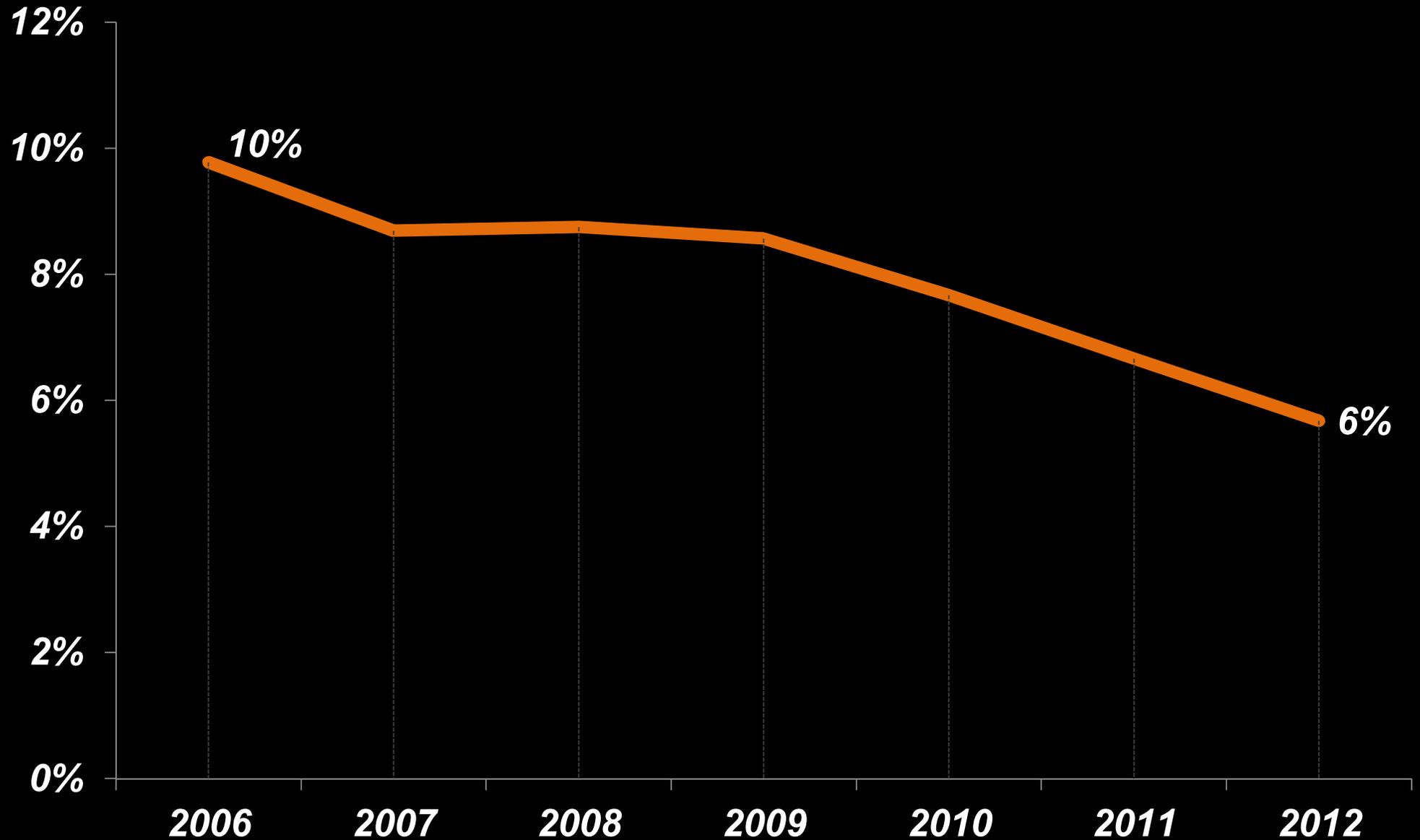
Source: Asian Development Bank

TOP BPO DESTINATIONS COMPETITIVE SCORE



Source: Asian Development Bank

PH LENDING RATES



Source: International Monetary Fund

TOP FDI DESTINATIONS

<i>Rank</i>	<i>Country</i>
1	China
2	United States
3	India
4	Indonesia
5	Brazil
...	...
15	South Africa
16	Canada
17	France
18	Malaysia
19	Hong Kong
20	Philippines

Source: United Nations Conference on Trade and Development

EFFECT OF EUROZONE CRISIS

LESS EXPOSED

- Indonesia
- Philippines

EXPOSED

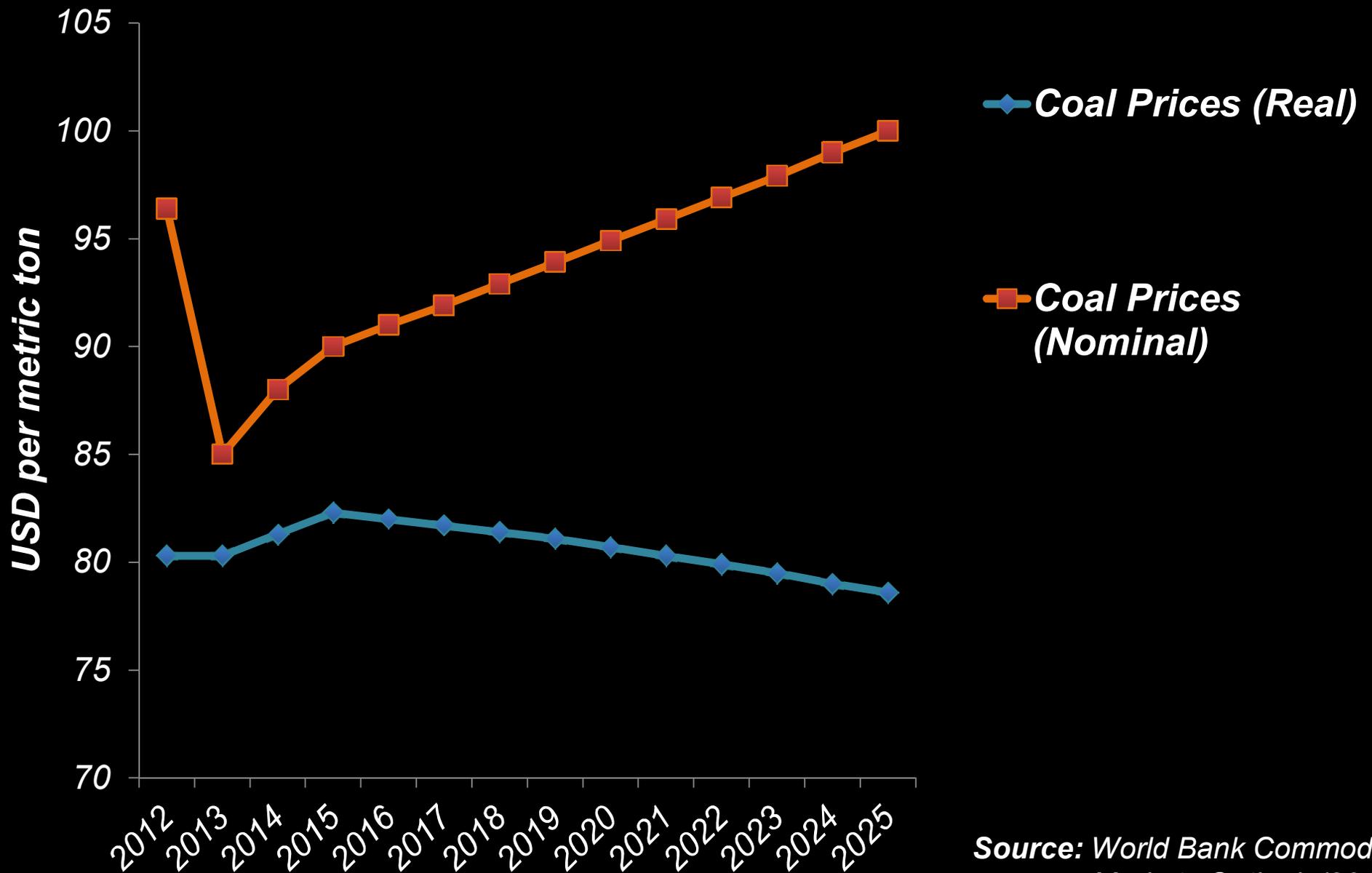
- Cambodia
- China
- Hong Kong
- India
- Japan
- Malaysia
- Mongolia
- Singapore
- Taiwan
- Thailand

MORE EXPOSED

- Australia
- New Zealand
- Korea
- Vietnam

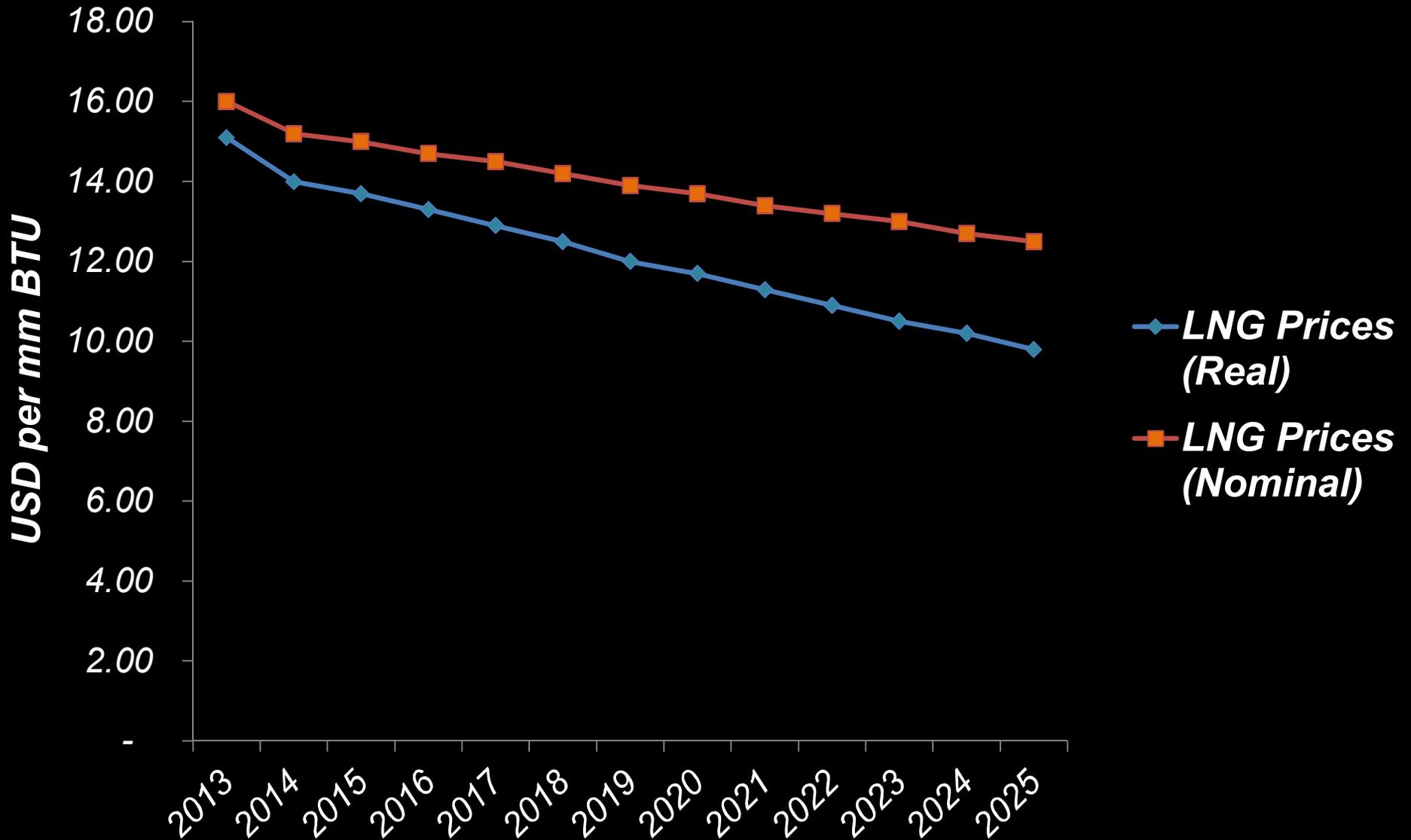
Source: Moody's Investor Services

COMMODITY PRICES



Source: World Bank Commodity Markets Outlook (2013)

COMMODITY PRICES



Source: World Bank Commodity Markets Outlook (2013)

LOCAL CURRENCY YIELDS

<i>As of April 9, 2014</i>	<i>Latest Yield</i>	<i>YTD Change (bp)</i>	<i>MTD Change (bp)</i>
<i>Indonesia</i>	7.863%	▼ 58.9	▼ 12.7
<i>Malaysia</i>	4.121%	▼ 0.7	▲ 1.2
<i>Philippines</i>	4.150%	▲ 55.0	▼ 5.0
<i>Singapore</i>	2.490%	▼ 7.0	0.0
<i>Thailand</i>	3.679%	▼ 21.8	▼ 2.4
<i>Vietnam</i>	8.850%	▼ 20.0	▲ 12.5
<i>China</i>	4.540%	▼ 8.0	▲ 3.0
<i>Hong Kong</i>	2.255%	▼ 5.0	▼ 4.8
<i>Japan</i>	0.618%	▼ 12.3	▼ 2.4
<i>South Korea</i>	3.530%	▼ 5.5	▲ 1.0
<i>USA</i>	2.700%	▼ 32.7	▼ 1.8
<i>Average</i>	4.071%		

Source: Asian Development Bank

CORRUPTION INDEX

Rank	Country	2013 Score	2012 Score
1	Denmark	91	90
1	New Zealand	91	90
3	Finland	89	90
3	Sweden	89	88
...
94	Algeria	36	34
94	Armenia	36	34
94	Benin	36	36
94	Colombia	36	36
94	Djibouti	36	36
94	India	36	36
94	Philippines	36	34
94	Suriname	36	37

Source: Transparency International

FUTURE LEADERS

Ranking of cities in low- and middle-income countries most likely to become global leaders in the next two decades:

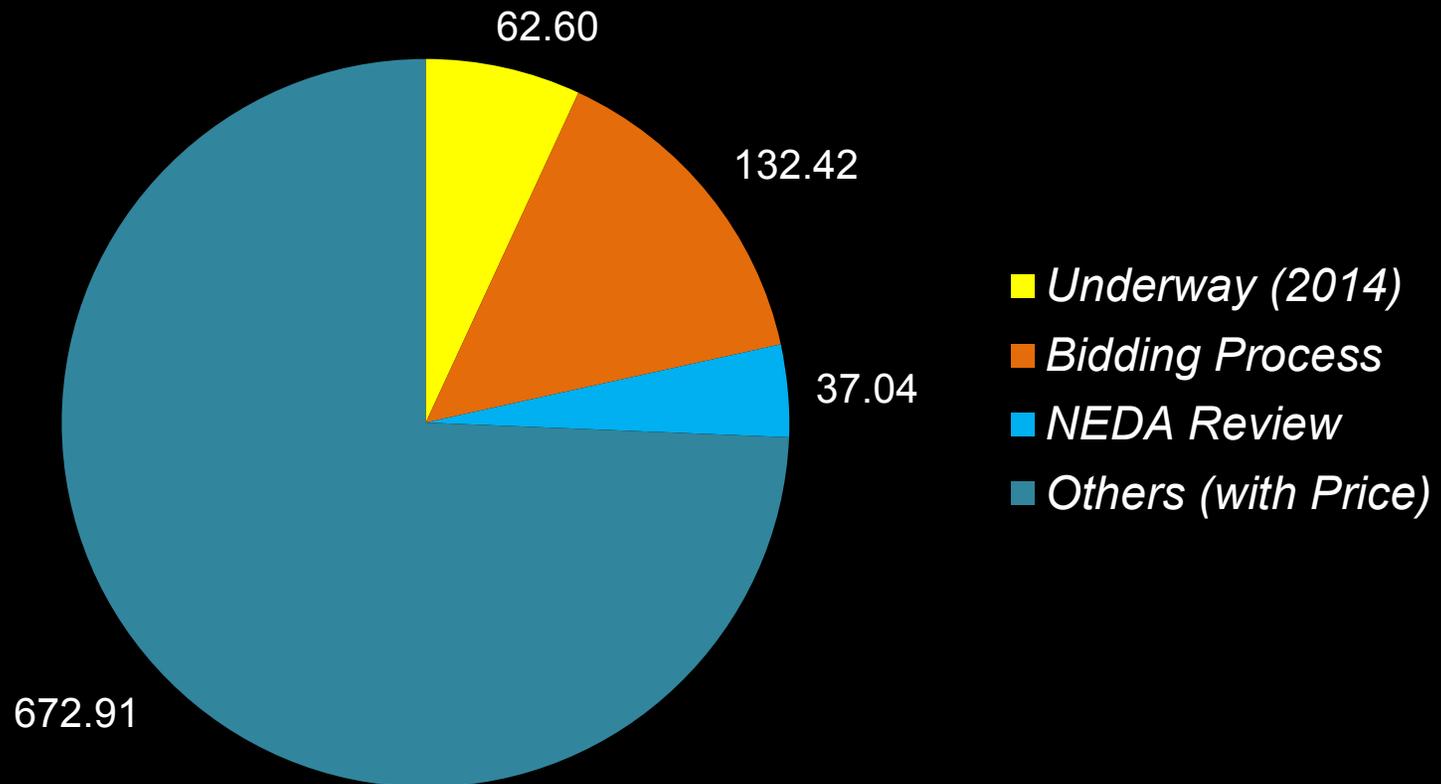
Rank	City	Country
1	Jakarta	Indonesia
2	Manila	Philippines
3	Addis Ababa	Ethiopia
4	Sao Paulo	Brazil
5	New Delhi	India
6	Rio de Janeiro	Brazil
7	Bogota	Colombia
8	Mumbai	India
9	Nairobi	Kenya
10	Kuala Lumpur	Malaysia

Rank	City	Country
11	Bangalore	India
12	Beijing	China
13	Johannesburg	South Africa
14	Kolkata	India
15	Istanbul	Turkey
16	Cape Town	South Africa
17	Chennai	India
18	Tunis	Tunisia
19	Dhaka	Bangladesh
20	Caracas	Venezuela

Source: A.T. Kearney, The Wall Street Journal

PUBLIC-PRIVATE PARTNERSHIPS

Values of PPPs According to Stage
(In PHP Billions)

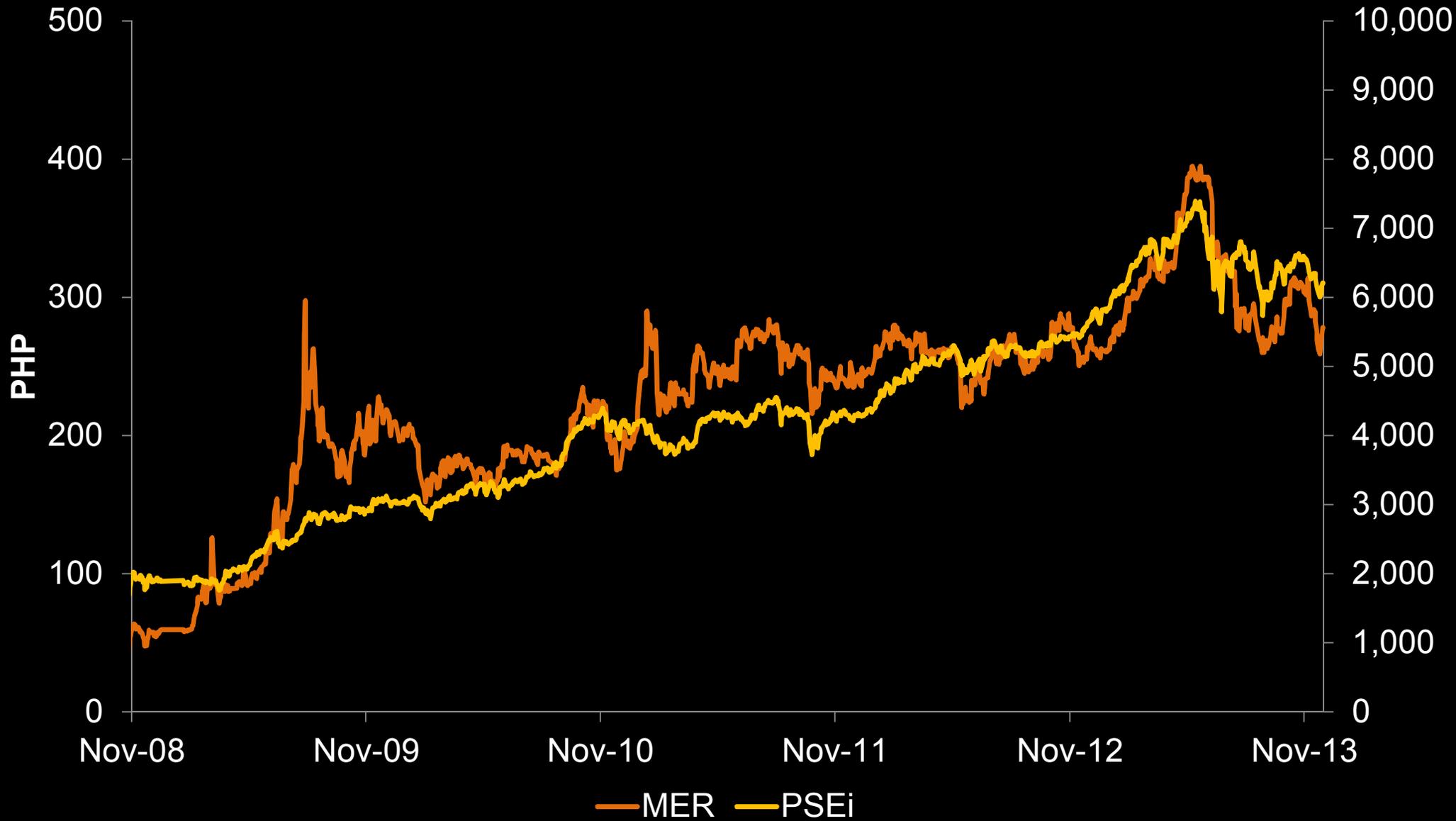


Source: Public-Private Partnerships of the Philippine Government (Website)

STOCK

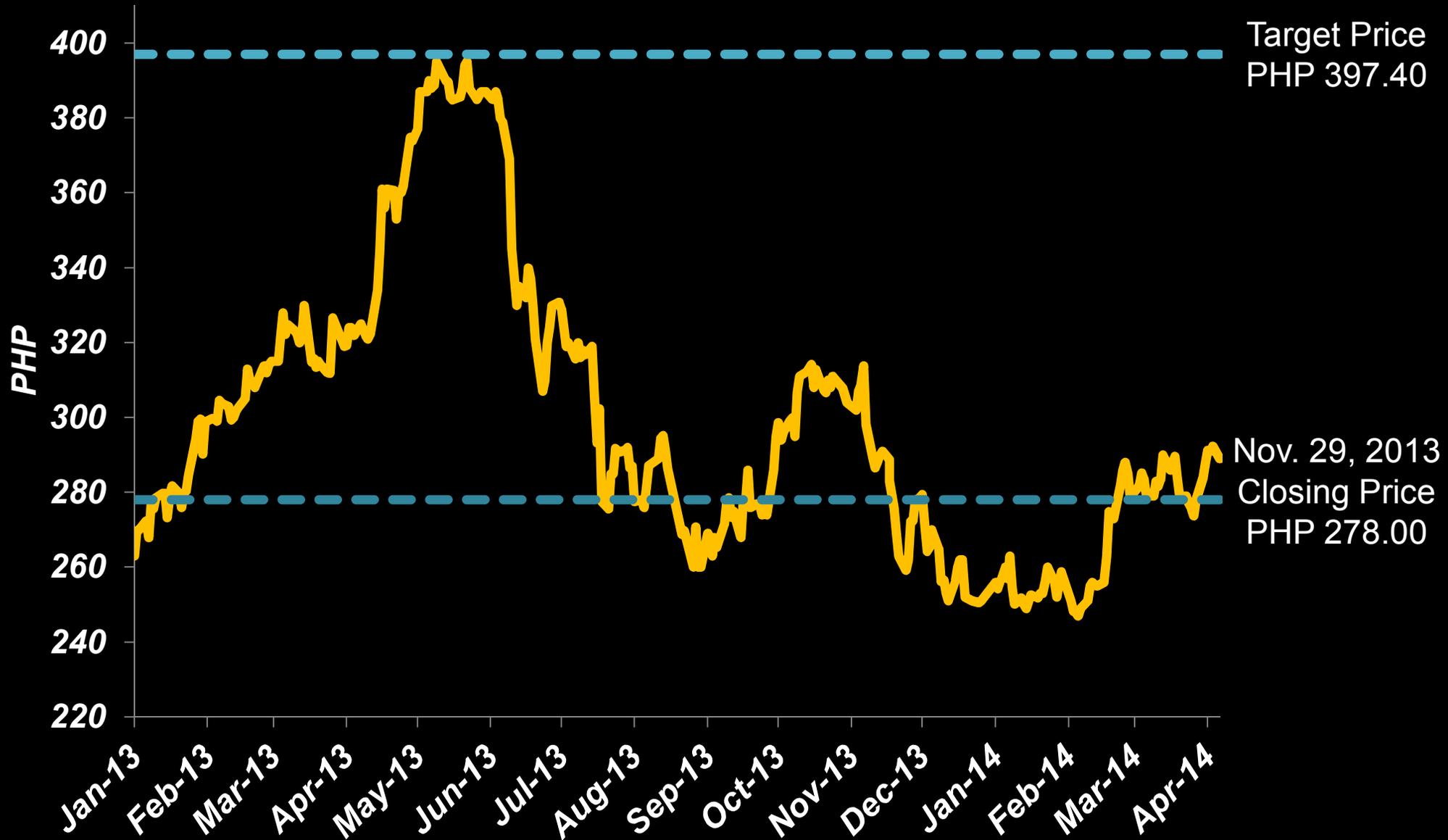
SHARE PRICE MOVEMENT

(as of November 29, 2013)



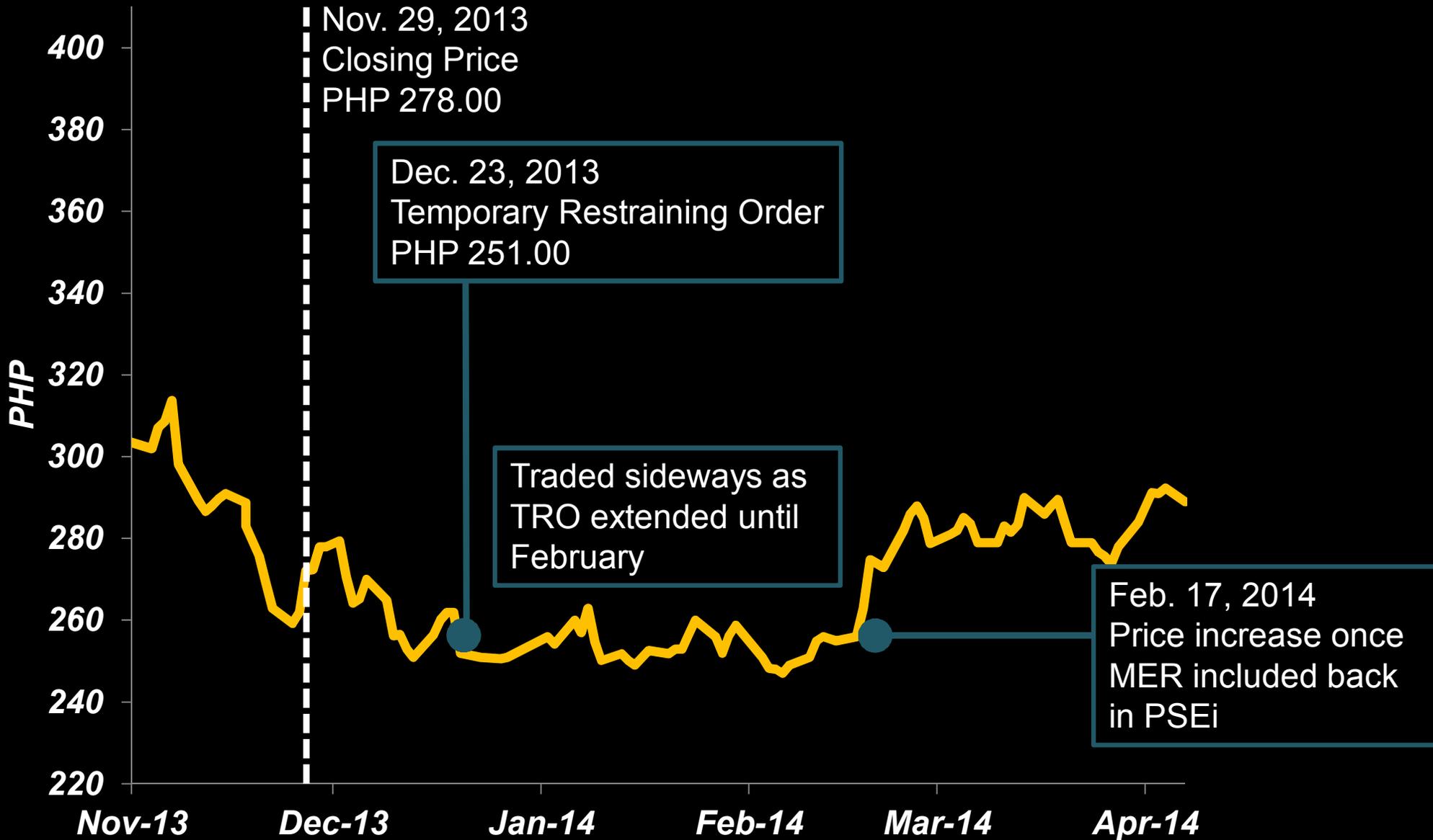
Source: Thomson Reuters, PSE

HISTORICAL MERALCO STOCK PRICE



Source: Thomson Reuters, PSE, Team estimates

HISTORICAL MERALCO STOCK PRICE



Source: Thomson Reuters, PSE, Team estimates

PSE INDEX MOVEMENT

(2-year movement)



Source: Thomson Reuters

PSE INDEX MOVEMENT

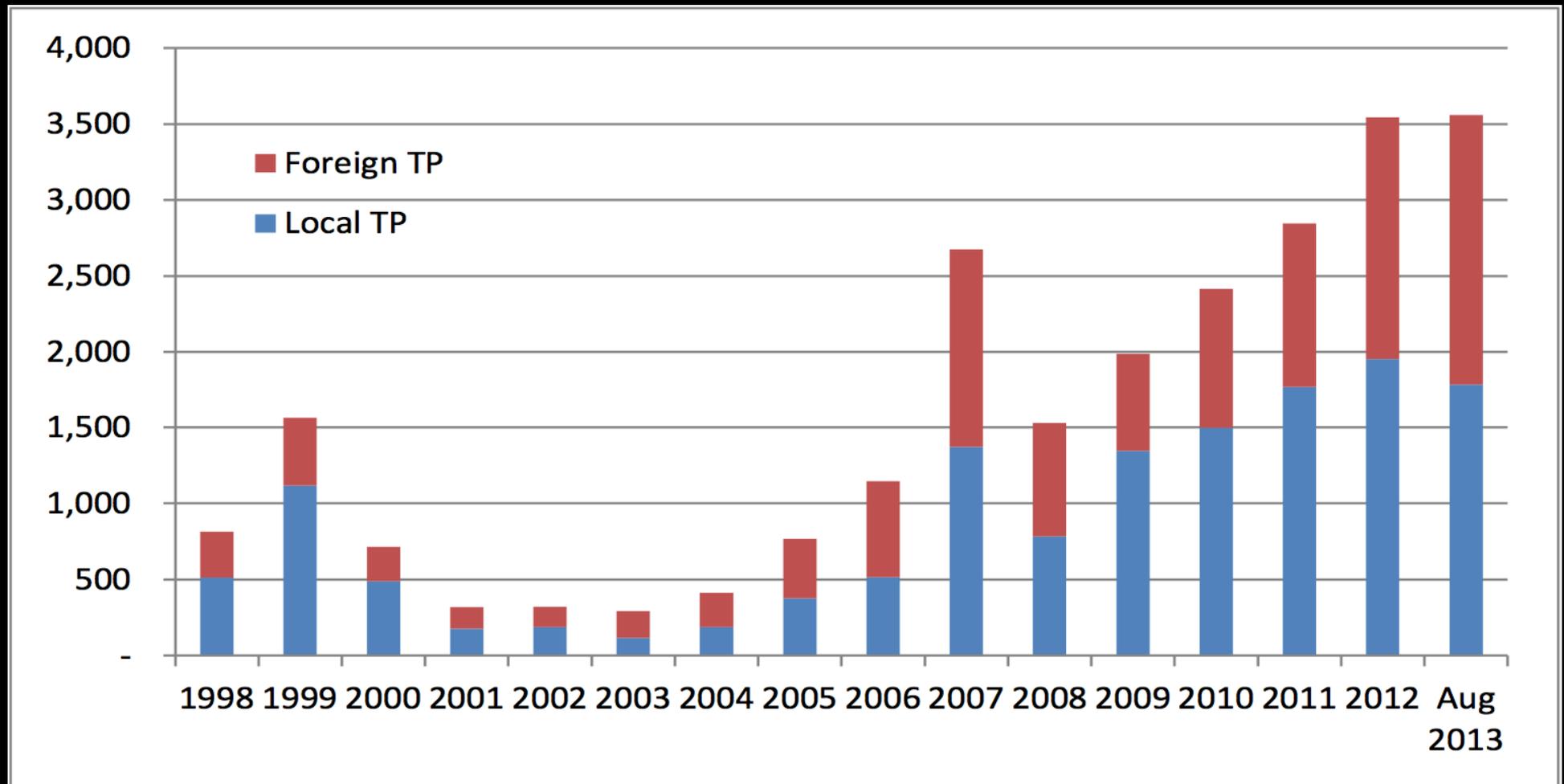
(1-year movement)



Source: Thomson Reuters

FOREIGN PARTICIPATION

Value Turnover by Local and Foreign Participants (in PHP Billions)



Source: Philippine National Statistical Coordination Board

PERFORMANCE OF THE MARKET

QUANTITATIVE

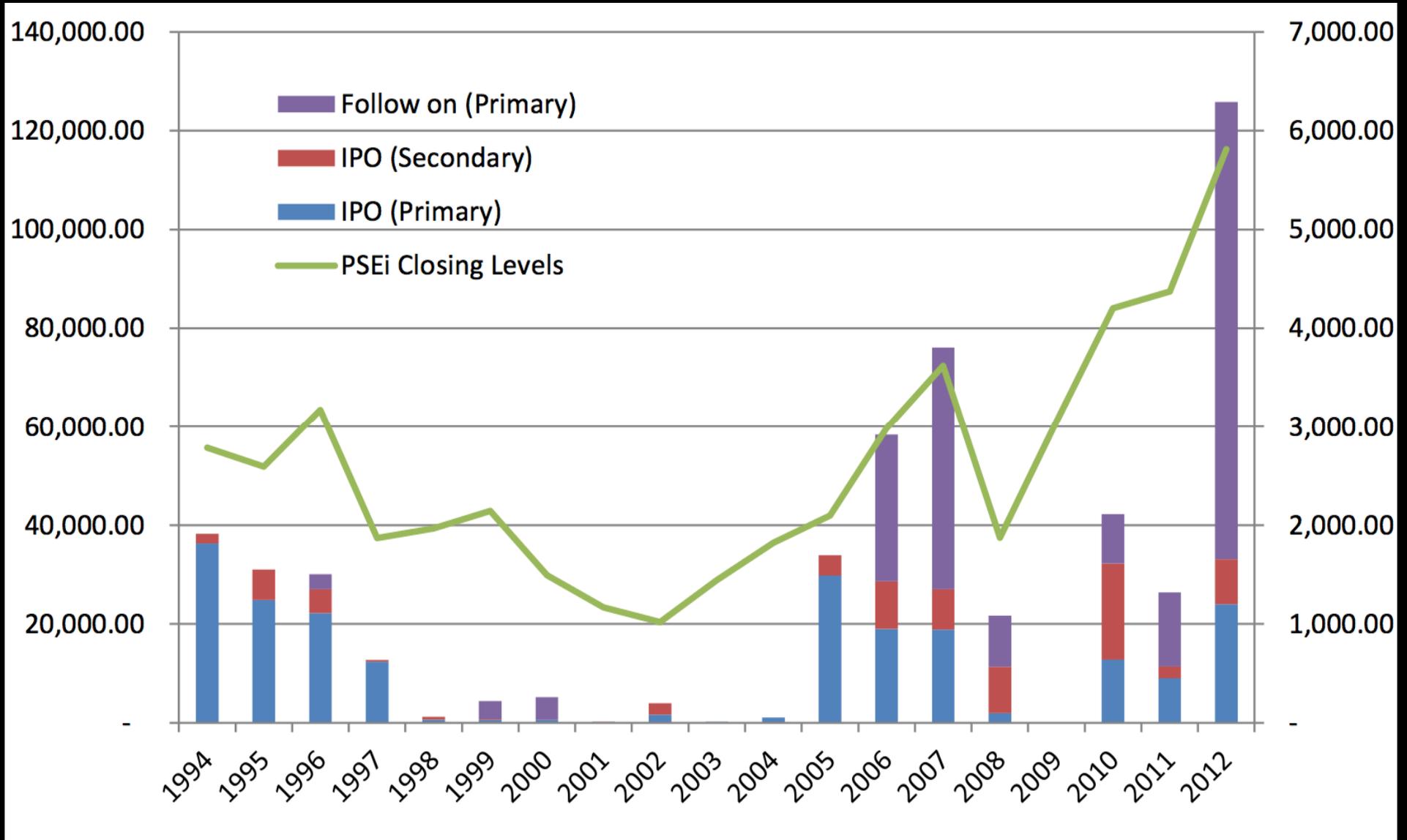
- *From the time President Aquino took office: index increased over 80%*
- *Became world's best performer out of 45 emerging & developed markets*
- *Credit rating increased by Fitch, Moody's and S&P*
- *\$7 Billion Budget deficit -> \$2.3 Billion*
- *Double public works to \$19 B (5% of GDP) by 2016*

QUALITATIVE

- *Winning the battle against graft & corruption*
- *Renato Corona, Gloria Macapagal Arroyo*
- *Transparency International: 94th out of 177 (improved 11 places)*

Source: Bloomberg.com

CAPITAL RAISING & PSEi LEVELS



Source: Philippine National Statistical Coordination Board

<i>P/E</i>	<i>Philippine Market</i>
2013	19.05
2012	20.12
2011	15.87
2010	19.17
2009	17.5
2008	8.53
2007	16.49

Source: morssglobalfinance.com

COUNTRY P/E RATIO

<i>Country</i>	<i>P/E</i>
<i>Chile</i>	<i>18.64</i>
<i>Mexico</i>	<i>18.05</i>
<i>Monaco</i>	<i>17.00</i>
<i>Kuwait</i>	<i>16.28</i>
<i>Taiwan</i>	<i>16.21</i>
<i>Philippines</i>	<i>16.12</i>
<i>Australia</i>	<i>15.76</i>
<i>Denmark</i>	<i>15.54</i>
<i>Indonesia</i>	<i>15.41</i>
<i>New Zealand</i>	<i>15.26</i>

<i>Country</i>	<i>P/E</i>
<i>India</i>	<i>14.53</i>
<i>Thailand</i>	<i>14.22</i>
<i>Malaysia</i>	<i>13.86</i>
<i>Japan</i>	<i>12.81</i>
<i>China</i>	<i>12.23</i>
<i>Laos</i>	<i>11.16</i>
<i>Vietnam</i>	<i>10.81</i>

Source: Aswath Damodaran (2013)

Value

Growth

Undervalued

Growth Potential

High Dividend Yield

No Dividends

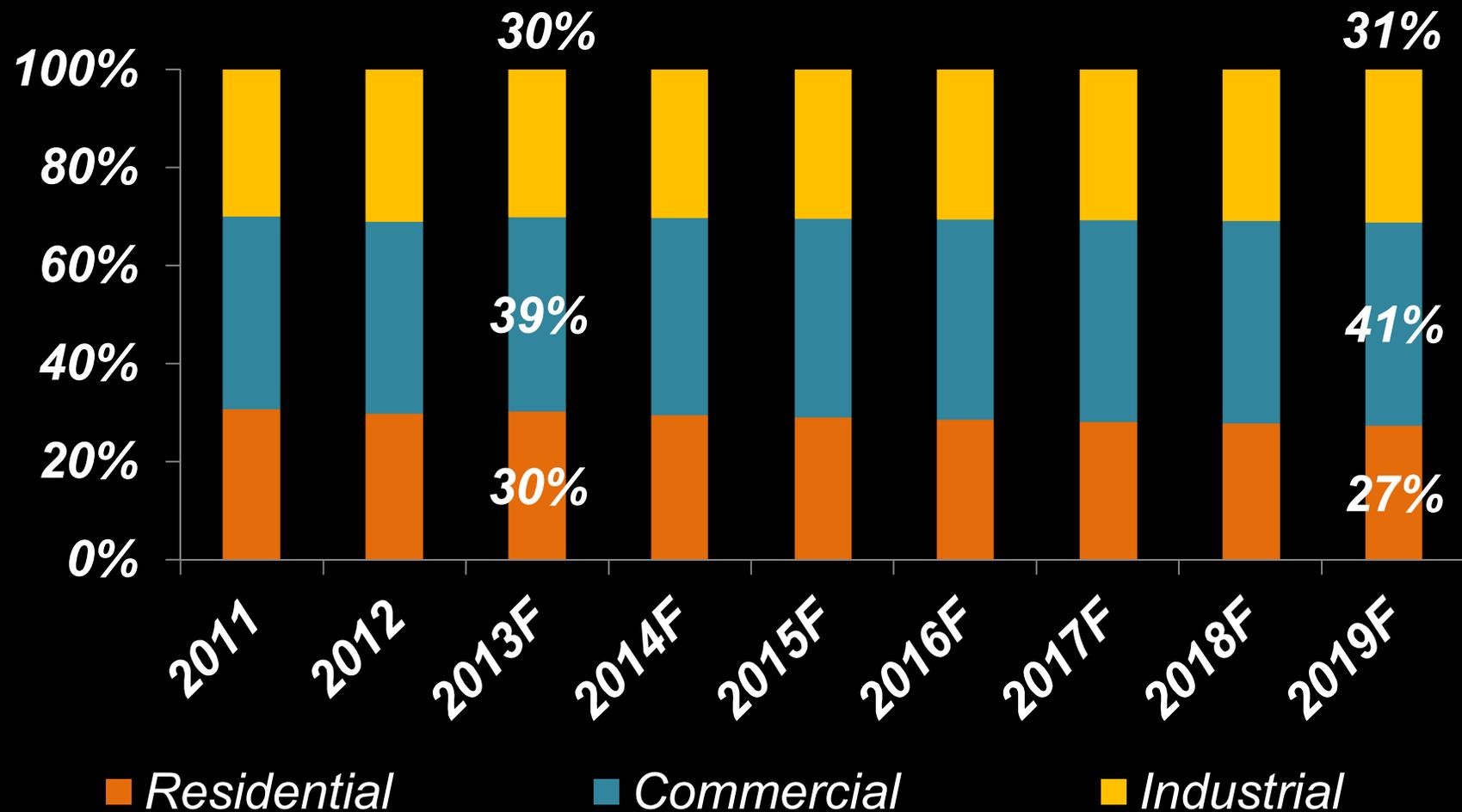
PEG less than 1

Strong Growth Rate

Source: Fidelity.com

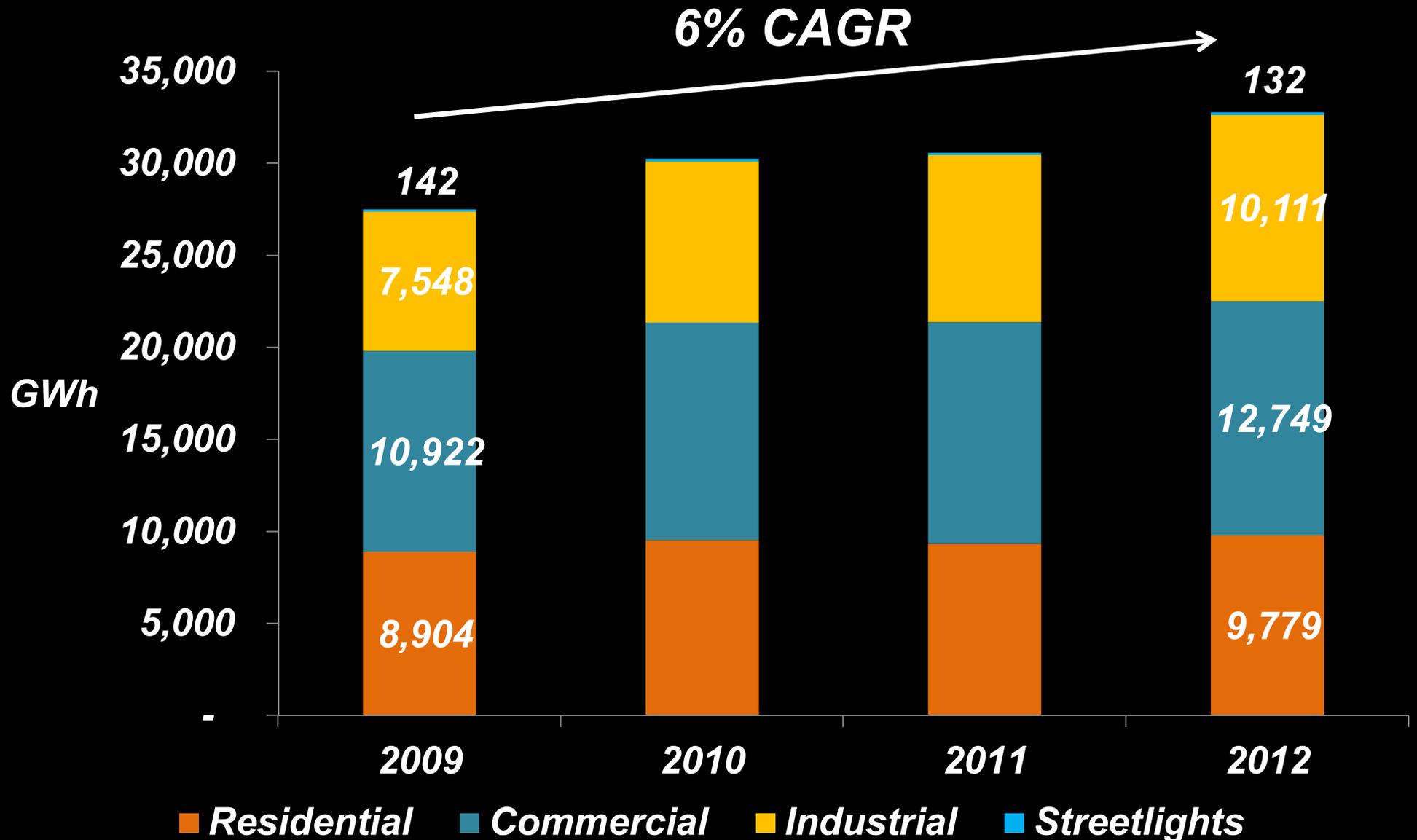
FINANCIALS

SALES BY CUSTOMER CLASS



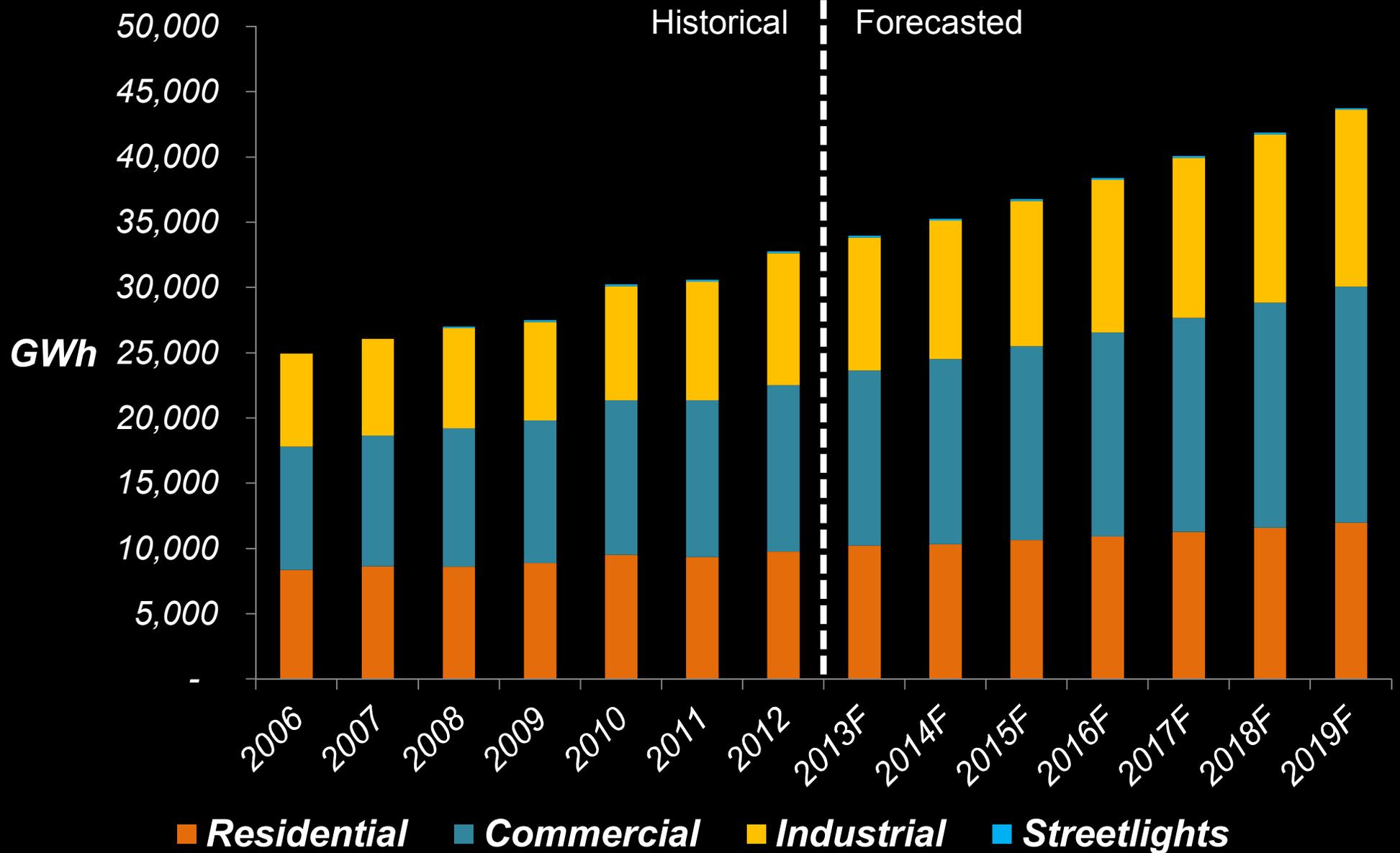
Source: MER disclosures, Team estimates

HISTORICAL ANNUAL ENERGY SALES



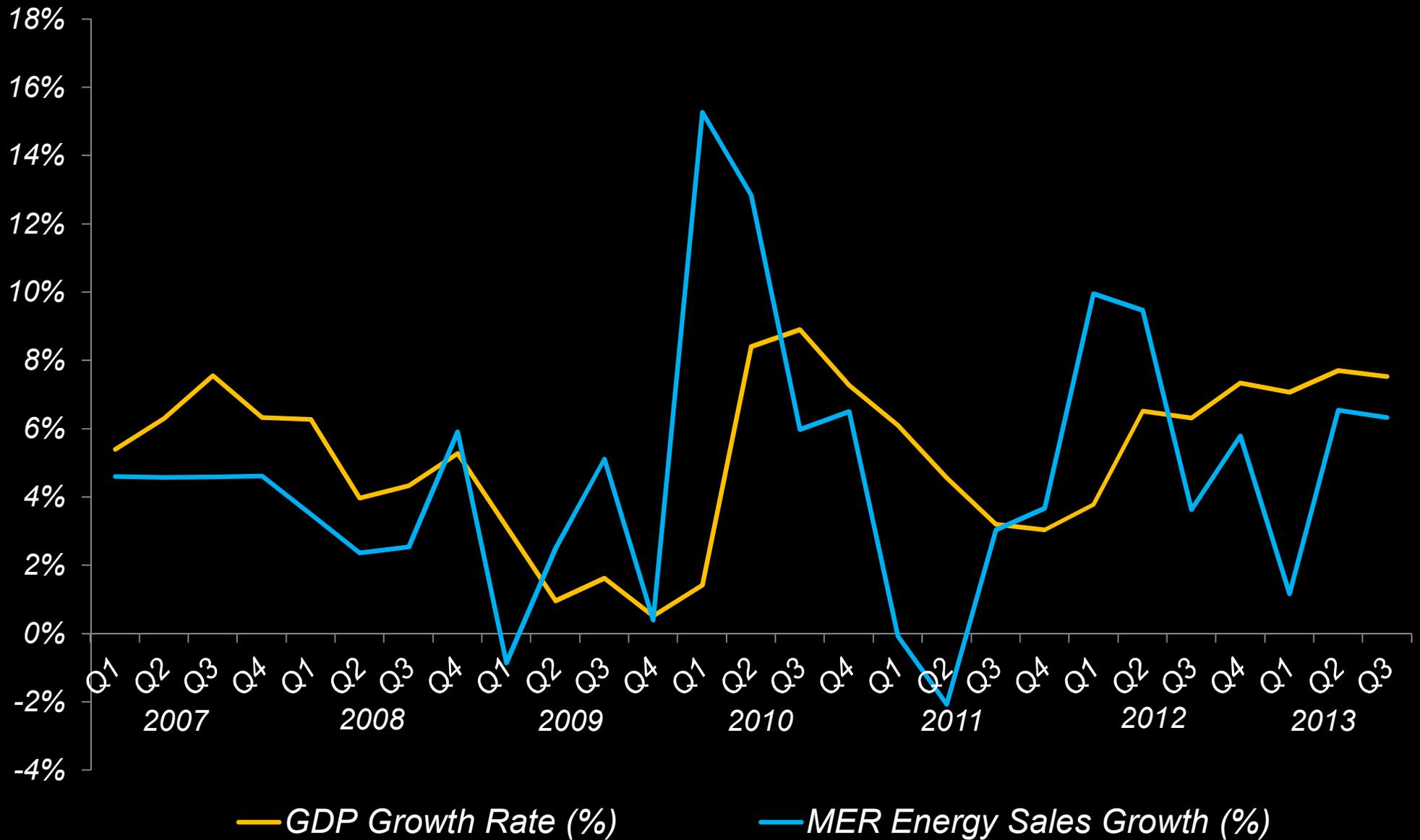
Source: MER disclosures

ANNUAL ENERGY SALES



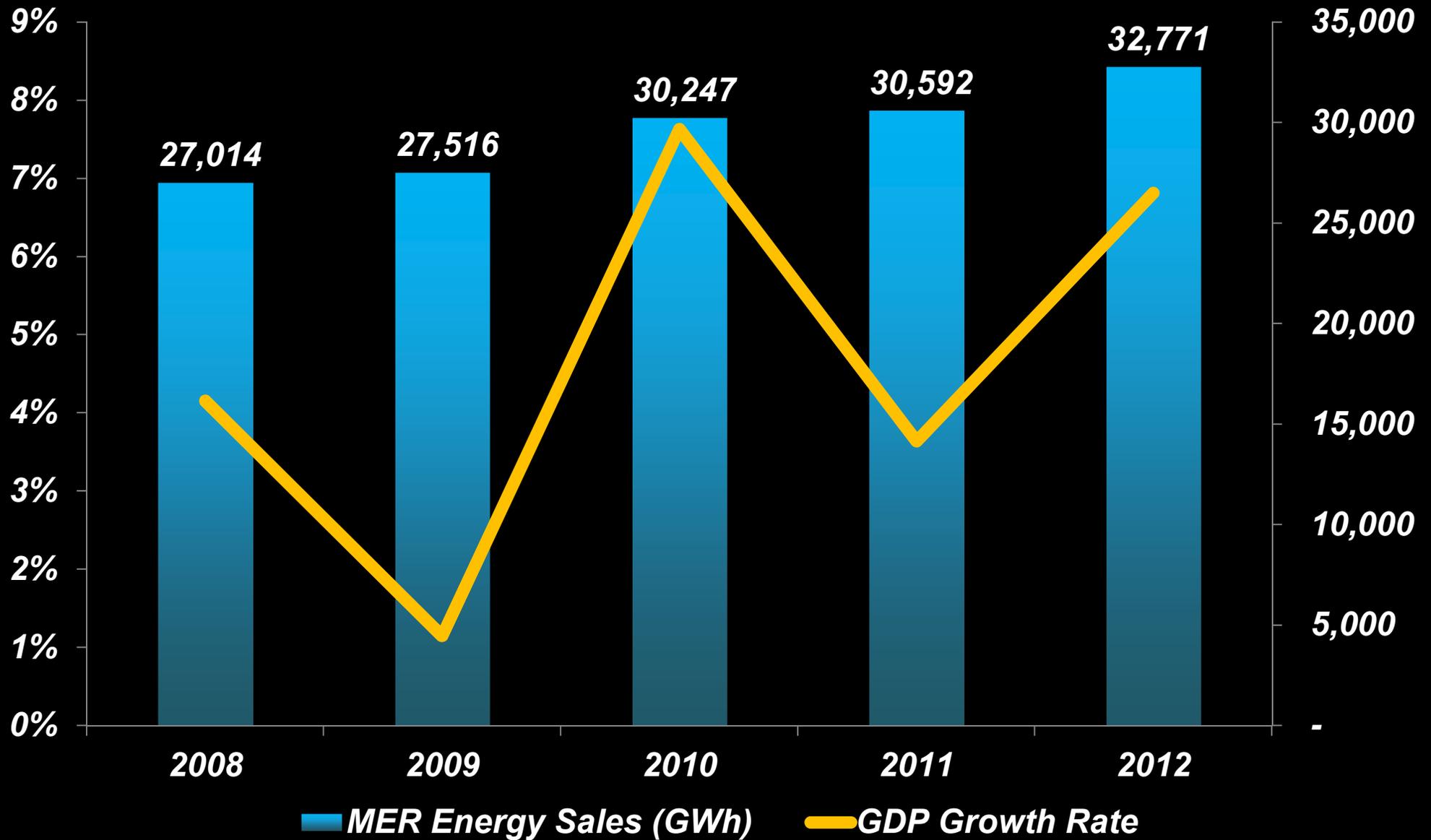
Source: MER disclosures, Team estimates

GDP VS. ENERGY SALES



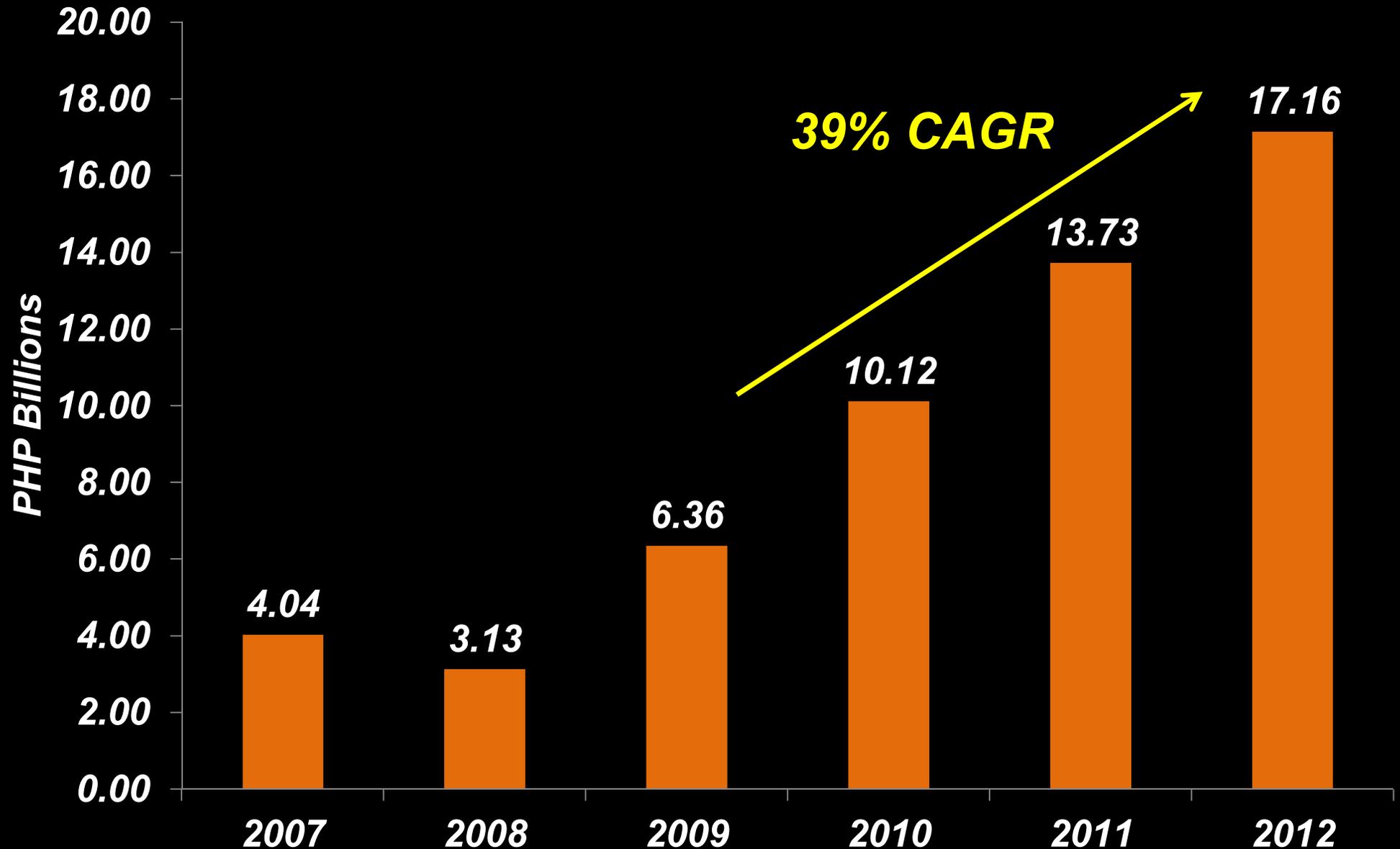
Source: Bangko Sentral ng Pilipinas, MER disclosure

GDP VS. ENERGY SALES



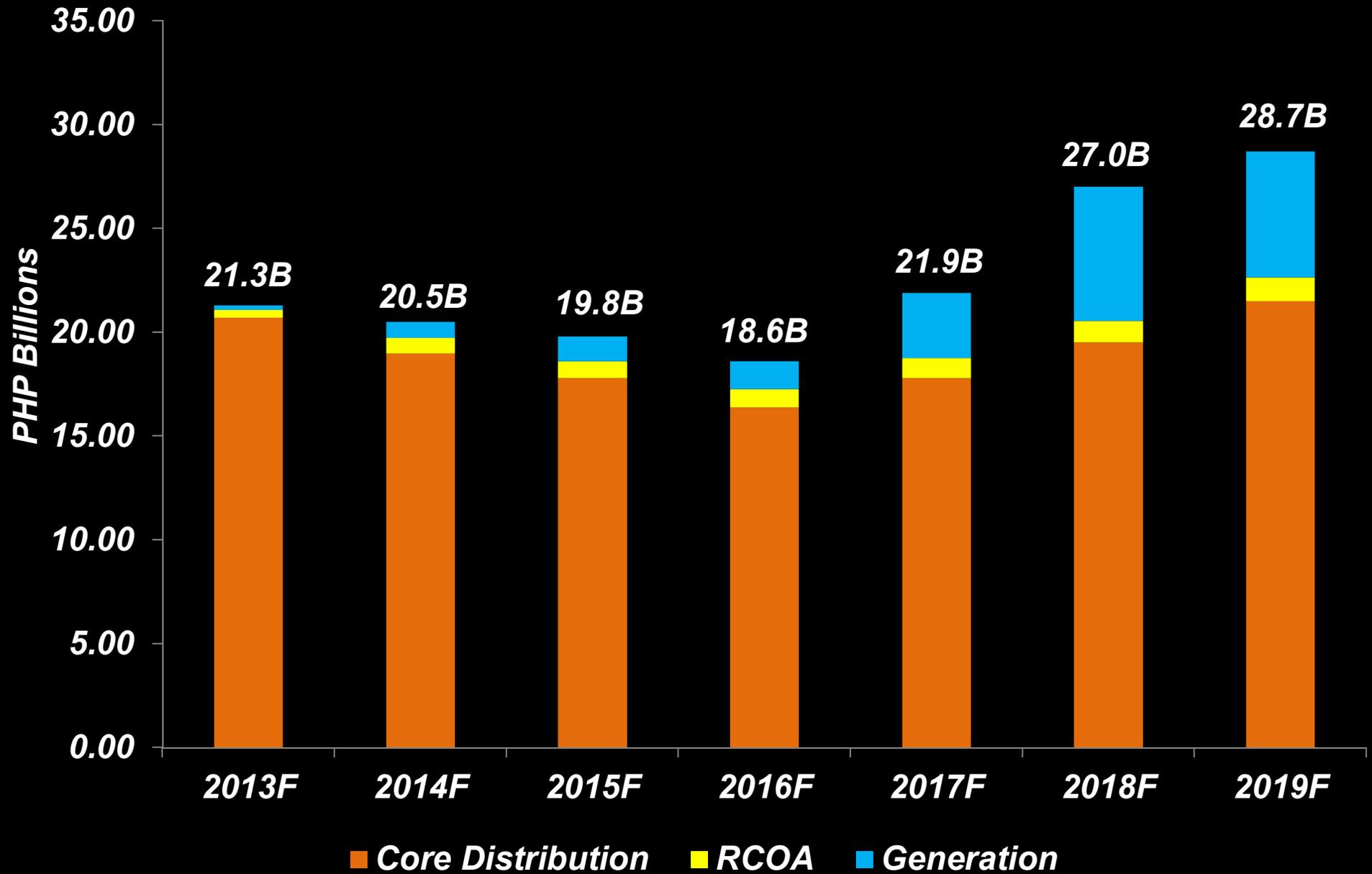
Source: Bangko Sentral ng Pilipinas, MER disclosure

NET INCOME (HISTORICAL)



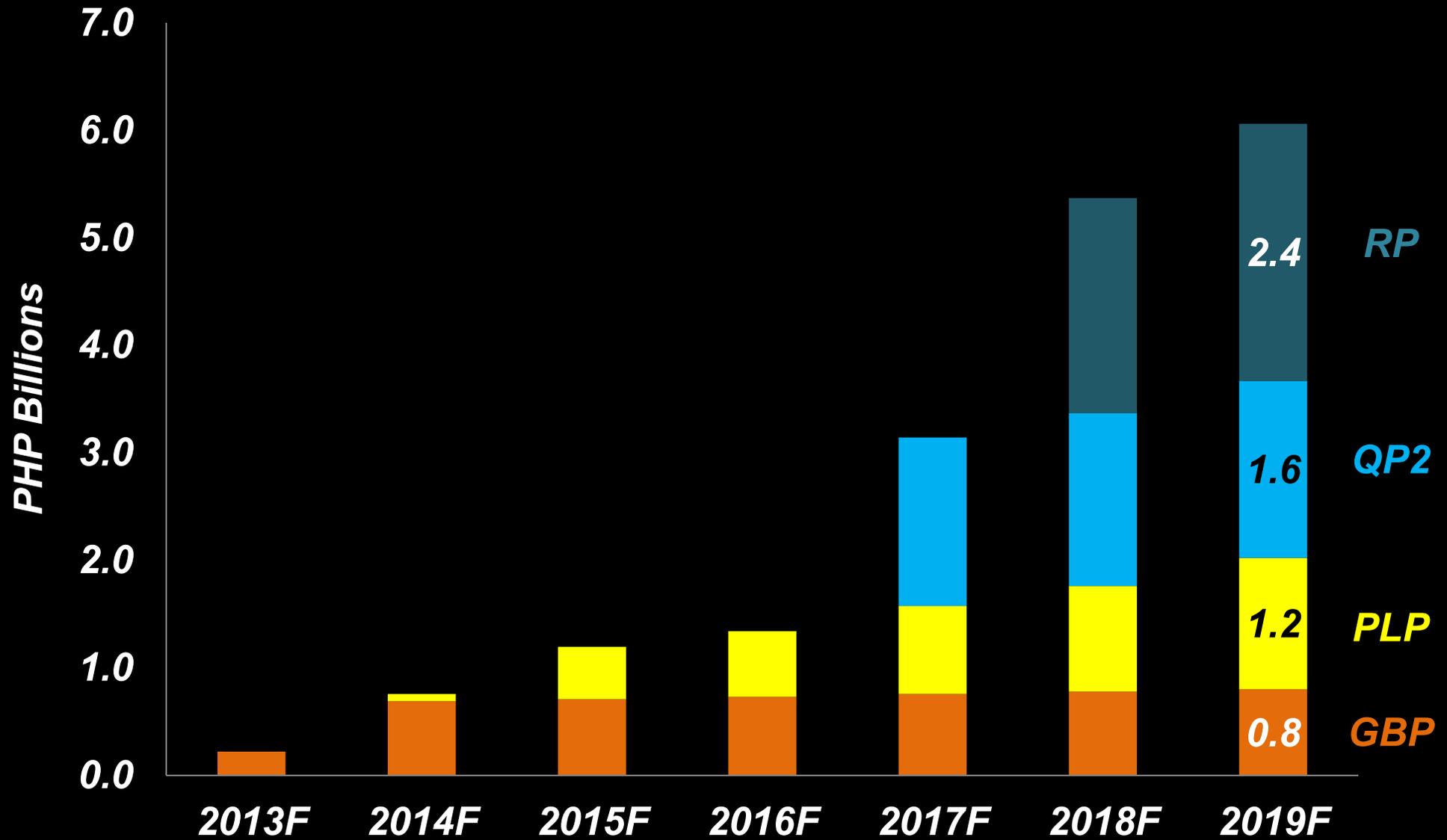
Source: MER disclosures

NET INCOME (PROJECTED)



Source: MER disclosures

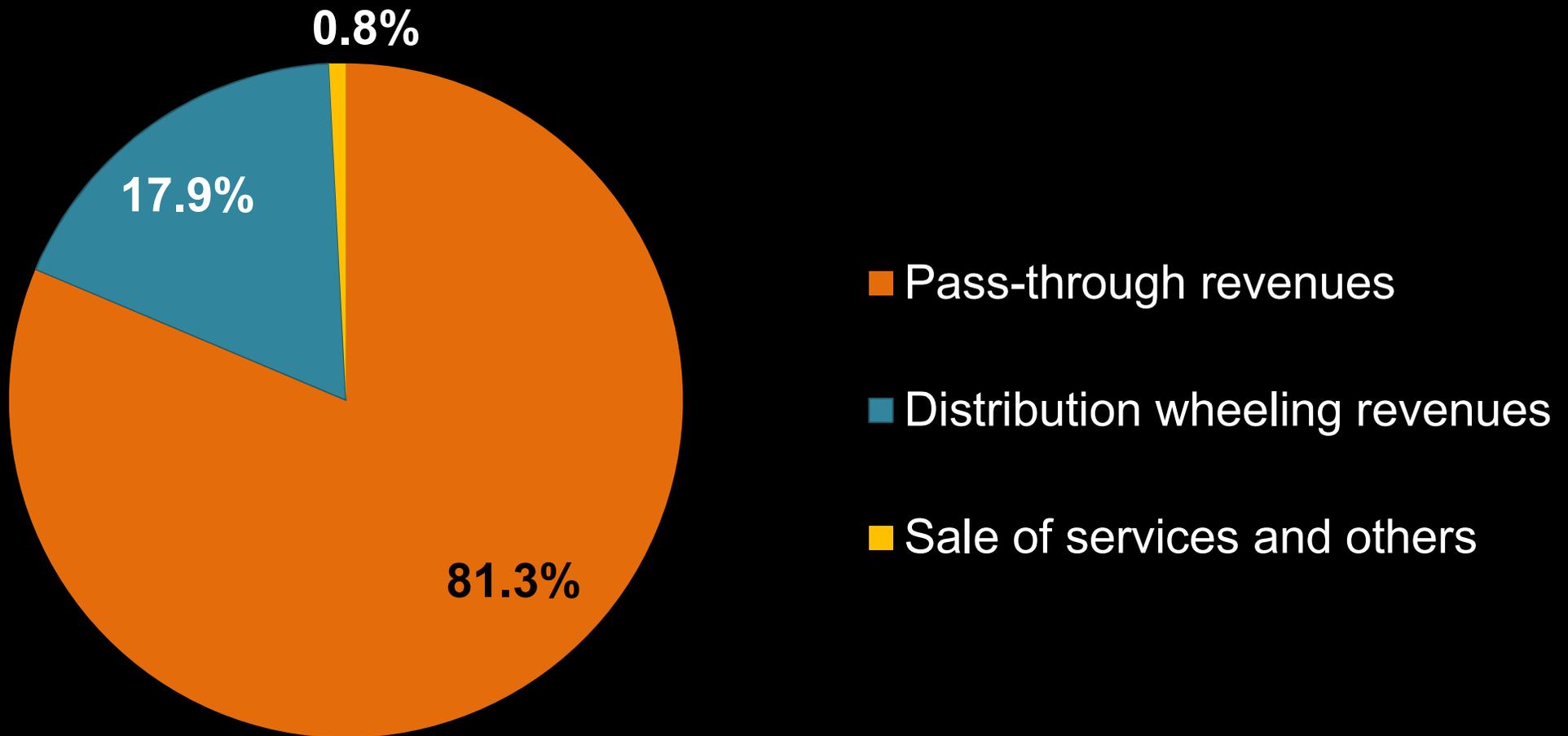
GENERATION INCOME CONTRIBUTION



Source: Team estimates

REVENUE BREAKDOWN

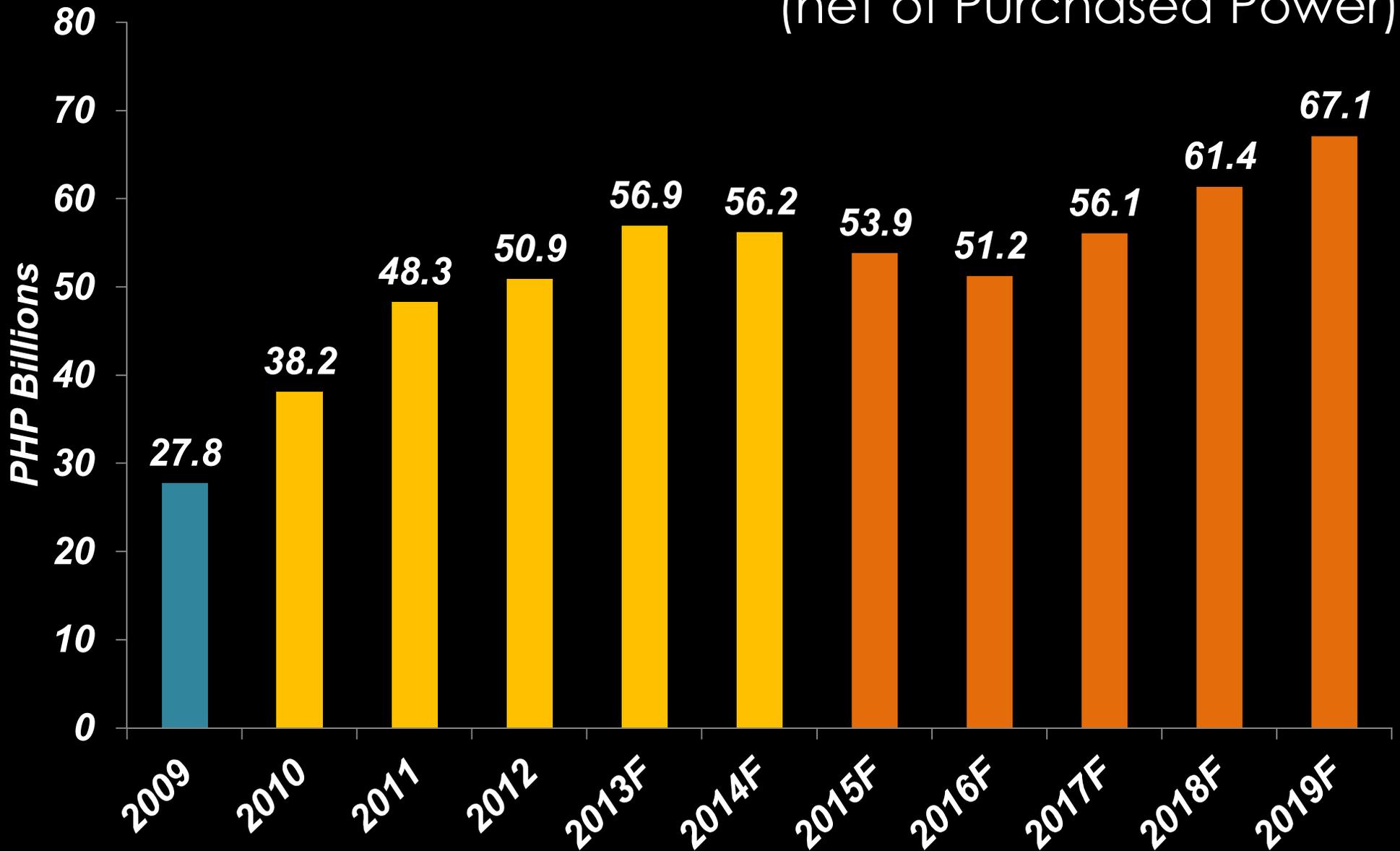
(as of December 31, 2012)



Source: MER disclosures

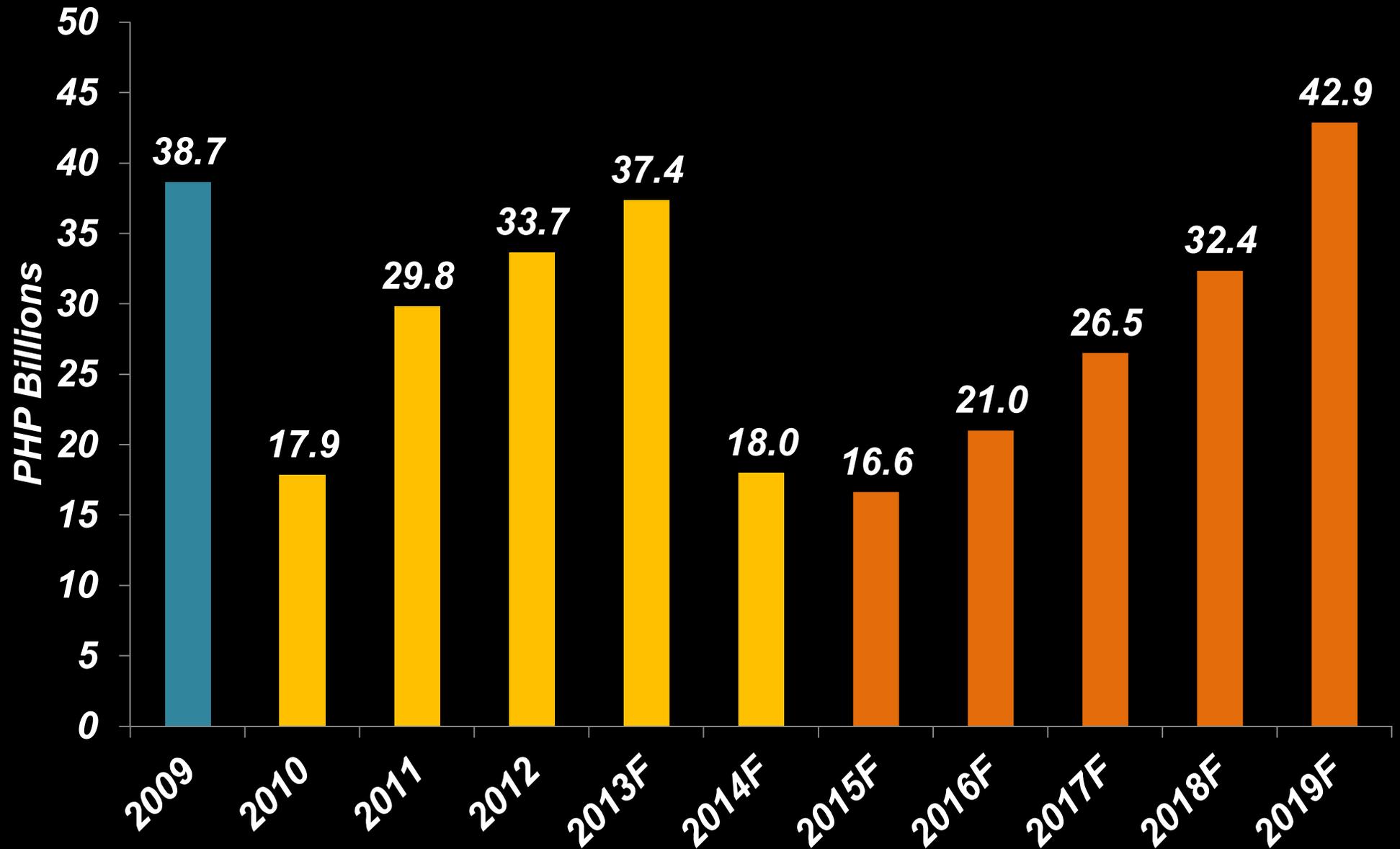
ANNUAL DISTRIBUTION REVENUES

(net of Purchased Power)



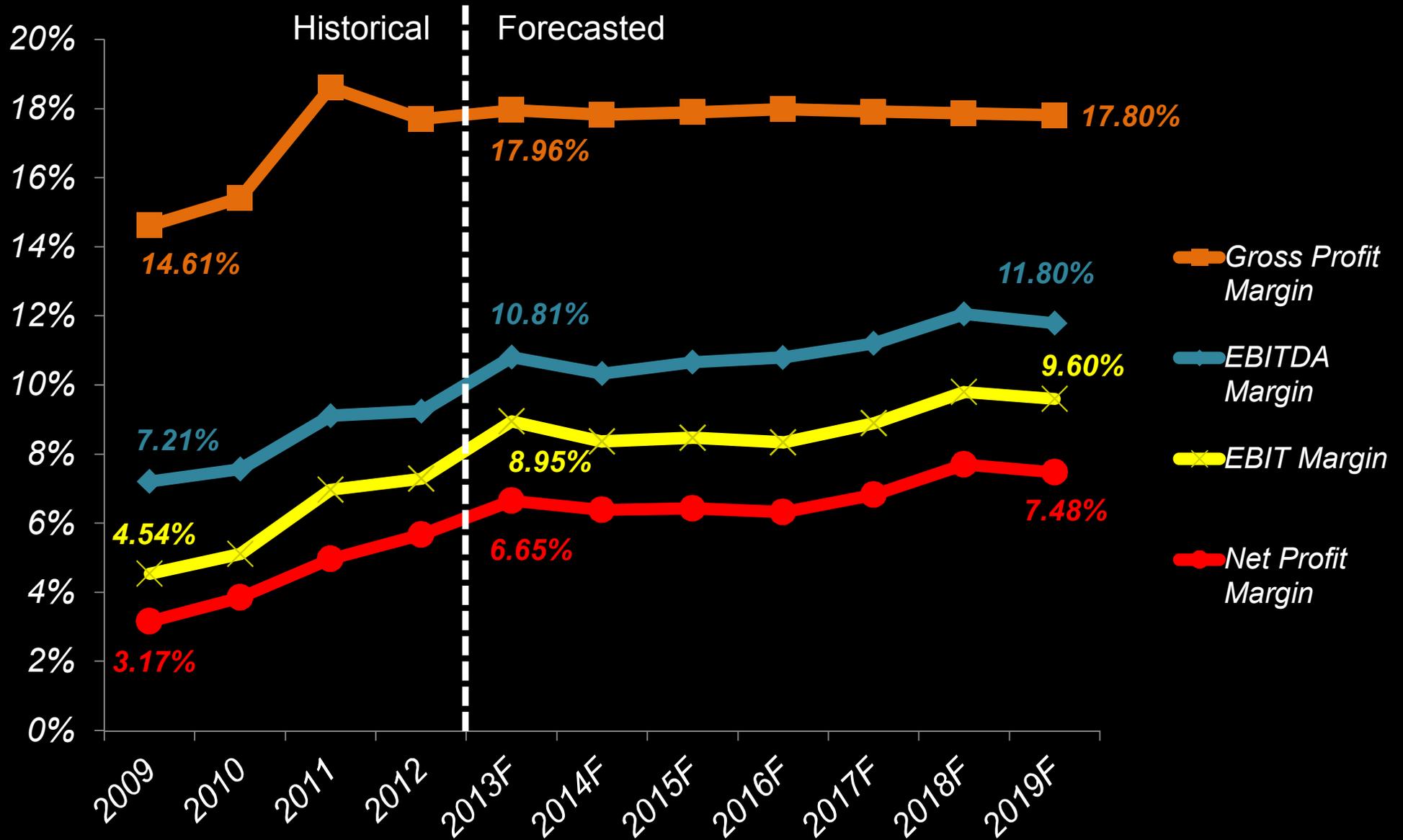
Source: MER disclosures, Team estimates

OPERATING CASH FLOWS



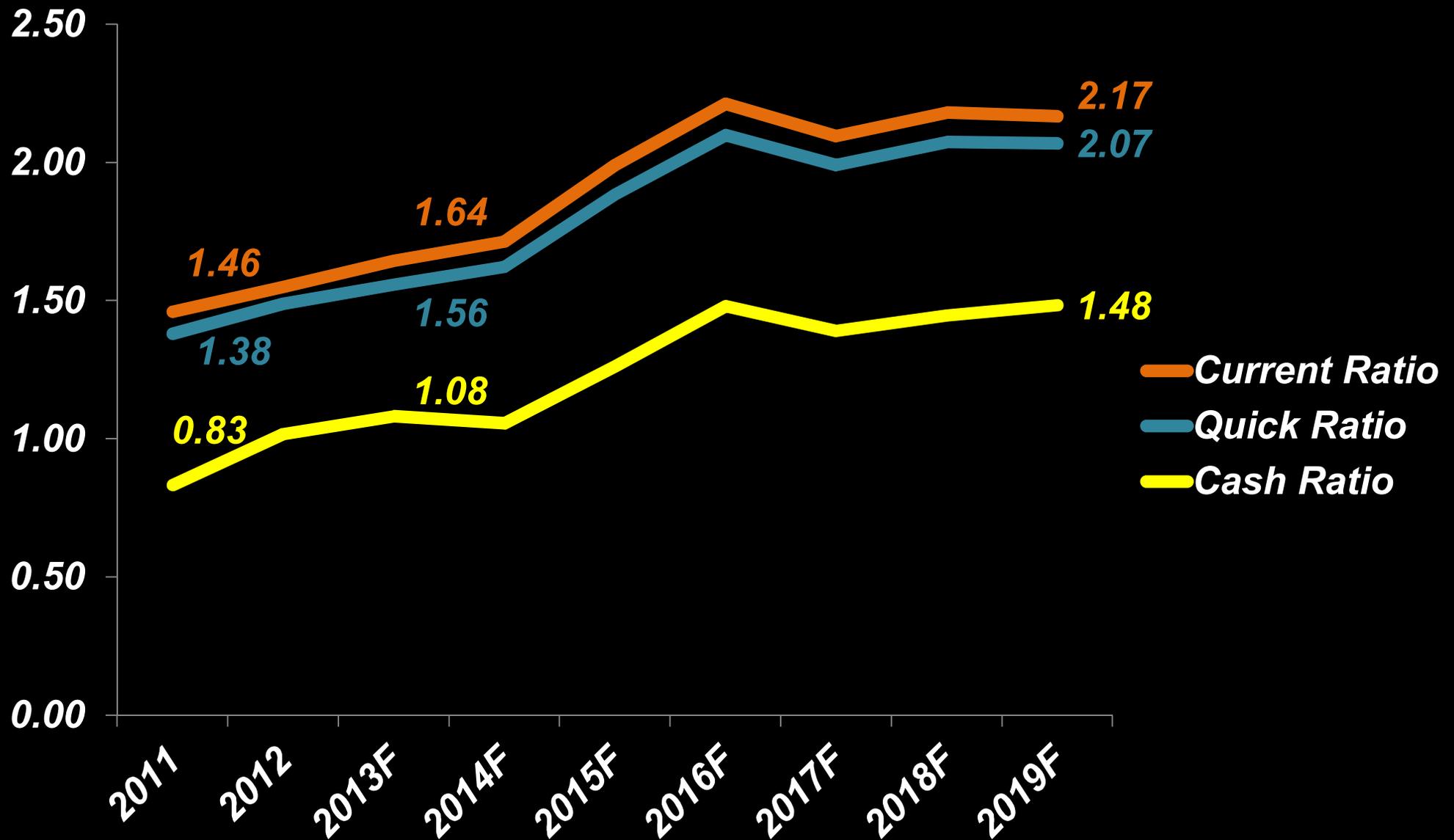
Source: MER disclosures, Team estimates

PROFITABILITY RATIOS



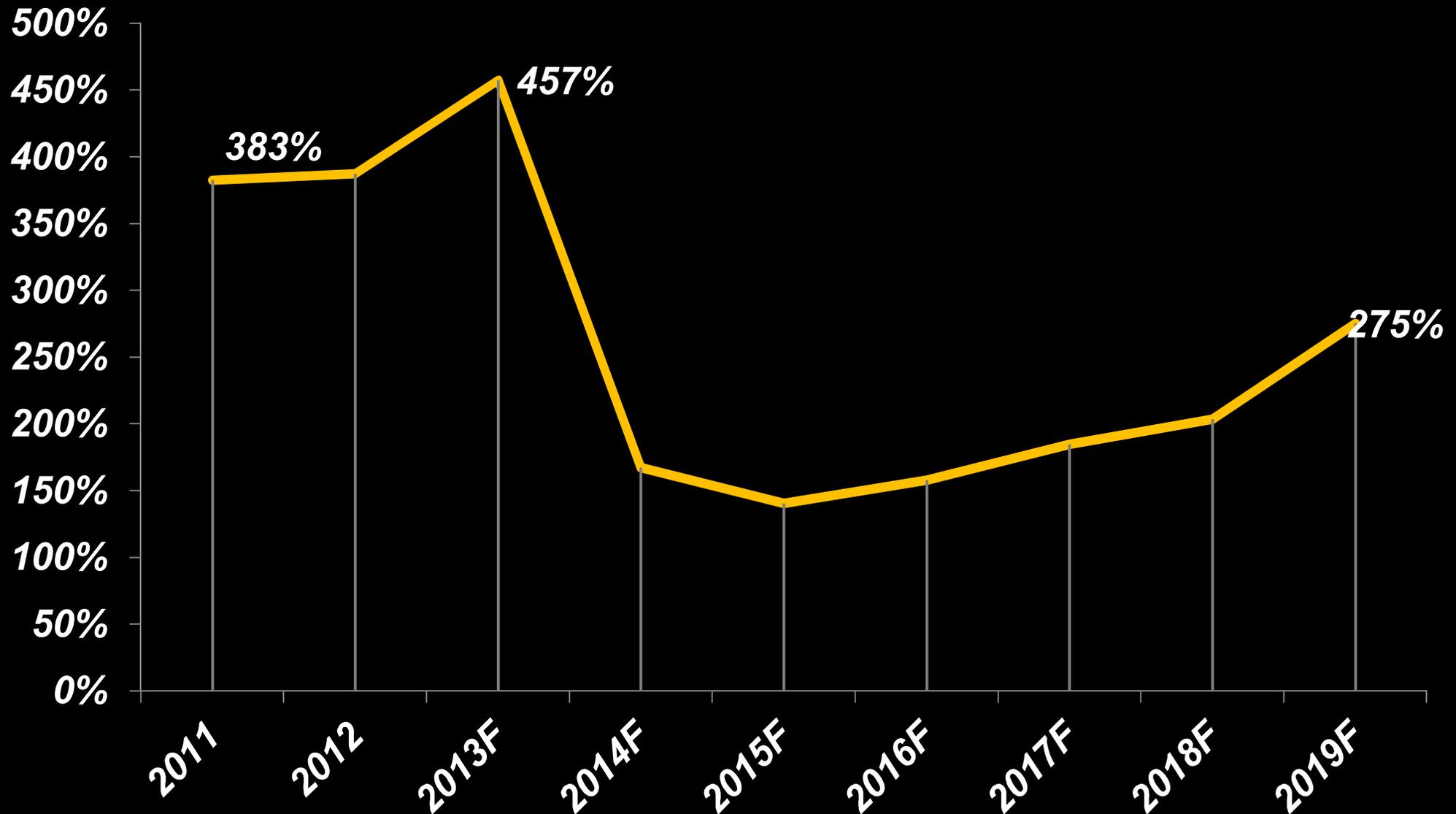
Source: MER disclosures, Team estimates

LIQUIDITY RATIOS



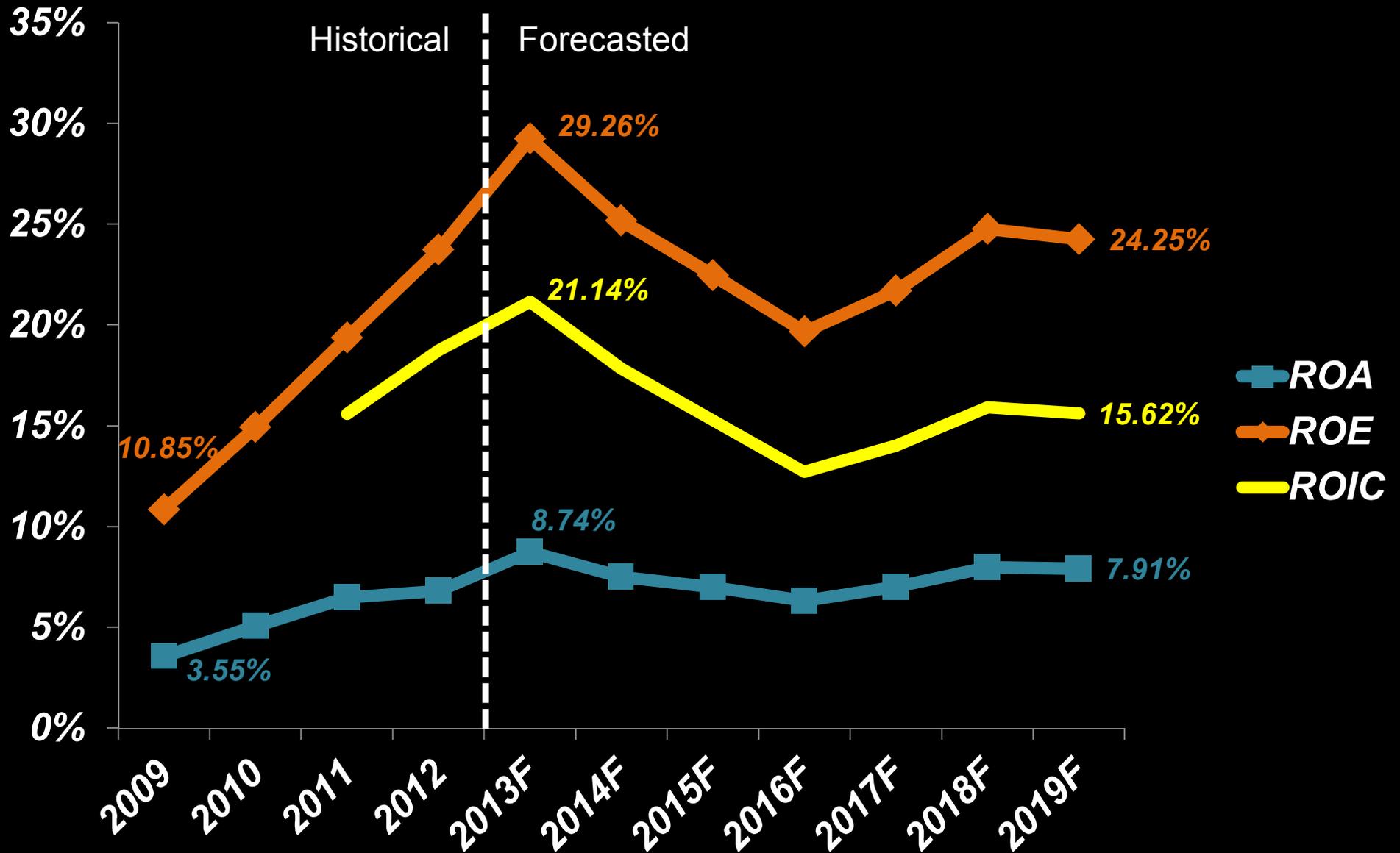
Source: MER disclosures, Team estimates

OPERATING CASH FLOWS TO CAPEX



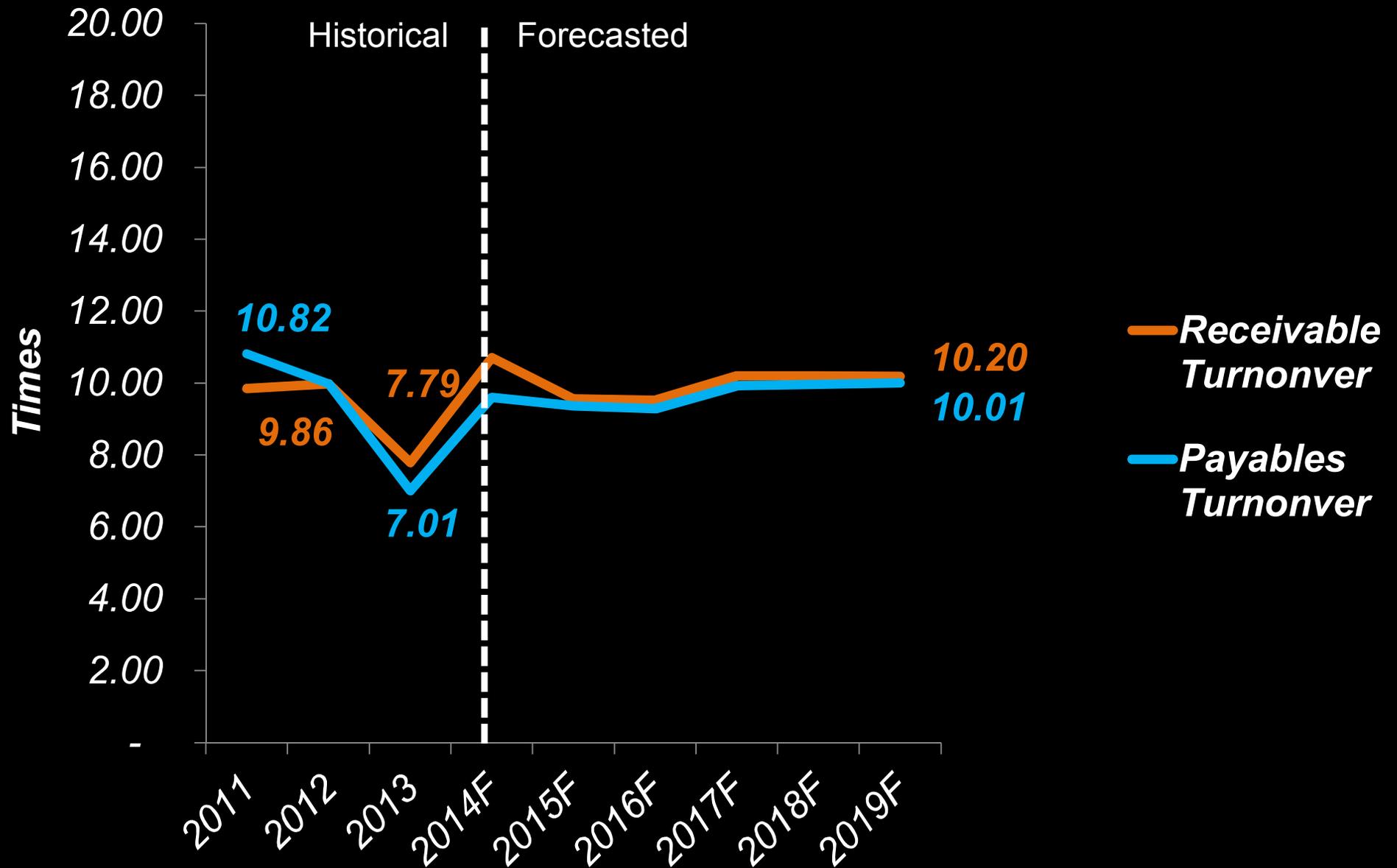
Source: MER disclosures, Team estimates

RETURN RATIOS



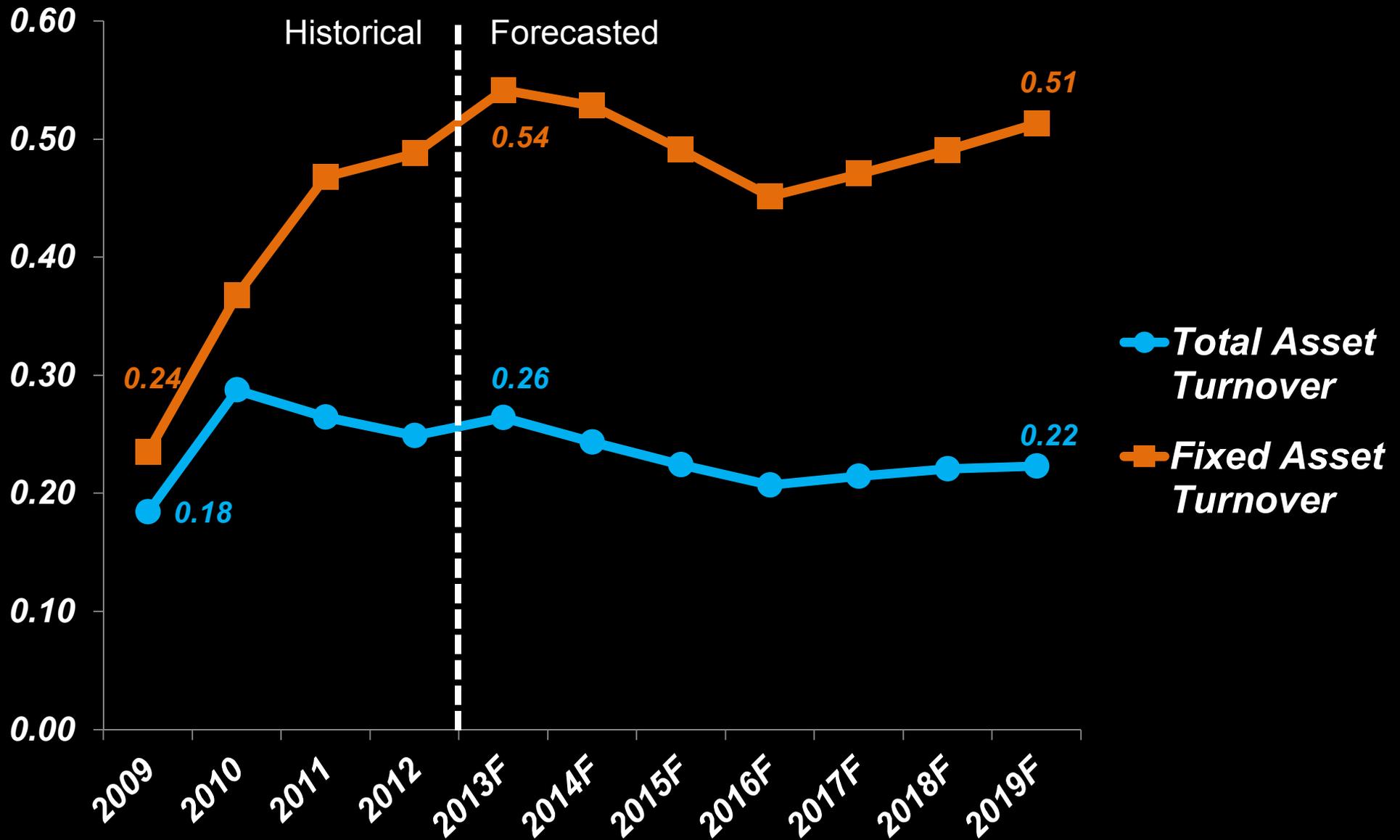
Source: MER disclosures, Team estimates

ACTIVITY RATIOS



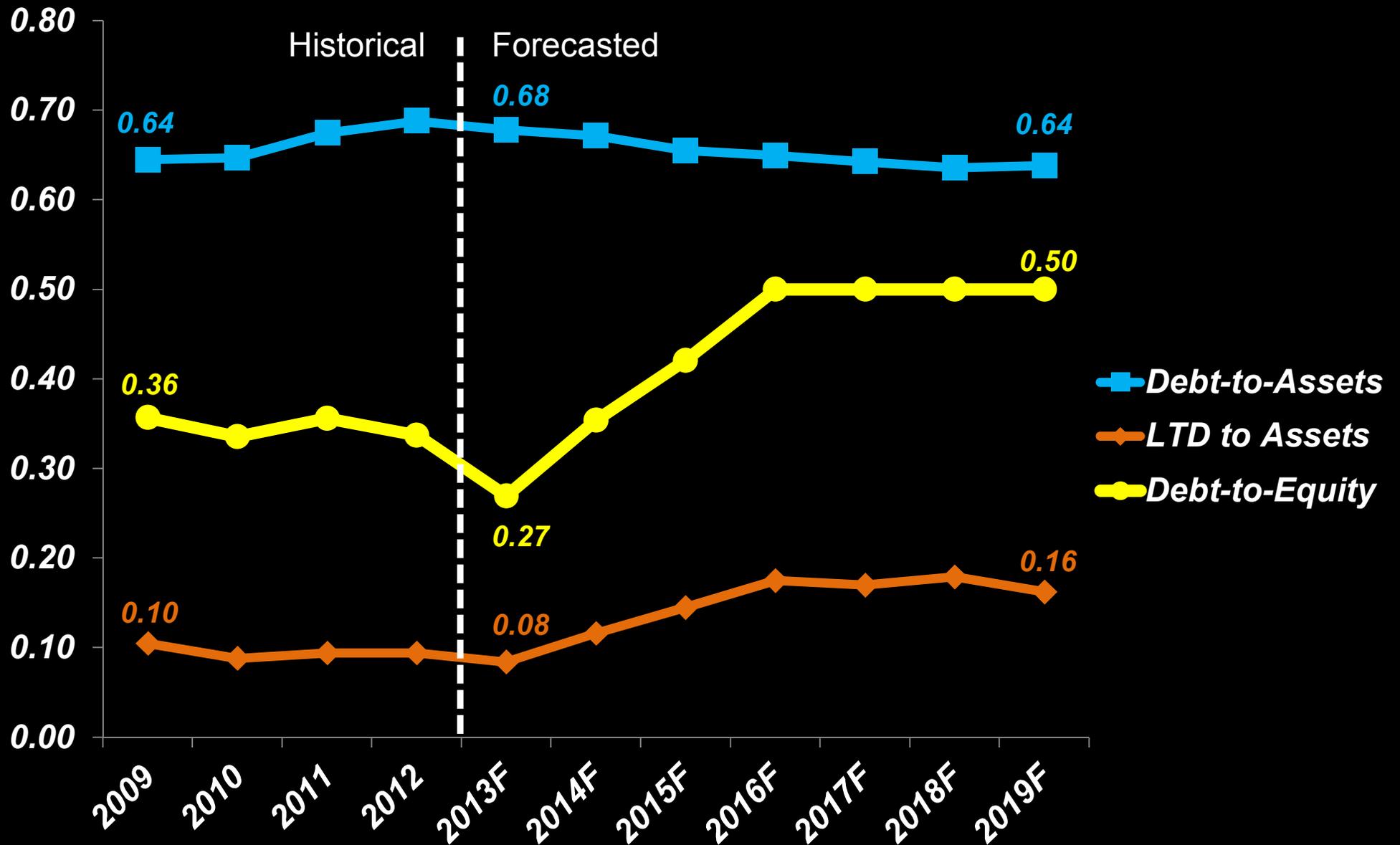
Source: MER disclosures, Team estimates

ACTIVITY RATIOS



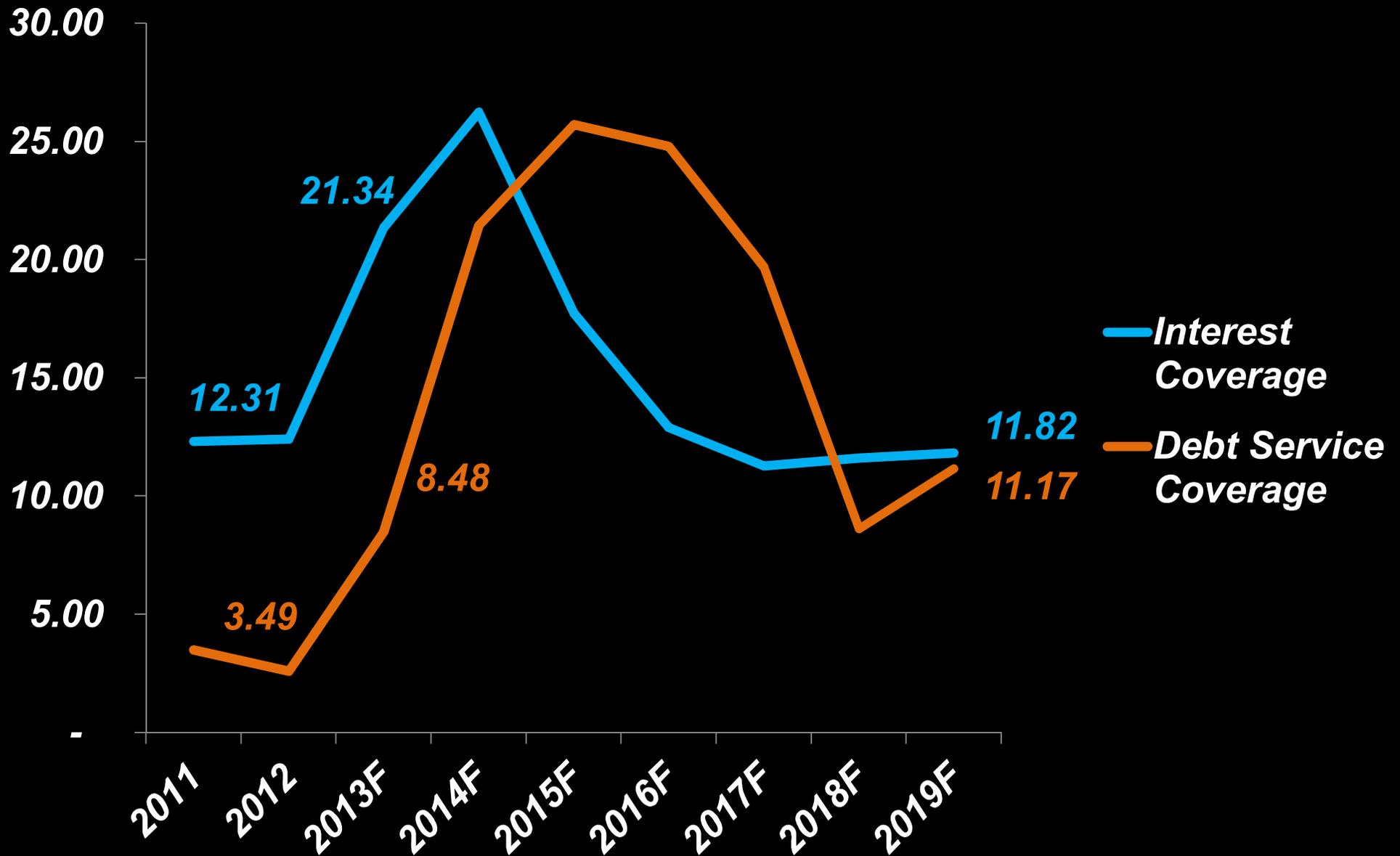
Source: MER disclosures, Team estimates

LEVERAGE RATIOS



Source: MER disclosures, Team estimates

COVERAGE RATIOS



Source: MER disclosures, Team estimates

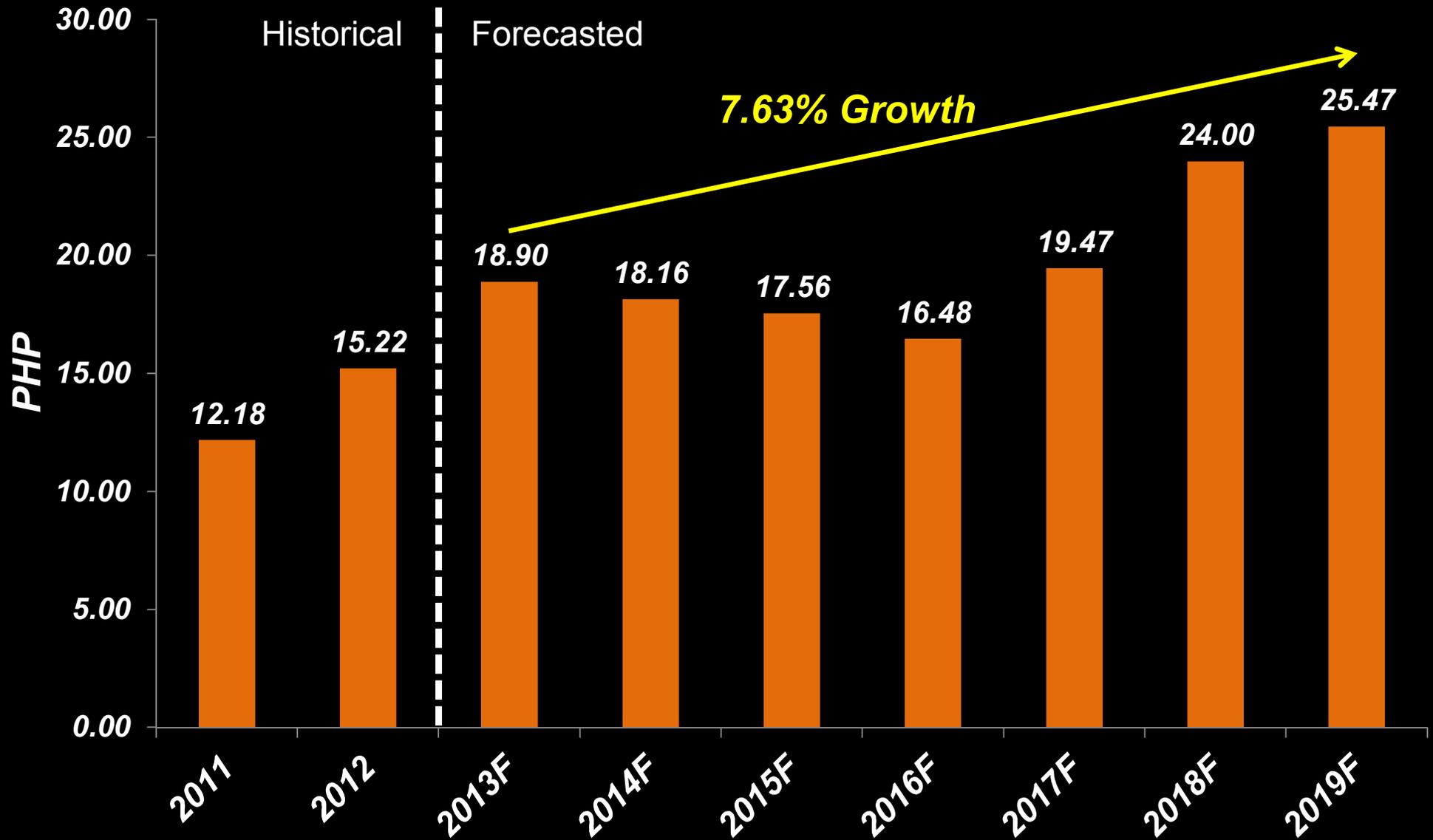
DU PONT ANALYSIS

	2010	2011	2012
Net Income/ Sales	0.04	0.05	0.06
Sales/ Assets	1.37	1.32	1.33
Asset/ Equity	2.82	2.96	3.14
ROE	14.95%	19.38%	23.75%

	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Net Income/ Sales	0.07	0.06	0.06	0.06	0.07	0.08	0.07
Sales/ Assets	1.40	1.28	1.18	1.08	1.13	1.16	1.18
Asset/ Equity	3.15	3.07	2.97	2.87	2.82	2.77	2.76
ROE	29.26%	25.00%	22.00%	20.00%	22.00%	24.77%	24.25%

Source: Team estimates, Company data

EARNINGS PER SHARE

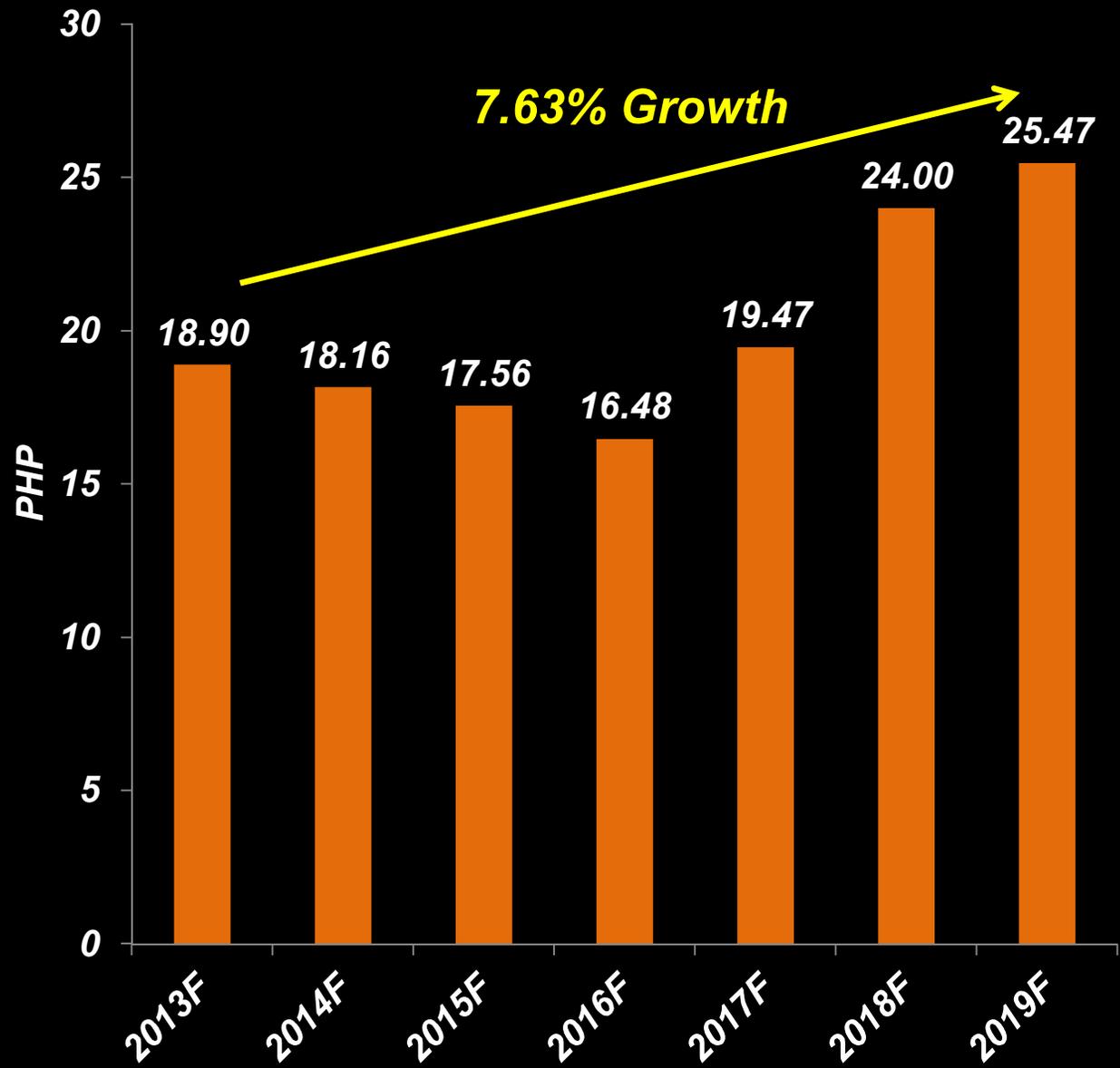


Source: MER disclosures, Team estimates

EARNINGS PER SHARE

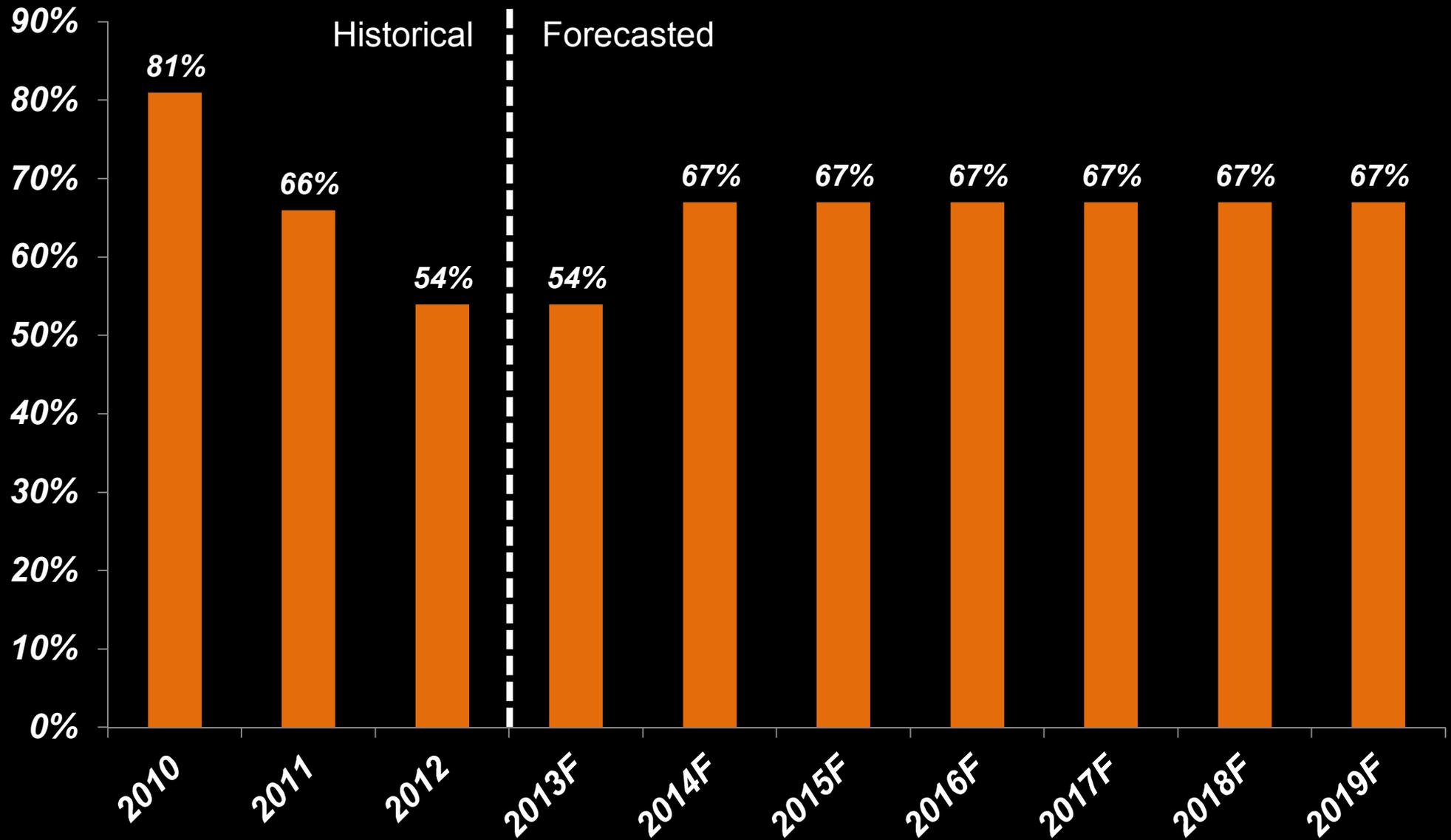
Breakdown of EPS Growth over Forecast Period

Component	Percentage
Distribution	3.88%
RCOA	0.28%
Generation	3.47%
Total	7.63%



Source: Team Estimates

DISTRIBUTION DIVIDEND PAYOUT



Source: MER disclosures, Team estimates

2019F GENERATION RATIOS

	GBP	RP Energy	Quezon Power 2	PacificLight Power
Operating profit margin	41.80%	40.92%	37.58%	12.79%
Net profit margin	22.33%	21.56%	18.57%	8.58%
Fixed asset turnover	34.32%	39.41%	34.68%	87.90%
Debt-to-Equity	1.70	2.33	2.33	0.63
Debt-to-Assets	0.50	0.68	0.68	0.35
Interest coverage	5.54	5.11	4.52	5.22
Dividend payout	75%	75%	75%	50%
ROA	5.62%	7.49%	5.89%	6.75%
ROE	19.06%	25.62%	20.11%	12.19%

Source: Company disclosures, Team estimates

GENERATION PEERS

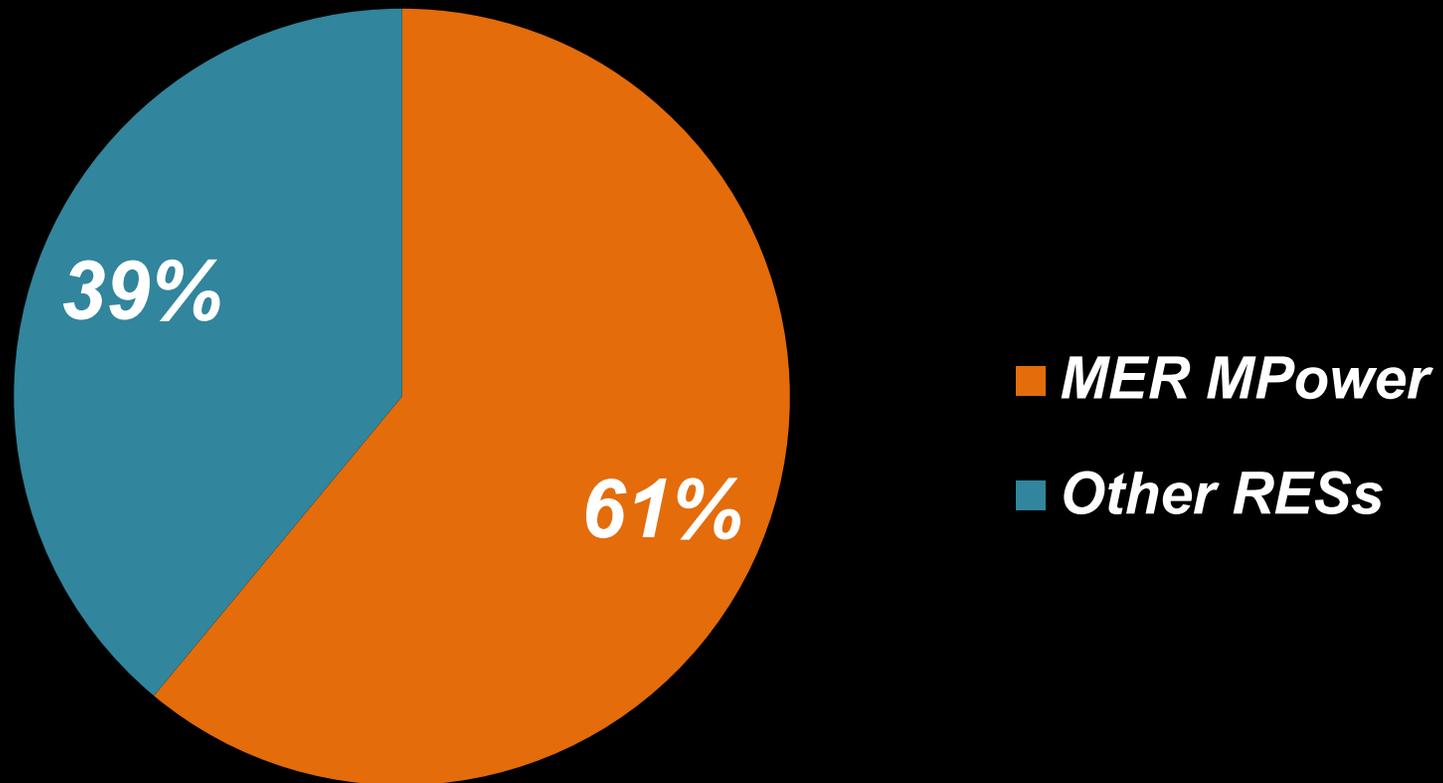
	<i>PacificLight</i>	<i>YTL PowerSeraya</i>	<i>Sembcorp</i>
<i>Operating Profit Margin</i>	18.21%	8.46%	8.47%
<i>Net Profit Margin</i>	8.68%	5.44%	6.62%
<i>Total Asset Turnover</i>	0.41x	0.96x	0.85x
<i>Fixed Asset Turnover</i>	0.92x	3.69x	-
<i>Debt-to-Equity</i>	1.40x	15.8x	-
<i>Return on Assets</i>	4.71%	5.19%	5.64%
<i>Return on Equity</i>	11.21%	87.45%	18.38%

**average amounts*

Source: Team Estimates, YTL PowerSeraya

OPEN ACCESS PERFORMANCE

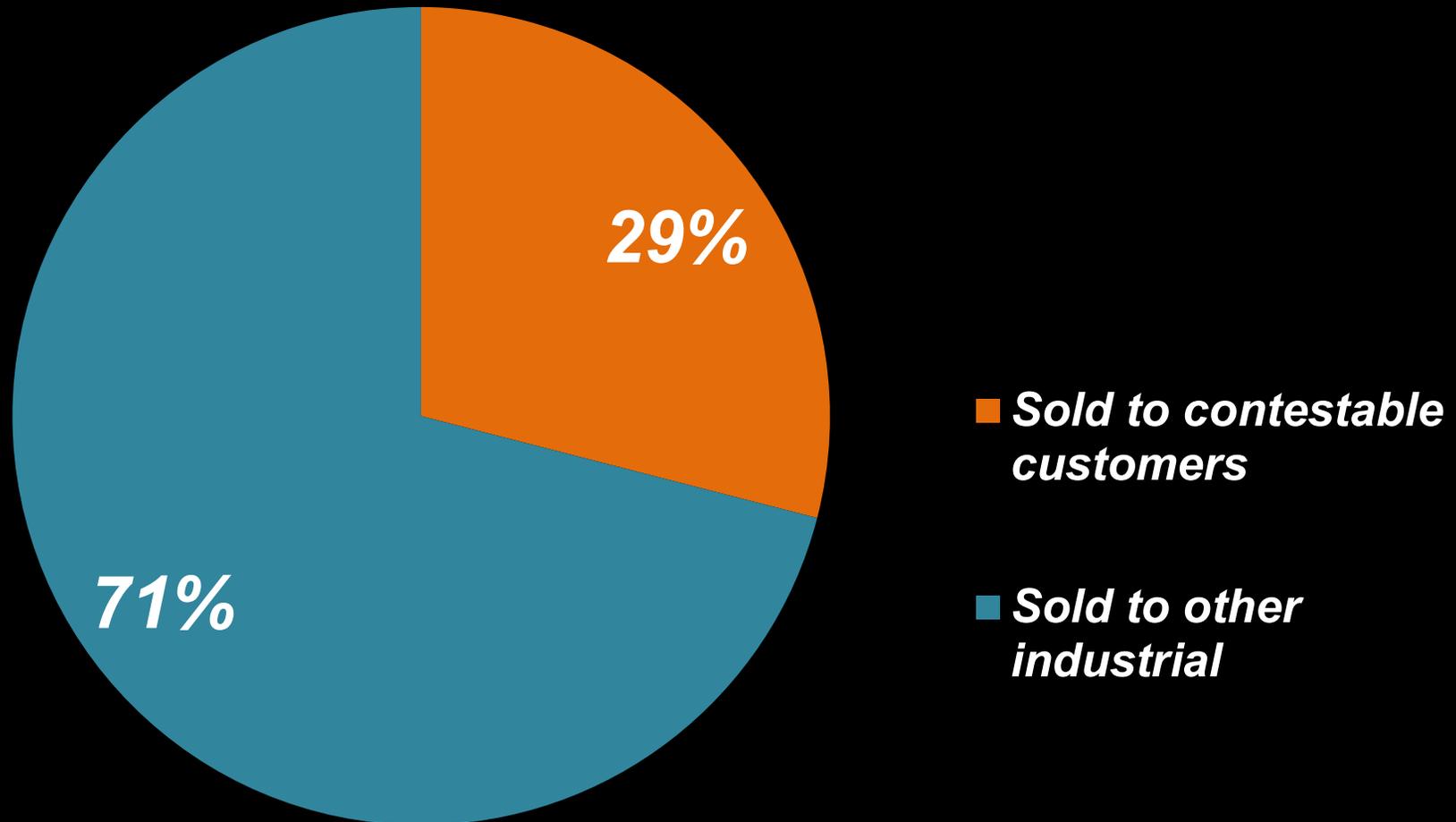
CONTESTABLE MARKET SHARE



Source: MER disclosures

OPEN ACCESS PERFORMANCE

ENERGY SOLD TO INDUSTRIAL CUSTOMERS



Source: MER disclosures

BREAKDOWN OF PROFIT

<i>Measure</i>	<i>CAGR</i>	<i>Percentage</i>
<i>Growth in Income</i>	<i>7.63%</i>	<i>100%</i>
<i>Revenue Growth</i>	<i>4.33%</i>	<i>58%</i>
<i>Efficiency</i>	<i>3.16%</i>	<i>42%</i>

Source: Team estimates

VALUATION AND ASSUMPTIONS

WACC ASSUMPTIONS

Power Distribution

<i>Input</i>	<i>Value</i>
<i>Risk Free Rate</i>	3.34%
<i>Beta</i>	0.98
<i>Market Risk Premium</i>	9.34%
<i>Cost of Equity</i>	12.51%
<i>Pre-tax Cost of Debt</i>	4.78%
<i>Marginal Tax Rate</i>	30.00%
<i>After-tax cost of debt</i>	3.14%
<i>Weight of equity</i>	81.58%
<i>Weight of debt</i>	18.42%
WACC	10.82%

Source: MER disclosures, Team estimates

WACC ASSUMPTIONS

Power Generation

<i>Input</i>	<i>GBP</i>	<i>RP Energy</i>	<i>Quezon Power 2</i>	<i>PacificLight Power</i>
<i>Risk Free Rate</i>	3.34%	3.34%	3.34%	2.75%
<i>Beta</i>	1.05	1.05	1.05	1.17
<i>Market Risk Premium</i>	9.34%	9.34%	9.34%	5.75%
<i>Cost of Equity</i>	13.15%	13.15%	13.15%	9.46%
<i>Pre-tax Cost of Debt</i>	5.00%	5.00%	5.00%	5.00%
<i>Marginal Tax Rate</i>	30.00%	30.00%	30.00%	17.00%
<i>After-tax cost of debt</i>	3.50%	3.50%	3.50%	4.15%
<i>Weight of equity</i>	37.00%	30.00%	30.00%	40.00%
<i>Weight of debt</i>	63.00%	70.00%	70.00%	60.00%
WACC	7.13%	6.44%	6.44%	6.27%

Source: Company disclosures, Team estimates

COST OF DEBT

Power Distribution

<i>Debt Type</i>	<i>Interest Rate</i>
<i>Short-term Debt (Notes Payable)</i>	<i>3.90%</i>
<i>Floating Rate Notes</i>	<i>3.95%</i>
<i>7-year Bonds</i>	<i>4.375%</i>
<i>12-year Bonds</i>	<i>4.875%</i>

Source: MER disclosures, Team estimates

REVENUE DRIVERS PER SEGMENT

Power Distribution

<i>Customer Segment</i>	<i>Possible Drivers</i>
<i>Residential</i>	<i>Population, Household Consumption Final Expenditure</i>
<i>Commercial</i>	<i>Durable Equipment, Real Estate, and Other Services</i>
<i>Industrial</i>	<i>Durable Equipment, Manufacturing</i>

Source: Team estimates

VOLUME DRIVERS AND GROWTH RATES

Power Distribution

<i>Customer Segment</i>	<i>Identified Driver</i>	<i>Growth</i>
<i>Residential</i>	<i>Household Consumption Final Expenditure</i>	<i>2.4%</i>
<i>Commercial</i>	<i>Real Estate and Other Services</i>	<i>4.9%</i>
<i>Industrial</i>	<i>Manufacturing</i>	<i>4.4%</i>

Source: Team estimates

SALES VOLUME FORECAST

Power Distribution

Sale of Electricity (GWh)	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Residential	10,252	10,356	10,647	10,955	11,279	11,620	11,981
Industrial	13,399	14,169	14,872	15,614	16,396	17,221	18,091
Commercial	10,191	10,610	11,137	11,693	12,280	12,898	13,549
Streetlights	132	132	132	132	132	132	132
Total	33,973	35,267	36,789	38,394	40,087	41,871	43,753

Source: Team estimates

TERMINAL GROWTH COMPONENTS

Power Distribution

<i>Component</i>	<i>Rate</i>
<i>Volume</i>	2.00%
<i>Projected Inflation</i>	2.78%
<i>Terminal Growth Rate</i>	4.93%

Source: Team estimates

TERMINAL GROWTH COMPONENTS

Power Generation

Component	GBP	RP Energy	Quezon Power 2	PacificLight Power
Volume	-0.10% (Coal) -0.50% (Diesel)	-0.10%	-0.10%	-0.10%
Projected Inflation	2.87%	2.87%	2.87%	2.46%
Terminal Growth Rate	2.76%	2.76%	2.76%	0.60%

Source: Energy Information Agency, Energy Market Authority, Team estimates

REGRESSION: VOLUME DRIVERS

Power Distribution

<i>Y</i>	<i>X</i>	<i>Adjusted R Square</i>	<i>Significance F</i>	<i>F Test</i>
<i>Residential</i>	<i>Population</i>	<i>0.009</i>	<i>0.273</i>	<i>1.249</i>
<i>Residential</i>	<i>Household Consumption Final Expenditure</i>	<i>0.315</i>	<i>0.001</i>	<i>14.36</i>
<i>Industrial</i>	<i>Durable Equipment</i>	<i>0.409</i>	<i>0.000</i>	<i>21.055</i>
<i>Industrial</i>	<i>Manufacturing</i>	<i>0.654</i>	<i>0.000</i>	<i>55.765</i>
<i>Commercial</i>	<i>Other Services</i>	<i>0.837</i>	<i>0.000</i>	<i>149.542</i>
<i>Commercial</i>	<i>Other Services and Real Estate</i>	<i>0.883</i>	<i>0.000</i>	<i>220.290</i>

Source: Team estimates

CAPITAL EXPENDITURES

Power Distribution

Type of Expenditure	Definition	Assumptions
Growth	<i>Capital projects required to accommodate electricity demand or new connections</i>	<i>Regressed against Energy Sales (volume) for the past eight regulatory years</i>
Renewal	<i>Replacement for existing assets where it is no longer economically feasible to maintain the assets, or where technological obsolescence forces their replacement</i>	<i>Average of amounts in previous regulatory period</i>
Refurbishment	<i>Expenditures to extend asset serviceability to beyond standard lives</i>	<i>Average of amounts in previous regulatory period</i>
Non-network	<i>Relates to expenditure on non-network assets</i>	<i>Average of amounts in previous regulatory periods</i>
Major	<i>Expenditures that will exceed the lesser of 20% of total capital expenditure forecast for a Regulatory Year or PHP 30 million</i>	<i>Regressed against Energy Sales (volume) for the past eight regulatory years</i>

Source: MER disclosures, Team estimates

APPROVED CAPEX (3rd RP, Nominal) Power Distribution

<i>Capital Expenditures (PHP Millions)</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<i>Major Projects</i>	5,851	5,463	5,215	4,635	4,447
<i>Non-network</i>	1,098	1,686	842	905	634
<i>Retail Services</i>	1,006	1,703	1,600	1,678	1,338
<i>Refurbishment</i>	-	268	213	205	209
<i>Renewal</i>	-	1,996	1,903	1,831	1,888
Total	7,955	11,115	9,773	9,252	8,514

Source: MER disclosures, Team estimates

APPROVED CAPEX (3rd RP, Real) Power Distribution

<i>Capital Expenditures (PHP Millions)</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<i>Major Projects</i>	<i>5,462.50</i>	<i>5,214.50</i>	<i>4,634.50</i>	<i>4,446.60</i>
<i>Non-network</i>	<i>1,686.30</i>	<i>842.40</i>	<i>905.00</i>	<i>633.80</i>
<i>Retail Services</i>	<i>1,702.90</i>	<i>1,600.20</i>	<i>1,667.60</i>	<i>1,337.60</i>
<i>Refurbishment</i>	<i>267.80</i>	<i>212.90</i>	<i>204.50</i>	<i>208.80</i>
<i>Renewal</i>	<i>1,995.90</i>	<i>1,903.30</i>	<i>1,830.60</i>	<i>1,887.60</i>
<i>Total</i>	<i>11,115.40</i>	<i>9,773.30</i>	<i>9,252.20</i>	<i>8,514.40</i>

Source: MER disclosures, Team estimates

APPROVED CAPEX (4th RP, Nominal) Power Distribution

<i>Capital Expenditures (PHP Millions)</i>	<i>2016F</i>	<i>2017F</i>	<i>2018F</i>	<i>2019F</i>
<i>Major Projects</i>	6,879.70	7,141.92	7,412.16	7,690.79
<i>Non-network</i>	1,257.74	1,299.11	1,341.15	1,383.86
<i>Retail Services</i>	1,953.73	2,017.99	2,083.29	2,149.63
<i>Refurbishment</i>	276.44	285.53	294.77	304.16
<i>Renewal</i>	2,355.44	2,432.90	2,511.63	2,591.62
Total	12,723.06	13,177.45	13,643.00	14,120.05

Source: MER disclosures, Team estimates

APPROVED CAPEX (4th RP, Real) Power Distribution

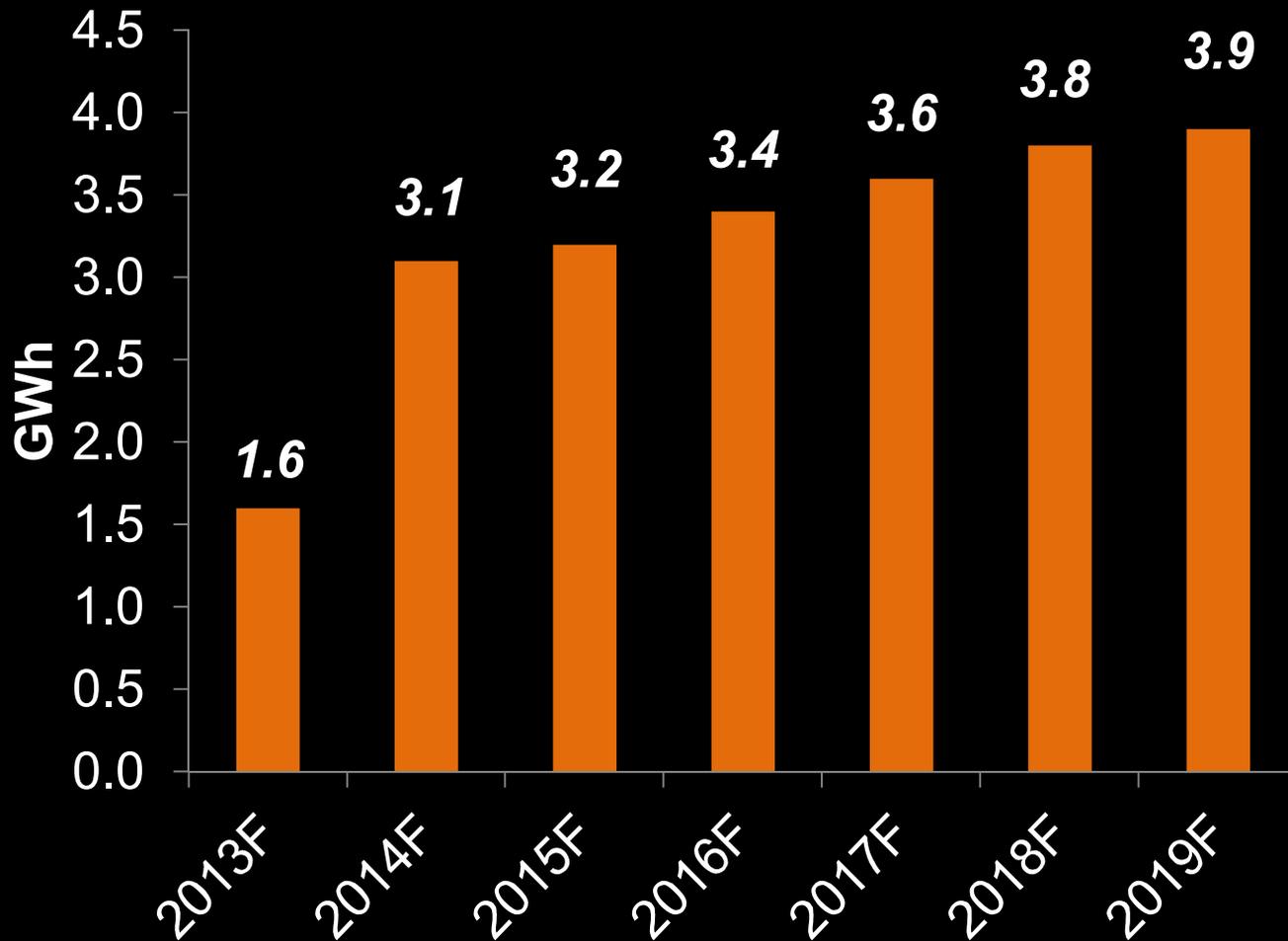
<i>Capital Expenditures (PHP Millions)</i>	<i>2016F</i>	<i>2017F</i>	<i>2018F</i>	<i>2019F</i>
<i>Major Projects</i>	5,562.18	5,590.32	5,620.00	5,651.28
<i>Non-network</i>	1,016.88	1,016.88	1,016.88	1,016.88
<i>Retail Services</i>	1,579.58	1,579.58	1,579.58	1,579.58
<i>Refurbishment</i>	223.50	223.50	223.50	223.50
<i>Renewal</i>	1,904.35	1,904.35	1,904.35	1,904.35
Total	10,314.62	10,314.62	10,344.30	10,375.58

Source: MER disclosures, Team estimates

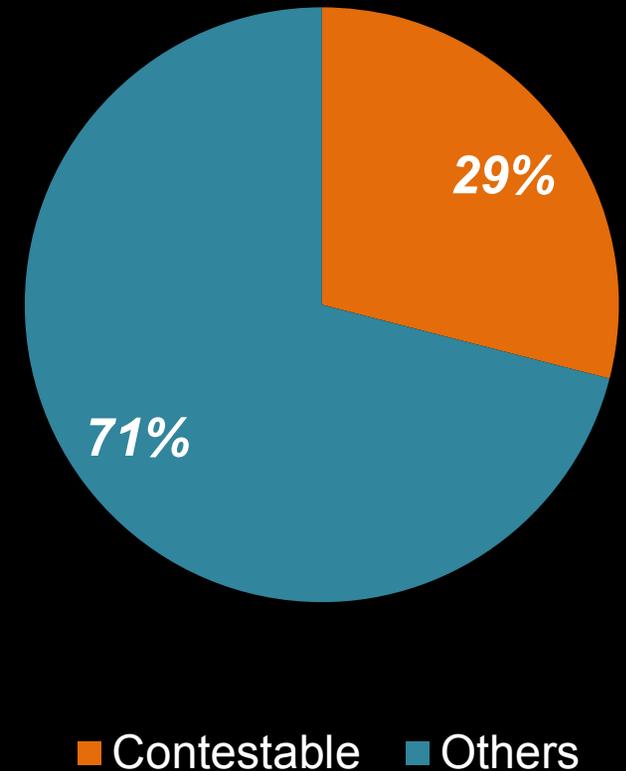
RCOA PROFIT FORECAST

Power Distribution

Energy Sales to Contestable Customers



Industrial Customers

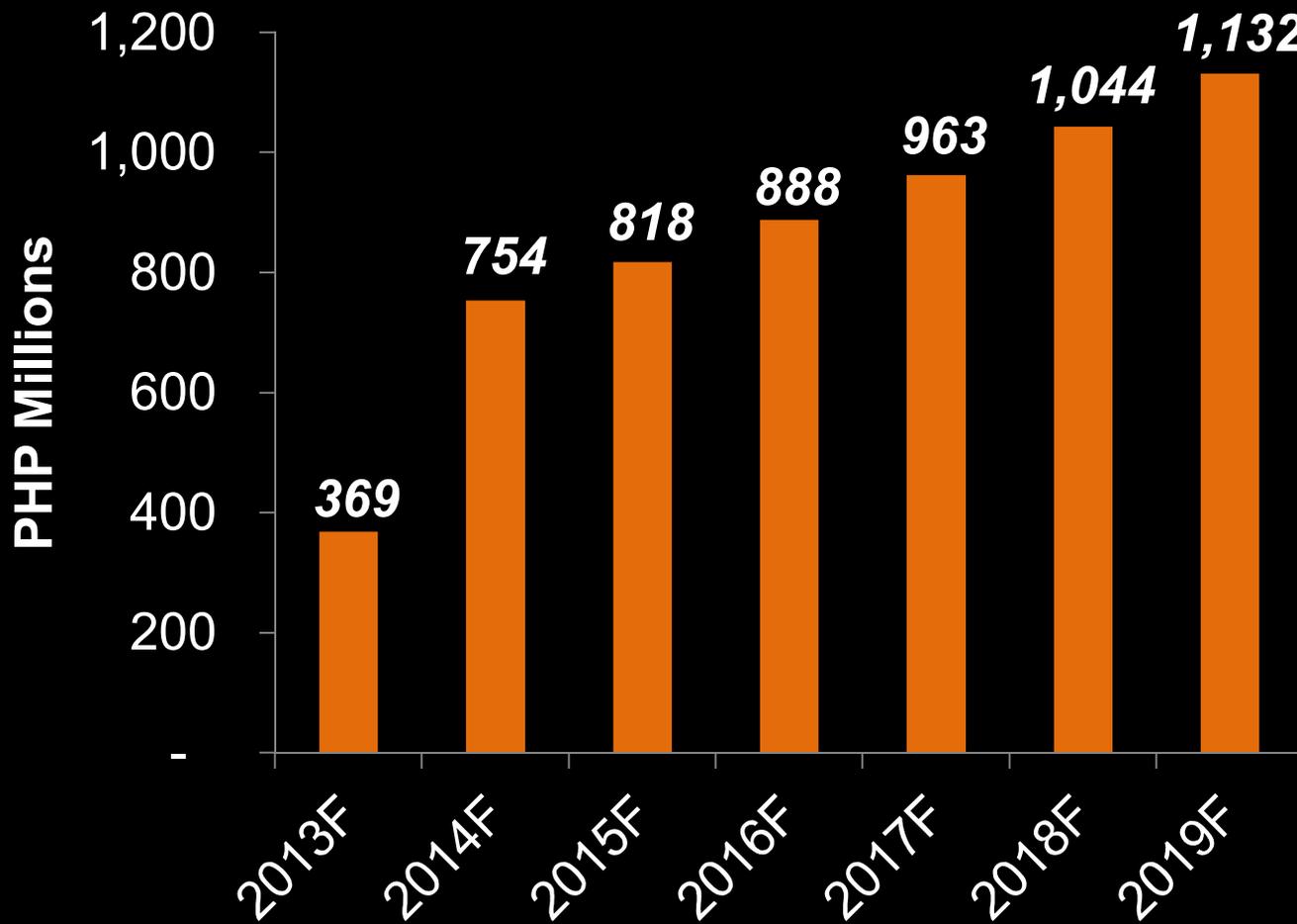


Source: Team estimates

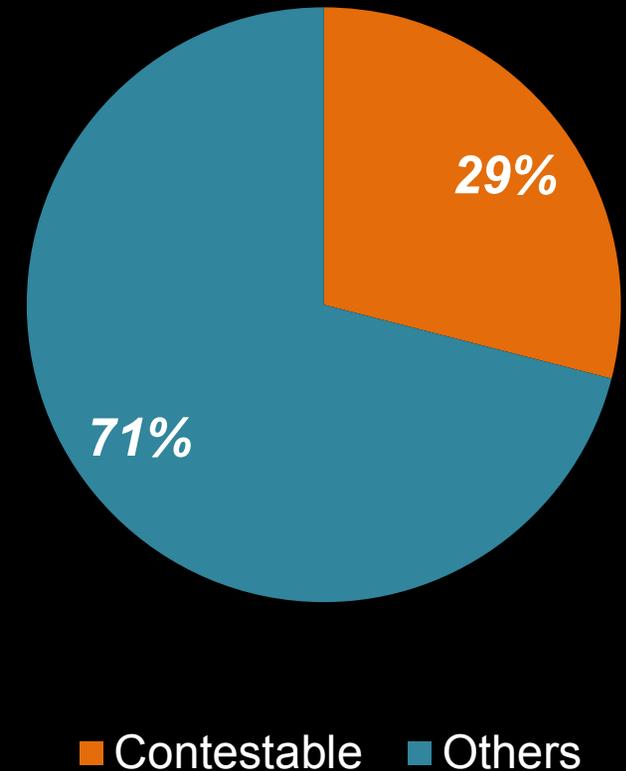
RCOA PROFIT FORECAST

Power Distribution

Profit Contribution



Industrial Customers



Source: Team estimates