



**First Philippine
Holdings Corporation**

20 March 2009

PHILIPPINE STOCK EXCHANGE

4th Floor, PSE Center
Exchange Road
Ortigas Center, Pasig City

Attention:

MR. NOEL B. DEL CASTILLO
Officer in Charge, Disclosure Department

MS. KRISTINA S. WY
Analyst, Disclosure Department

Gentlemen/Mesdames:

First Philippine Holdings Corporation ("FPH") has the following response to the items raised in your letter dated 13 March 2009 requesting for additional information on the Investment and Cooperation Agreement and the sale of FPH's 223,000,000 common shares in Manila Electric Company ("Meralco") to the Philippine Long Distance Telephone Company ("PLDT") or its affiliates.

FPH, Lopez Inc. and First Philippine Utilities Corp. entered into agreements with PLDT/its affiliates on the following significant terms and conditions:

Investment and Cooperation Agreement dated March 12, 2009 by and among Lopez, Inc. ("LI"), First Philippine Holdings Corporation ("FPHC"), FPUC (collectively, the "Lopez Group") and Philippine Long Distance Telephone Company ("PLDT") ("Agreement")

This Agreement provides the terms and conditions of the purchase by PLDT/its Affiliates of the Lopez Group's 223 million shares of common stock in Meralco representing approximately 20% of the total issued and outstanding common stock of Meralco (the "Subject Shares") and the terms of cooperation between the Lopez Group and PLDT, including its designated Affiliates, with respect to the governance of Meralco.

- (a) The purchase price for the Subject Shares is Php90.00 per share or a total amount of Php20.070 billion, payable on closing date;
- (b) The obligation to purchase the Subject Shares and pay the purchase price shall be subject to the satisfaction of certain closing conditions, including the approval of the sale and purchase by the respective Boards of Directors of the parties and, as applicable, by the stockholders;

- (c) The closing date of the sale and purchase of the Subject Shares will be on such date agreed between the Lopez Group and PLDT/its designated Affiliate but in no case later than August 31, 2009. The parties may, by agreement, extend the period;
- (d) Subject to the completion of the purchase of the Subject Shares, in case the Lopez Group or PLDT/its designated Affiliate intends to sell its shares of common stock in Meralco, the other party shall have the first and preferential right to purchase all or some of such shares in accordance with an agreed procedure or, instead, the other party has a tag-along option to require the selling party to include the other party's shares in the proposed sale of the selling party's shares;
- (e) Subject to the completion of the purchase of the Subject Shares, the Lopez Group and PLDT/its designated Affiliate will each be entitled to nominate a specified number of directors and to *pro-rata* representation in Board Committees and other committees of Meralco;
- (f) PLDT/its designated Affiliate will have a right to choose the persons who will be nominated to certain senior management positions in Meralco; however, ultimately, it is the Board of Directors of Meralco which will decide the election of such persons to the relevant positions; and
- (g) The Lopez Group and PLDT/its designated Affiliate undertake to exercise their respective voting rights in Meralco to give full effect to the foregoing cooperative arrangements.

Exchangeable Note Agreement dated March 12, 2009 by and between First Philippine Utilities Corporation ("FPUC") and Piltel

- (a) FPUC, which is a subsidiary of FPH, will issue, and Piltel will purchase, an exchangeable promissory note in the amount of Php2.0 billion (the "Exchangeable Note") exchangeable into 22,222,222 shares of voting common stock of Meralco owned by FPUC (the "Underlying Shares");
- (b) The Exchangeable Note will have a repayment term of one (1) year from the date of issue thereof;
- (c) The Exchangeable Note, at the option of Piltel, may be exchanged into the Underlying Shares which, for the purpose of the exchange, will have a value equal to Php90.00 per share (the "Exchange Option"); and
- (d) The Exchange Option will be exercisable simultaneous with the sale and purchase of the Subject Shares contemplated in the Investment and Cooperation Agreement mentioned above. The Underlying Shares shall constitute an integral part of the Subject Shares.

FPH intends to use the proceeds for general corporate purposes which may include paying down its debts and making investments in power and energy business opportunities. The total consideration was mutually agreed upon after commercial negotiations.

FPH is not aware of any current material relationship between FPH, its directors/officers or any of its affiliates with PLDT or the latter's affiliates.

FPH will, directly and indirectly, own around 13.385% of Meralco after the consummation of the transaction.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Francis B. Puno', written in a cursive style.

FRANCIS GILES B. PUNO
SVP, CFO & Treasurer
Chief Information Officer