

3RD ANNUAL REPORT/1964

MERALCO SECURITIES CORPORATION

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MERALCO SECURITIES CORPORATION

BOARD OF DIRECTORS

J. ANTONIO ARANETA	ALFREDO MONTELIBANO <i>Chairman</i>	ERNESTO OPPEN, JR.
JOSEPHINE M. COJUANGCO	RICARDO LEDESMA	PIO PEDROSA
SENEN GABALDON	EUGENIO LOPEZ, SR.	JOSE SORIANO
BENITO V. JALBUENA		DOLORES P. TUASON

EXECUTIVE OFFICERS

EUGENIO LOPEZ, SR.	<i>President</i>
SENEN GABALDON	<i>Vice-President</i>
JOSE SORIANO	<i>Treasurer</i>
RICARDO LEDESMA	<i>Assistant Treasurer</i>
PACIFICO VILLALUZ	<i>Comptroller</i>
RAFAEL SALAS	<i>Assistant to the President</i>
HONORIO D. PACIS	<i>Corporate Secretary</i>
ERNESTO B. LEDESMA	<i>Assistant Secretary</i>

STOCK LISTING/Manila Stock Exchange

TRANSFER AGENTS/Sycip, Gorres, Velayo & Co.

HIGHLIGHTS

12-month Period ending June 30

	<u>1964</u>	<u>1963</u>	<u>1962</u>
EARNINGS			
Operating Income	₱26,035,465	₱25,431,866	₱ 5,946,419
Operating Expenses	<u>9,555,935</u>	<u>9,446,754</u>	<u>5,367,226</u>
Net Income	<u>₱16,479,530</u>	<u>₱15,985,112</u>	<u>₱ 579,193</u>
STOCKHOLDERS' EQUITY			
Paid-In Capital	₱70,161,925	₱38,481,216	₱22,507,500
Retained Earnings	₱ 8,043,065	2,378,055	579,193
Stockholders' Equity	₱78,204,990	₱40,859,271	₱23,086,693
CAPITAL STOCK			
Number of Stockholders	5,700	1,665	1,164
Number of Shares Subscribed	8,948,113	8,995,706	8,999,000
Number of Shares Issued	3,007,449 *	1,422,919	1,000
Number of Shares Subscribed and Outstanding	11,955,562	10,418,625	9,000,000
DIVIDENDS			
Stock Dividends	Two Declara- tions of 5% each.	Three Declara- tions of 5% each.	

*including 11,776 shares paid for and to be issued.

THE PRESIDENT'S LETTER

TO OUR STOCKHOLDERS:

Through this Third Annual Report, I would like to welcome our 4,000 new stockholders and express my gratitude for their gesture of confidence in the future of this Company. They bring the number of our stockholders to 5,700, making this a public corporation in the true sense of the word, owning the largest and most highly developed public utility in the Philippines.

Net income of MSC this year was ₱16.5 million as against ₱15.9 million last year. That of MERALCO was in excess of ₱27.5 million for the 12-month period ending June 30, 1964, compared to ₱23.4 million for the same period last year.

The intensive campaign launched in July of last year to reduce losses in revenue due to illegal connections and other violations of contract has been very rewarding, helping increase revenue by ₱1.2 million during the 12-month period just ended. The campaign will be continued and intensified.

Construction of Tegen Unit No. 1 is rapidly progressing. It is scheduled to become operational in July 1965. The installed cost will be about ₱26 million less than original estimates.

MERALCO increased Investment in Plant by ₱94 million from December 31, 1961, to the same date in 1963. There are few, if any, companies in the Philippines that can speak of capital investments of the same magnitude in so short a period under conditions of tight money and increased foreign exchange costs. These additions to Plant Investment made it possible for the Company to increase sales to new highs, while achieving maximum efficiency in power generation by the use of new, modern thermal plants. As a result, expected net income of MERALCO for calendar year 1964 will substantially improve.

Increases in Plant Investment have been financed in the main by issuance of First Mortgage Bonds. MERALCO's capacity to finance future ex-

pansion would have been hampered by the impending expiration of its corporate life in 1969, that of its franchise in 1973, and the requirement, under the Original Indenture of 1957, that bonds issued should not exceed equity. These impediments have been removed.

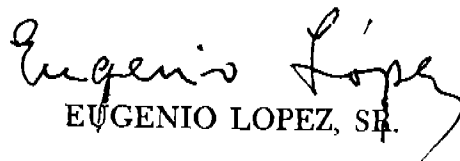
MERALCO's franchise was extended another thirty (30) years from 1973 by Republic Act No. 4159. Its corporate life was extended fifty (50) years from 1969. Amendments on MERALCO's Original Indenture have been approved. Its capacity to issue bonds will no longer be determined principally by its equity but by property additions. Negotiations are about completed for the purchase of \$8 million MERALCO bonds by U.S. investors.

These will help MERALCO finance expansion of its facilities to keep pace with rapidly increasing demand for electric power.

Despite the fact that MERALCO's rates are lower than pre-war rates (now over 30% less than 1941 rates), the Public Service Commission, in a decision of December 27, 1957, required MERALCO to reduce its rates effective January 1, 1958. MERALCO's appeal against that decision was recently upheld by the Supreme Court which ordered that MERALCO be given the opportunity it had been denied to present evidence controverting the Public Service Commission order.

One of the most destructive typhoons to ever hit Manila and its suburbs became an occasion for MERALCO to demonstrate its efficiency and effectiveness as an instrument of public service. In 72 hours, despite the extensive damage occasioned distribution facilities, electric service was restored to almost all its 410,000 customers.

It is by thus serving the public interest that we intend building a sound basis for the future development of MERALCO and this Corporation.


EUGENIO LOPEZ, SR.

M S C OPERATIONS

EARNINGS, DIVIDENDS, EQUITY

Net income of MSC this year was P16,479,530, or P1.38 per share. This compares with P15.9 million or P1.53 per share last year. The relative decrease in per share earnings is due largely to the increase in the number of shares issued and outstanding, from 1,422,919 in 1963 to 3,007,449 (including 11,776 shares paid for and to be issued), this year resulting from issuance of stock dividends and the sale of MSC common stock.

Stock dividends equivalent to 5% of total subscribed and outstanding capital stock were declared and issued to MSC stockholders on record as of November 15, 1963; a similar stock dividend was issued to stockholders on record as of February 29, 1964. Fractional shares were sold at the highest price available, and proceeds paid and proportionately distributed to stockholders entitled thereto.

To meet financial requirements of this Corporation, a 7% call or P0.70 on each share of unissued subscribed common stock was made, payable in seven monthly installments from December 1963 to June 1964.

Paid-in capital, including the amount corresponding to fully paid shares issued as stock dividends, increased to P70,161,925, from P38,481,216 last year.

Retained earnings, increased from P2,378,055 in 1963 to P8,043,065.

Stockholders equity amounted to P78,204,990 this year, including premiums collected on sales of common stock. (P3,188,395) compared to P40,859,271 last year.

SALE OF MSC COMMON STOCK

Stockholders on record as of November 15, 1963 were offered shares in proportion to their respective

holdings on that date, at P17 per share. After December 20, 1963, in order to broaden the base of ownership of MERALCO, shares of stock not taken up by stockholders under their preemptive rights were offered and sold to customers and consumers of MERALCO power, officers and employees of MERALCO and this Corporation.

Four thousand (4,000) new stockholders took advantage of this offer. It is a signal achievement that under conditions of generally tight money, the Corporation, which is but three years in existence, was able to attract 4,000 new investors without having to resort to financial institutions.

INSTALLMENT ON MERALCO PURCHASE PRICE

Meralco Securities Corporation remitted \$6,757,705 this year to General Public Utilities Corporation. This represented the installments (Principal and Interest) due in 1964 on the purchase price of MERALCO.

SUMMARY OF PAYMENTS

	<u>TOTAL</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>
Payments to GPU	P69,014,554	P26,354,868	P26,851,936	P15,807,750
U.S. Banks Confirmation charges	4,396,082	1,205,555	1,516,882	1,673,645
Phil. Banks commission	2,247,919	689,769	771,300	786,850
Margin Fee	2,622,209	—	—	2,622,209
Totals	<u>P78,280,823</u>	<u>P28,250,192</u>	<u>P29,140,177</u>	<u>P20,890,454</u>

The peso equivalent of the dollar amounts due under Letters of Credit, as well as Bank charges, were deposited with Syndicate members in November 1963 (sixty days before due date).

A comparative summary of payments made relative to the purchase price installments is shown in the tabulation below.

Payment of the balance of MERALCO's purchase price is guaranteed by three (3) Revolving Irrevocable Letters of Credit issued by a Syndicate of sixteen (16) Philippine Banks.

INVESTMENT IN MERALCO

The Manila Electric Co., is a wholly-owned subsidiary of this Corporation. It was purchased from General Public Utilities Corporation of New York at a base price of \$46 million, corresponding to the book-value of GPU's holdings and interests therein as at December 30, 1960, plus the undistributed earnings of MERALCO in 1961, amounting to \$8.4 million.

MSC's holdings and interests in MERALCO as at June 30, 1964, consisted of the following:

Common Stock (6,000,000 shares)	₱ 60,000,000
Preferred Stock (750,000 shares) ..	15,000,000
Advances for 5th Rockwell Unit	10,468,944
Accumulated Surplus (inclgd. surplus ... from Plant Revaluation)	<u>86,602,376</u>
	<u>₱172,071,320</u>

In addition, MSC has deposited ₱4.4 million with MERALCO for the purchase of common stock.

The certificates of common and preferred stock acquired from GPU, as well as the Serial Promissory

Notes covering the Advances for the 5th Rockwell Unit, have been pledged to the Syndicate of sixteen (16) Philippine Banks to secure the three (3) Revolving Irrevocable Letters of Credit this Syndicate issued in favor of GPU to guarantee payment of the purchase price.

INVESTMENT IN PDCP

MSC invested last year ₱250,000 in Class "A" shares of the Private Development Corporation of the Philippines. The PDCP commenced operations on August 1, 1963.

Net income for the period August 1 to December 31, 1963 was ₱750,485, and ₱1,325,039 for the period January 1 to June 30, 1964.

Stockholder's Equity as at June 30, 1964, was ₱27,092,025, consisting of ₱25 million in Paid-In Capital and ₱2,092,025 in Retained Earnings.

SYCIP, GORRES, VELAYO & CO.

CERTIFIED PUBLIC ACCOUNTANTS

490 SAN LUIS, MANILA

MANILA
CEBU
DAVAO
BACOLOD

CABLE ADDRESS

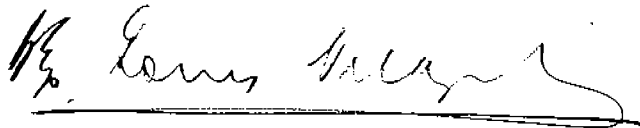
"CERTIFIED"

P. O. BOX 589

To the Stockholders
Meralco Securities Corporation
Manila, Philippines

We have examined the balance sheet of Meralco Securities Corporation as at June 30, 1964 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the financial position of Meralco Securities Corporation at June 30, 1964 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


H. Louis Velayo

August 15, 1964

MERALCO SECURITIES
 BALANCE SHEET
 JUNE 30, 1964
 (With Comparison to 1963)

A S S E T S

	<u>1964</u>	<u>1963</u>
CURRENT ASSETS		
Cash on hand and in banks	P 7,879,171	P 619,685
Accounts receivable - Manila Electric Company	512,747	-
Interest receivable	218,984	250,166
6% serial promissory notes due within one year (Note 1)	2,617,236	2,617,236
Loans to Manila Electric Company	8,050,000	1,500,000
Accounts receivable - employees and others	172,817	10,445
Prepaid bank charges	1,298,156	1,207,856
Total Current Assets	<u>20,749,111</u>	<u>6,205,388</u>
INVESTMENTS - At Cost		
Securities of Manila Electric Company (Net of current portion of 6% serial promissory notes shown under current assets) (Note 1)	204,308,405	206,925,641
Deposit on purchase of common stock - Manila Electric Company (Note 2)	4,400,000	-
Class "A" shares of Private Development Corporation of the Philippines	250,000	250,000
Total Investments	<u>208,958,405</u>	<u>207,175,641</u>
FIXED ASSETS - At Cost		
Office equipment	107,790	56,454
Transportation equipment	87,850	39,500
Office furniture and fixtures	29,700	15,329
Total	225,340	111,283
Accumulated depreciation	46,510	20,517
Fixed Assets - Net	<u>178,830</u>	<u>90,766</u>
ORGANIZATION EXPENSES (Note 3)	-	<u>667,686</u>
 TOTAL ASSETS	 <u><u>P229,886,346</u></u>	 <u><u>P214,139,481</u></u>

See accompanying Notes

CORPORATION
 DEBT
 1964
 (figures for 1963)

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1964</u>	<u>1963</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	P 119,666	P 27,264
Accrued interest on note payable	2,166,124	2,467,022
Portion of long-term debt due within one year (Note 4)	21,260,031	21,238,782
Subscription payable	-	150,000
Total Current Liabilities	<u>23,545,821</u>	<u>23,883,068</u>
LONG-TERM DEBT		
Note payable - net of portion shown under current liabilities (Note 4)	<u>128,043,468</u>	<u>149,303,499</u>
RESERVE FOR FOREIGN EXCHANGE	<u>92,067</u>	<u>93,643</u>
STOCKHOLDERS' EQUITY		
Preferred stock, non-voting, 8% cumulative, P10 par value per share		
Authorized - 5,000,000 shares		
Common stock - P10 par value per share		
Authorized - 40,000,000 shares		
Fully paid and issued - 2,995,673 shares in 1964 and 1,422,919 shares in 1963	29,956,730	14,229,190
Fully paid but unissued - 11,776 shares	117,760	-
Subscribed - 8,948,113 shares in 1964 and 8,995,706 in 1963 (subscriptions receivable on which amount to P52,582,090 in 1964 and P65,705,034 in 1963 - Note 5)	<u>36,899,040</u>	<u>24,252,026</u>
Total	66,973,530	38,481,216
Premium on sale of common stock	3,188,395	-
Retained earnings (Note 6)	<u>8,043,065</u>	<u>2,378,055</u>
Total Stockholders' Equity	<u>78,204,990</u>	<u>40,859,271</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>P229,886,346</u>	<u>P214,139,481</u>

Financial Statements.

MERALCO SECURITIES CORPORATION
 STATEMENT OF INCOME AND RETAINED EARNINGS
 FOR THE YEAR ENDED JUNE 30, 1964
 (With Comparative Figures for 1963)

	1964	1963
INCOME		
Dividends	P24,962,500	P24,037,500
Interest on bonds, savings deposits and promissory notes	1,072,965	1,394,366
Total Income	26,035,465	25,431,866
OPERATING EXPENSES		
Interest on note payable	4,815,371	5,318,041
Confirmation fees of U.S. syndicate banks	1,389,648	1,693,774
Bank charges, interest and commissions	784,854	699,031
Amortization of organization expenses (Note 3)	667,686	667,684
Special services and bonuses	445,287	171,344
Salaries and wages	429,018	175,249
Professional and consultants fees	311,838	115,210
Representation and entertainment	251,184	279,027
Travelling and transportation	127,772	160,357
Office rental	84,500	5,100
Taxes and licenses	53,035	37,608
Stationery and office supplies	51,510	24,655
Depreciation	25,993	15,868
Directors' fees	25,800	24,200
Donations and contributions	25,397	3,850
Telephone, telegram and postage	16,190	11,703
Advertising	15,659	1,625
Repairs and maintenance	7,881	4,782
Social security system premiums	6,250	4,367
Miscellaneous expenses	21,062	33,279
Total Operating Expenses	9,555,935	9,446,754
NET INCOME	16,479,530	15,985,112
RETAINED EARNINGS AT BEGINNING OF YEAR	2,378,055	579,193
Total	18,857,585	16,564,305
STOCK DIVIDENDS	10,814,520	14,186,250
RETAINED EARNINGS AT END OF YEAR	P 8,043,065	P 2,378,055

See accompanying Notes to Financial Statements.

MERALCO SECURITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1964

1. INVESTMENTS IN SECURITIES OF MANILA ELECTRIC COMPANY

The investments in securities, which were purchased from General Public Utilities Corporation, consist of preferred and common stocks, 6% first mortgage bonds — Series A due 1972, (which was converted to 6-1/4% preferred shares on December 31, 1963) and 6% serial promissory notes.

These securities are held by the Philippine Syndicate Banks to secure the obligation which the Company has incurred as mentioned in Note 4.

The payments being received by the Company on account of the 6% serial promissory notes are being deposited with the Philippine Syndicate Banks, and are not available for any other purpose except to cover amortizations due under the letters of credit.

2. DEPOSIT ON PURCHASE OF COMMON STOCK — Manila Electric Company

This represents the company's deposit on the purchase of common shares of Manila Electric Company.

This additional issue of common stock by Manila Electric Company is subject to the approval of the Public Service Commission. As at August 15, 1964, this case is still pending with the Commission.

3. ORGANIZATION EXPENSES

Organization expenses originally amounting to ₱2,003,054 were amortized over a period of three years.

4. NOTE PAYABLE

This is a U.S. dollar obligation to General Public Utilities Corporation originally amounting to \$54,419,342, for the purchase of the securities of Manila Electric Company as mentioned in Note 1. The balance outstanding as at June 30, 1964 amounted to \$38,282,949 or ₱149,303,499 translated at the rate of ₱3.90 to U.S. \$1, which approximates the prevailing rate of exchange at June 30, 1964.

The note bears interest at 3% per annum and is payable in ten annual installments. The amount due for each of the remaining seven installments is payable on January 5th of each year up to 1971.

The balance of the letters of credit opened in favor of General Public Utilities Corporation covering the principal and interest of the note payable amounted to \$42,770,416 as at June 30, 1964.

5. SUBSCRIPTIONS RECEIVABLE

The Philippine Syndicate Banks have a first lien on all subscriptions receivable and the Company is committed to execute and deliver on demand to said Philippine Syndicate Banks the corresponding assignment of such subscriptions receivable.

6. RETAINED EARNINGS

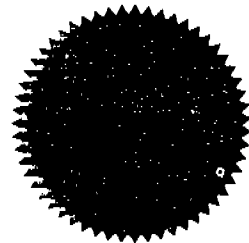
Under the terms of agreement between the Company and the Philippine Syndicate Banks, the Company undertakes and binds itself not to declare any cash dividends on its capital stock, as long as any installment payments on the Note Payable to General Public Utilities Corporation are in arrears; or in any event not to declare any such dividends without the prior consent in writing of the Philippine Syndicate Banks.

7. FOREIGN EXCHANGE TRANSACTIONS

Effective January 21, 1962, the Central Bank of the Philippines removed restrictions on most foreign exchange transactions. Purchases of foreign exchange, except for certain transactions specified by the Central Bank, have since been made at free market rates which fluctuated depending on the transactions in the free market. As at June 30, 1964, the selling rate of banks was approximately ₱3.91 per U.S. \$1.

8. CONTINGENT LIABILITY

The Company is a guarantor of the long-term debt of Manila Electric Company to the Export-Import Bank of Washington. As at June 30, 1964, the balance of the long-term debt amounted to \$10,345,069.



MERALCO OPERATIONS

REVIEW OF OPERATIONS

Although the number of customers as at December 31, 1963, increased only 9.4% over 1961 figures, sales in MWH increased 28.8%, indicating greater use of electricity by all customers. The higher average per-capita consumption had the effect of further reducing the price of electricity to MERALCO's customers from an average

of 5.30 centavos per KWH in 1961 to 5.14 centavos per KWH in 1963. As a result, revenues arising from the 28.8% increase in sales were only 24.9%.

During the same period, total costs increased 33.8% due essentially to higher costs of fuel oil, imported materials and of servicing external debt, as a result of decontrol,

and increase in fuel consumed in generating more electricity.

Net income rose 1.5%, from P24.6 million in 1961 to P25 million in 1963.

The relatively modest rise in net income notwithstanding, Investment in Utility Plant increased 36.6% during the period.

SUMMARY OF NET INCOME

	<i>Six months ending</i>	<i>Year ending</i>	
	<i>June 30</i>	<i>December 31</i>	
	<u>1964</u>	<u>1963</u>	<u>1962</u>
Revenues:			
Residential	P 25,062,000	P 45,028,000	P41,086,000
Commercial	13,872,000	24,509,000	21,775,000
Industrial	16,852,000	31,016,000	27,270,000
Others	6,395,000	11,640,000	10,916,000
Total	<u>P 62,181,000</u>	<u>P112,193,000</u>	<u>P101,047,000</u>
Costs:			
Fuel Expense	P 21,098,000*	P 30,182,000	P 29,906,000
Purchased Power	5,511,000*	16,462,000	15,276,000
Other Operating and Maintenance Expenses	9,981,000	18,763,000	16,676,000
Depreciation	5,133,000	9,421,000	8,217,000
Taxes	3,444,000	6,192,000	5,715,000
Income Deductions	3,771,000	6,150,000	4,931,000
	<u>P 48,938,000</u>	<u>P 87,170,000</u>	<u>P 76,721,000</u>
Net Income	<u>P 13,243,000</u>	<u>P 25,023,000</u>	<u>P 24,326,000</u>

* During the dry season in the first half of the year, less power is purchased from National Power Corporation and more is generated in the Company's own plants. The reverse is true during the second semester.

ELECTRIC STATISTICS	<i>Twelve Months ending</i>		<i>Year ending</i>	
	<i>June 30</i>		<i>December 31</i>	
	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
Electric Capability (MW)				
Owned	521	521	455	455
Contracted from NPC	385	385	319	319
	136	136	136	136
Electric Peak Load (MW)	499	499	440	398
Electricity Generated & Purchased (millions of KWH)	2,656	2,482	2,223	1,937
Steam Generation	1,935	1,660	1,492	1,197
Hydro Generation	56	49	58	53
Purchased	665	733	673	687
Sales (millions of KWH)	2,355	2,175	1,939	1,689
Residential	700	639	578	507
Commercial	459	415	367	337
Industrial	904	850	744	627
Others	292	271	250	216
Losses (Unaccounted for)				
Amount (millions of KWH)	294	300	278	243
% of Generated & Purchased	11.07	12.08	12.52	12.56
Customers at end of period	409,755	403,653	385,516	368,925
Residential	365,141	360,253	344,586	329,516
Commercial	41,571	40,445	38,091	36,684
Industrial	1,073	1,009	929	902
Others	1,970	1,946	1,910	1,823
Average Sales (KWH) per Customer (based on average No. of Customers)				
Residential	1,947	1,817	1,715	1,579
Commercial	11,357	10,630	9,901	9,355
Industrial	874,706	865,465	808,647	777,071
Total Average Sales Price	P 0.0512	P 0.0514	P 0.0520	P 0.0530

UTILITY PLANT IN SERVICE

	<u>June 30</u>		<u>December 31</u>	
	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
Electric Plant in Service	₱366,431,329	₱359,966,520	₱309,204,667	₱264,370,904
Production	177,820,526	177,748,344	144,715,626	127,338,152
Transmission	44,235,504	43,253,533	39,835,259	30,688,892
Distribution	122,747,361	117,591,503	105,265,111	90,999,909
General	21,627,938	21,373,140	19,388,671	15,343,951
Construction Work in Progress	10,029,879	3,796,411	9,003,191	1,879,462
Utility Plant in Service and Under Construction	<u>₱376,461,208</u>	<u>₱363,762,931</u>	<u>₱318,207,858</u>	<u>₱266,250,366</u>

CONSTRUCTION

Since MSC's assumption of MERALCO ownership on January 5, 1962, Rockwell Unit No. 8 of 66 MW capacity has been installed and became operational in October 1963. Addition of this unit increased MERALCO's capacity from 455 MW in 1961 to 521 MW in 1963, enabling the Company to meet peak load of 499 MW in December of 1963. Construction of Tegen Unit No. 1, 110 MW capacity, is well under-way and is scheduled to become operational in 1965.

The following is a summary of Construction Added, net of retirements, since 1961:

1962	₱ 36,287,020
1963	45,555,073
1964 (up to 6/30)	<u>12,698,277</u>
Total	<u>₱ 94,540,370</u>

These very large capital outlays have raised Investment in Plant, Property and Equipment by ₱110,210,842 (including Surplus from revaluation of Utility Plant of ₱15,670,472) from ₱266,250,366 as at December 31, 1961, to ₱376,461,208. The fixed capital investment of MERALCO will exceed ₱400 million by the end of 1964, with accelerating delivery and installation of equipment for Tegen Unit No. 1 in the second half of 1964.

Plans call for the installation of another 110 MW unit in 1966-67, and two (2) 150 MW units before the end of the decade. Transmission and distribution facilities will also be expanded during this period.

AMENDMENT OF MERALCO INDENTURE

MERALCO has been financing its very large construction programs by issuing First Mortgage Bonds under an Open-end Mortgage Indenture of December 31, 1957. Nine Series of Bonds have been issued under this Indenture, of which eight are presently Outstanding:

Series "A"	₱10,755,000
Series "B"	21,190,000
Series "C"	19,237,000
Series "E"	34,900,000
Series "F" — "I"	50,347,000

The Series "A" Bonds are held by private bondholders who did not elect to convert their holdings to Preferred shares of stock. Series "B", "C" and "E" Bonds were issued as collateral for Rockwell Stations Nos. 6, 7, and 8. Series "F" through "I" were issued to collateralize borrowings for construction of Tegen No. 1.

The aggregate principal amount of bonds which may be issued under the Indenture has, in practice, been limited principally by the requirement that bond issues should not exceed equity.

The Indenture is in the process of being amended this year so that bond issues will be limited to 60% of additions to bondable property rather than by equity. This is in line with the practice of utility companies in the U.S. and will expand MERALCO's capacity to secure long-term borrowings.

As at June 30, 1964, MERALCO's capital was made up of:

Common stock and Surplus	55.3%
Preferred Stock	5.7%
Long-term Debt	39.0%

Consent and approval in principle of the amendments to the Indenture have been received from the Public Service Commission of the Philippines, and the holders of MERALCO's outstanding First Mortgage Bonds.

Negotiations are now in process for the purchase of \$8 million of MERALCO's First Mortgage Bonds by several institutional investors in the United States. These bonds will be issued in accordance with the proposed amendments and supplement to the Indenture. The proceeds of this issue will reimburse MERALCO's treasury and assist the Company in pursuing its construction program.

CONVERSION OF SERIES "A" FIRST MORTGAGE BONDS

To increase its bond-issuing capacity and improve its equity position, MERALCO offered to convert the 6% Series "A" Bonds to 6 1/4% Preferred shares of stock.

The ₱8 million Bonds held by MSC were converted to 400,000 shares of Preferred stock with a par value of ₱20.00. Six (6) private bondholders took advantage of this offer and were issued a total of 13,500 shares of Preferred stock.

The Articles of Incorporation were amended so that the capital stock of MERALCO is now ₱126,525,000 divided into 10 million shares of common stock with a par value of ₱10, or ₱100 million, and 1,325,250 shares of 6 1/4% cumulative Preferred stock with a par value of ₱20 per share, or ₱26,525,000.

EXTENSION OF MERALCO CORPORATE LIFE AND FRANCHISE

The Manila Electric Company was incorporated in 1919 although its operating franchise had been granted in 1903.

Republic Act No. 150 enacted in 1947 extended MERALCO's franchise for another 20 years from 1953.

The impending expiration of MERALCO's corporate life in 1969, 50 years from its incorporation, and that of its franchise in 1973, have caused difficulties in obtaining long-term financing for its construction program. These difficulties have been overcome. The Articles of Incorporation of MERALCO were amended, in accordance with Republic Act No. 3531, extending its corporate life 50 years from and after May 7, 1969. MERALCO's franchise was extended 30 years from 1973 by Republic Act No. 4159 enacted this year.

MERALCO RATES

MERALCO rates are among the lowest in the world. Total average sales price per KWH for the 12-month period ending June 30, 1964, was ₱0.0512 per KWH compared to ₱0.0517 for the similar period ending June 30, 1963.

MERALCO had voluntarily reduced its rates seven (7) times before 1955.

In 1955 it filed two applications to revise and reduce its rates for residential, commercial and other non-residential customers.

In 1957 the Public Service Commission ordered MERALCO to reduce its rates for residential and domestic consumers by 16%, for commercial customers by 8%, and for industrial customers by 6%, without granting a hearing at which MERALCO could present evidence including a re-appraisal of its properties, a determination of the rate base and allowable rate thereon.

The Supreme Court recently rendered judgment on MERALCO's appeal against that decision and remanded the case to the Public Service Commission for hearings. However, the National Power Corporation gave notice of an increase in its rates for bulk power. As a result of this notice, and increased costs due to decontrol, a general revision of rates is expected.



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