



CIRCULAR FOR BROKERS NO. 1660-2005

The Philippine Stock Exchange, Inc.

<input checked="" type="checkbox"/>	Disclosures	<input type="checkbox"/>	Stockholders' Meeting	Others: _____
<input type="checkbox"/>	Dividend Notice	<input type="checkbox"/>	SEC / Gov't Issuance	_____
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Date : **April 8, 2005**
 Company : **MANILA ELECTRIC COMPANY**

Manila Electric Company ("MER" or the "Company"), through SEC Form 17-C dated April 8, 2005, furnished the Exchange the attached copies of the following:

- a) 2004 Financial and Operational Results; and
- b) Press Release entitled "MERALCO Reports 2004 Financial Performance".

Further, the Company provided the Exchange a copy of its Audited Financial Statements for the year ended December 31, 2004. A copy of the said report shall be made available for reference at the PSE Centre and PSE Plaza libraries. The same shall likewise be made available for downloading at the PSE website: www.pse.com.ph (under Listed Companies).

For your information.

(Original Signed)
JURISITA M. QUINTOS
Senior Vice President

Finance / Admin / Membership	Compliance & Surveillance Grp.	Listing & Disclosures Grp.	COO / Automated Trading Grp.	Business Dev't & Info. Group	CEO / Legal
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Manila Electric Company
2004 Financial and Operational Results

OPERATIONAL HIGHLIGHTS

I. MAJOR REVENUE S

A. ENERGY SAL

Sales grew 3.5% to 24,560 gWh in 2004 in line with the 3.8% Sales CAGR for the past five years.

The commercial segment, the fastest growing in terms of customer count at 4.9%, continued to lead the sales growth, rising by 4.8% to 8,777 gWh from 2003. Commercial sales were driven by the Retail Trade and Transport segments, which expanded by 23.4% and 18.1%, respectively. The increased electricity demand of newly energized malls in 2004 namely SM Dasmariñas, SM Batangas, Robinson's Place Pioneer, Araneta Gateway Mall, Metro Market! Market! as well as the expansion of existing ones such as SM Fairview and SM Makati fuelled this segment's growth. The planned opening of new malls this year such as SM Mall of Asia, SM San Lazaro, and SM Valenzuela are expected to further push up sales. The completion and full operation of the LRT2 System also added to this sector's bullish trend.

Sales of the residential segment grew by 2.5% to 8,742 gWh with the addition of better-than-expected 140,000 new residential customers or an increase of 3.8%. Customers, particularly those belonging to the Broad DE Segment (those having an average monthly consumption of between 1-150 kWh) drove up residential sales by 4.9% while the Broad C Segment (consuming between 151-800 kWh) closed with a 2.5% growth. This segment's modest growth was tempered by increasing inflationary pressures (Consumer Price Index-National Capital Region of 3.2% in 2003 to 5.5% in 2004) and rising generation rates by NPC in November 2004.

Sales of the industrial segment expanded by 3.1% to 7,003 gWh in 2004 despite a decline in the number of customers. The Electrical Machinery and Food Industries were the main growth drivers for this segment, registering 18.1% and 7.5% increases, respectively.

B. KW DEMAND

Since the rate unbundling in June 2003, KW Demand charges, the tariff for large services which number 81,898 or 2% of the company's 4.2 million customer base, have become a major revenue stream in addition to energy sales, contributing approximately 22% compared to only 5% prior to June 2003. KW Demand rose by 1.1% from the period June-December 2003 to June-December 2004. The industries driving energy sales, namely Retail Trade in the Commercial Segment and Electrical Machinery in the Industrial Sector, were the same ones pushing up KW Demand, rising by 8.2% and 6.2%, respectively.

II. AVERAGE RETAIL RATE

Meralco's average retail rate for 2004 increased to P 6.03 per kWh from P 5.88 per kWh in 2003. The rise was largely the result of NPC's generation charge adjustment in November 2004 by P 1.37 per kWh in Luzon. Fortunately for Meralco customers, the effect of the NPC adjustment was only partial as the company sourced 60% of its power from NPC and the rest from its IPPs in 2004.

III. SYSTEM LOSS

System loss for 2004 increased to 11.10 percent, higher than 10.85 percent in 2003. The higher system loss resulted to a corresponding unrecoverable purchased power cost of P 2.0 billion compared to P 1.5 billion in 2003.

The higher system loss was also partly attributable to the one-time One-Day Power Sales (ODPS) financial adjustment in January 2004. When normalized, system loss for 2004 would have only been 10.96 percent, 0.11 percentage points greater than in 2003.

Nevertheless, intensified system loss reduction measures were undertaken last year such as focusing on distribution circuits with the highest losses, aggressive apprehension of squatter colonies resorting to illegal service connections, and improved detection activities.

On a bright note, system loss showed signs of a declining trend in the second semester of 2004.

IV. SYSTEM RELIABILITY

System reliability in terms of Interruption Frequency Rate (IFR) and system availability as measured by Cumulative Interruption Time (CIT) continued to reach record levels of 13.34 times (15.67 times in 2003) and 11.67 hours (14.60 hours in 2003), respectively despite two major typhoons last year.

This sustained improvement was largely attributable to the completion of a well-planned electric capital projects and a focused electric system maintenance program.

REGULATORY HIGHLIGHTS

I. RATE-RELATED DEVELOPMENTS

A Court of Appeals Ruling on Meralco's ERC-approved Tariff Unbundling

Last March 11, 2005, Meralco filed a "petition for Review" with the Supreme Court, asking for:

Reversal and setting aside of the July 2, 2004 Decision and January 24, 2005 Resolution of the Court of Appeals, which annulled and set aside ERC's rulings on Meralco's rate unbundling case;
Dismissal of the petition for review of ERC's unbundling rulings filed by oppositors of Meralco before the Court of Appeals; and,
Reinstatement and affirmation of the ERC's unbundling rulings

ERC filed a separate petition on the matter last February 11, 2005.

B. Supreme Court Ruling on Meralco's 12-centavo / kWh Provisional Rate Adjustment

Last June 15, 2004 decision, SC upheld authority of ERC to issue Provisional Authorities (PA) *ex parte* without need of public hearings. However, SC set aside the provisional authority (PA) for a 12-centavo/kWh rate hike issued November 27, 2003 for non-observance of procedural requirements. ERC and Meralco filed respective Motions for Reconsideration within the 15-day deadline. Matter is still pending before the High Court. Meanwhile, ERC has yet to resume hearings on Meralco's rate filing.

C. ERC Approval of Automatic Monthly Generation and System Loss Rate Adjustment Mechanism

Last October 13, 2004, the ERC issued guidelines on the automatic adjustment of the generation and system loss charges of distribution utilities (DU's). The new guidelines allowed Meralco to immediately reflect NPC's recent provisional rate adjustment in November 2004. The guidelines will also mean that the "System Loss Charge" will now vary monthly, depending on changes in Meralco's purchased power costs.

D. Distribution Wheeling Rate Guidelines

ERC released last January 10, 2005 the DWRG, which was approved by the Commission last December 20, 2004. Distribution Utilities are given the choice of when to enter, but once in, must stay with the PBR. Last January 14, Meralco

wrote ERC of its intention to join Group A2, which will implement Performance Based Rates (PBR) by July 1, 2007.

II. ERC PROMULGATES MAGNA CARTA FOR RESIDENTIAL ELECTRICITY CONSUMERS

ERC approved Magna Carta for residential customers last June 17, 2004. This took effect on July 19, 2004. Implementing Guidelines subsequently released, took effect on November 26, 2004. In consonance with the draft guidelines, refund of meter deposits of residential customers shall start in 2006 which is estimated at P1.3 billion, including accrued interest

On the other hand, refund of service deposits applicable only to those who have established a 3-year good payment record starting the effectivity of the Magna Carta or earliest in 2007. This is estimated at P2.9 billion including accrued interest.

III. IMPLEMENTATION OF SUPREME COURT-MANDATED REFUND

By the end of December 2004, Meralco had completed processing of refunds for residential and general service customers, which covered 5.1 million accounts, representing 98% of customers entitled to refund. The amount processed was P11.6 billion, or about 38% of total refundable amount

Meralco submitted proposal for Phase IV, covering commercial and industrial customers, to ERC last September 4, 2004. Phase IV to be further divided into two sub-phases. Phase IV-A covers commercial and industrial accounts with contracted demand < 40kW. Phase IV-B covers all other commercial and industrial customers.

Last December 21, 2004, ERC has approved the Phase IV_A proposal and Meralco has received the Order on January 6, 2005. In its Order, ERC also ruled that payment of interest on the refund, as demanded by certain groups, has no legal basis.

BIR informed Meralco last January 13, 2005, that it would be designated as withholding agent of taxes on refunds to customers. The Revenue Regulation that will govern the said imposition of the refund tax is still being drafted. Comments are being solicited prior to sending the final draft for approval of the Secretary of Finance.

Meralco filed a Manifestation and Motion with ERC last January 28, 2005, asking for an indefinite deferment of the implementation of Phase IV-A until BIR issues necessary revenue regulation.

IV. BULK POWER SUPPLY

A. EPIRA-Mandated Transition Supply Contract with NPC

In spite of the expiration of 10-year Contract for the Supply of Electricity (CSE) with NPC last December 2004, Meralco and NPC have yet to sign Transition Supply contract (TSC), as mandated by EPIRA. While TSC still being negotiated, Meralco and NPC are threshing out details for an "Interim Arrangement", that will govern Meralco's relationship with NPC until the TSC is finalized and signed.

B. Amendments to Fi

The latest hearing was held on March 7, 2005. The presentation and cross-examination of Meralco witnesses has ended. The next hearing scheduled for April 12. Meralco to file formal offer of exhibits by April 12 and submit case for decision soon after

FINANCIAL HIGHLIGHTS (Parent Company Only)

RESTATEMENT OF THE 2003 INCOME STATEMENT

In Meralco's 2003 Audited Financial Statement issued on March 5, 2004, revenues of P278 million was reversed to a claim of NPC and Transco related to the discount on the NPC basic charge.

Net income for 2003 has been restated to P1,267 million from P907 million

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Operating Revenues. For the year ended December 31, 2004, Meralco achieved operating revenues of P147,637 million, an increase of 11.9% over the P131,948 million achieved in the same period in 2003. This increase was driven primarily by a 3.5% increase in sales volume. The increase in revenues was also driven by an increase in purchased power costs.

Operating expenses. Operating expenses for the year ended December 31, 2004, increased to P137,455 million, or 8.8% over the P126,374 million in operating expenses for the same period in 2003.

	Years Ended De		% Change
	2004	2003	
	(in pesos millions)		
Recoverable purchased power.....	122,603	110,076	11.4%
Operations and maintenance	9,822	10,265	(4.3%)
Depreciation and amortization	4,454	4,305	3.5%
Taxes other than income tax.....	576	1,728	(66.7%)
Total.....	137,455	126,374	8.8%

The increase in operating expenses was primarily due to an increase in the company's purchased power costs. Recoverable purchased power cost for the year ended 2004, was P122,603 million, or 11.4% over the P110,076 million in purchased power cost for the same period in 2003. The increase in purchased power cost was due to a 3.7% increase in volume purchased as well as a 7.7% increase in average cost per kWh.

Operation and maintenance expenses decreased by 4.3% to P9,822 million for the year ended December 31, 2004, compared with P10,265 million in the same period in 2003, due primarily to the company's conscious efforts to bring down costs.

Depreciation and amortization increased by 3.5% from P4,305 million for the year 2003, to P4,454 million in 2004, primarily due to a higher asset base.

Taxes other than income tax decreased by 66.7% from P1,728 million for the twelve months ended December 31, 2003, to P576 million for the twelve months ended December 31, 2004, due to a change in the treatment of franchise taxes. Based on the ERC Decision dated March 20, 2003 on the Company's consolidated petitions, the franchise tax should be identified as a separate line item on the bill

and computed as a percentage of the sum of all charges, except taxes and the universal charge. Prior to unbundling of charges, which were implemented in June 2003, franchise taxes were computed by multiplying gross receipts by the franchise tax rate.

Operating Income before provision. As a result of the foregoing, operating income increased by 82.7% from P5,574 million in 2003, to P10,182 million in 2004.

Provision for probable losses. The company has provided P9,824 million for probable losses in the event of a final and executory adverse decision in the unbundling rate case with the Supreme Court.

Other Income (Charges). For the year ended December 31, 2004, other income (charges) was P(4,581) million, an increase of approximately 11.9% over the P(4,093) million in other income (charges) for the year ended December 31, 2003.

	Years End		
	2004	2003	% Change
	(pesos in millions)		
Interest and other financial charges - net.....	(3,266)	(3,052)	7.0%
Unrecoverable purchased power	(1,998)	(1,508)	32.5%
Equity in net earnings of investees	468	461	1.5%
Recovery of probable losses on disallowed receivables.	215	6	3483.3%
Total.....	(4,581)	(4,093)	11.9%

Interest and other charges - net for the year ended December 31, 2004, increased by 7.0% in comparison to the twelve months ended December 31, 2003, from P3,052 million to P3,266 million due to higher financing costs.

Unrecoverable purchased power above the 9.5% cap on recoverable system loss totaled P1,998 million for the year ended December 31, 2004, an increase of 32.5%, over the total of P1,508 million for the year ended December 31, 2003. The increase in the unrecoverable purchased power amount was caused by the increase in purchased power cost per kilowatt-hour and higher level of system loss at 11.1% compared to 10.85% last year.

Equity in net earnings of investee companies increased from P461 million in 2003, to P468 million for the year ended December 31, 2004, due mainly to earnings derived from First Private Power Corporation and Rockwell Land Corporation.

Recovery of probable losses on disallowed receivables. As of March 31, 2004, total provisions for possible disallowed transmission line fees amounted to P1,342 million. On September 20, 2004, the Energy Regulatory Commission disallowed the recovery of approximately P843 million in QPPL transmission line fee. The bulk of the amounts disallowed by the ERC was for "scheduled extension costs", which the ERC believes "were caused by management inefficiency on the part of NPC". Provision for estimated disallowed transmission line fee charges totaled P284 million for the last three quarters of the year. The foregoing adjustments resulted to a net recovery of P215 million in 2004.

Income (Loss) before Income Tax. As a result of the foregoing, the Company posted net loss for the year ended 2004, totaling (P4,223) million compared to income before income tax of P1,481 million for the year 2003.

Income Tax. Benefit from income tax for the year ended December 31, 2004, was (P1,613) million, a significant decrease from P214 million expense for the year 2003, primarily due to the loss incurred in 2004.

Net Income (Loss). As a result of the foregoing, net loss for the year ended 2004 was P2,610 million, compared to a P1,267 million net income in the same period in 2003. The significant decrease was mainly due to the provision for probable losses in the event of a final and executory adverse decision on the unbundling rate case pending with the Supreme Court.

Capital Expenditures. Capital expenditures for 2004 decreased by 17.3% from P6,435 million in 2003 to P5,319 million.

MERALCO REPORTS 2004 FINANCIAL PERFORMANCE **Says loss due to adverse court decision on its rate unbundling**

Despite a growth in its sales performance, the Manila Electric Company today disclosed its 2004 yearend financial performance to the Securities and Exchange Commission stating that the Company posted a net loss of P 2,610 million, compared to a P1,267 million net income in 2003.

The significant change in Meralco's financial performance was mainly due to the provision for probable losses, for prudential reasons, in the event of a final and executory adverse decision on the unbundling rate case currently pending before the Supreme Court.

Meralco said that a Supreme Court ruling upholding the Court of Appeals decision will have dire implications and repercussions not only on the viability of Meralco but also on the socialized electricity rates of lifeline customers numbering 1.2 million out of a customer base of 4.2 million.

In its report, Meralco's sales grew by 3.5% to 24,660 gWh in 2004. Of the three customer classes, the commercial sector led the growth, rising by 4.8% to 8,777 gWh from 2003. The residential sector posted the lowest growth, registering a 2.5% rise to 8,742 gWh, despite the addition of 140,000 new residential customers.

Sales of the industrial sector expanded by 3. % to Cr Wh in 2004 spite of the decrease the number of customers. Despite this improved performance however adverse court ruling Meralco unbundling suit heavy financial losses for the company

The unbundling required by the Electric Industry for Act (E RA for more transparency customer billings and the pre-conditions for open Meralco implemented the unbundling of its charges starting with June 2003 billing compliance with the May 2003 order of the ERC

Despite refinancing program entered into with 30 creditors December 2004 the company continues to be financially burdened to its customer fund payment and the immediate suspension and subsequent annulment by the Supreme Court of the provisional rate allowed by the ERC in January 2004

The company also has to contend with improvement of system through much needed capital expenditure program. Meralco earlier statement said that its capital expenditure program of primordial importance this is the level of service expected by its customers.

Last year the company spent around bill for its capital expenditures