



CIRCULAR FOR BROKERS

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Date : **December 20, 2005**
 Company : **MANILA ELECTRIC COMPANY**

This is in reference to the news article entitled "Firms go after Meralco" published in the December 20, 2005 issue of the Philippine Daily Inquirer (Internet Edition). The article reported in part that "EXASPERATED by the delay in Manila Electric Co.'s refund of P18 billion to private corporations, business leaders are seriously considering the adoption of the Arroyo administration's plan to exchange collectibles for shares in the Lopez-managed utility. Jesus Arranza, president of the Federation of Philippine Industries, said a plan by President Gloria Macapagal-Arroyo to collect on the entire P42 billion allegedly owed by Meralco to state-owned National Power Corp. (Napocor) had prompted his group to consider pushing for the conversion of FPI members' collectibles into equity in the power distributor. 'Meralco has been ignoring our members' demands for reimbursement over the last two years. Probably, if we back up the government's position, they (Meralco officials) might start taking us seriously,' said Arranza, who will consult with FPI members on the debt-conversion option. Asked to comment on FPI's demand, a Meralco spokesperson said it would give its side today. x x x"

In relation thereto, Manila Electric Company ("MER") furnished the Exchange the attached disclosure with regard to the above-mentioned news article.

For your information.

(Original Signed)
JANET A. ENCARNACION
OIC, Disclosure Department

Noted by:

(Original Signed)
JURISITA M. QUINTOS
Senior Vice President

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December 20, 2005

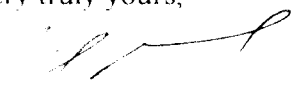
MS. JANET A. ENCARNACION
OIC, Disclosure Department
Philippine Stock Exchange, Inc.
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Exchange Road, Ortigas Center
Pasig City

Dear Ms. Encarnacion:

This is in reply to your letter dated December 20, 2005 received by e-mail at 8:19 AM today, seeking clarification of the news article entitled "Firms go after Meralco" published in today's issue of the Philippine Daily Inquirer (Internet Edition).

Attached is a press statement entitled "Meralco Assures Federation of Philippine Industries: Processing of Refund on Schedule."

Very truly yours,


RAFAEL L. ANDRADA
First Vice President, Treasurer
and Information Disclosure Officer

cc Ms. Raquel R. Angeles



Press Release

REFER TO **E.O. CUNA** TEL. NO. **631-5557**

MERALCO REFUTES FEDERATION OF PHILIPPINE INDUSTRIES

SAYS PHASE IV REFUND ONGOING

Sr. Asst. Vice President and Meralco Refund Management Task Force Head Leonardo Mabale refuted the statement issued by Federation of Philippine Industries (FPI) President Jesus Arranza and stated that Meralco's refund for Phase IV is ongoing. Mabale said that based on the timetable set by ERC, Meralco is on track in terms of processing the refund. Mabale said, "Meralco has already completed the refund for its Phase I to III customers. It was the ERC's intention for Meralco to start refunding to residential customers first before refunding to the commercial and industrial customers. Much as the Supreme Court's decision on the refund had a substantial financial impact on Meralco, the company exerted all efforts to implement the refund of about P30 billion as ordered by the Supreme Court and the ERC. We need not emphasize although it is of public knowledge that the refund effectively wiped out our profits from 1994–2002. This despite the fact that we invested around P60 billion in the same period to fund our capital expenditures program which is necessary to improve and upgrade our system and service to a level expected by our customers," Mabale said.

For the record, Phase IV of the refund, which covers commercial and industrial customers, could have started earlier. However, BIR wrote us in January 2005 stating its intention to tax the Phase IV refund. We then manifested this development to the ERC which then ordered us to implement Phase IV-A beginning July 2005 and Phase IV-B in October 2005.

Meralco received BIR Revenue Regulation 8-2005 on May 10, 2005 ordering Meralco to act as withholding agent for Phase IV refund customers and imposing a 25% tax on active customers and 32% on terminated customers. The 25% was, in fact, an offshoot of Meralco's appeal to BIR to reconsider the 32% tax it initially intended to impose even on the active customers. The corresponding Revenue Memorandum Order (RMO) 22-2005 was issued only in September 2005 providing the specific provisions in implementing RR 8-2005. Understandably, it took BIR some time to come out with its guidelines in order to address all the possible legal implications of the order. We respect the BIR's position that the refund is taxable on the ground that commercial and industrial taxpayers have already expensed their electricity costs in paying their income taxes and therefore should be taxed on the windfall amounts received as refund.

It is only logical to wait for these requirements of law before we can start writing our customers. We did this in November this year because it was at this time when we were already sure that our system has been readjusted and that our back-end can effectively handle the refund applications.

We already have sent out letters to Phase IV-A active customers in November. We continue to deliver the remaining letters for active customers and will complete it before yearend. These include those for Phase IVB and government services.

Mabale also said, "Our customers need not really worry since the delay which is beyond our control is mitigated by the application of the refund retroactive to July 2005 for Phase IV-A and to October 2005 for Phase IV-B." Mabale added that its Phase IV customers have actually started submitting the required documents at the branches but turnout is still low. We are appealing to our industrial and commercial customers to facilitate the submission of the requirements so we can process the refund.

On the issue again being presented by Arranza, Meralco VP for Corporate Communication Elpi Cuna, Jr. said, "We are suspicious of the motives behind this latest and re-hashed issue since we have responded already to his earlier press statement. In fact, Meralco has been updating the regulatory body (ERC) and the public on the status of the refund. We have written almost all the business groups we have consulted last October 2005 and updated them accordingly. Press releases pertaining to developments in the refund were issued in the major dailies in April, May, June, July, October and December 2005. This includes our latest reply to Mr. Arranza's earlier press statement. As a responsible business leader, Mr. Arranza should have updated himself on issues concerning the industry. We could have easily addressed all the issues he raised and avoided this unnecessary controversy had Mr. Arranza called our attention. However what he did was to grandstand and exploit an issue which unfortunately for him is a false issue." Cuna added, "If Mr. Arranza wants to issue a manifestation, I suggest he does so with the ERC."

Meralco also clarified that nowhere in the Supreme Court's decision nor in the Energy Regulatory Commission's (ERC) latest order that a conversion of collectibles into equity was an option.

As per the ERC order for Phase IV-A (small commercial and industrial), the refund mode is through postdated checks (PDCs), credit-to-future bill or cash depending on the option to be made by the customer. If the gross refund amount, however, is Php 5,000 or less the refund shall be made in full at the start of the refund period. For Phase IV-B (large commercial and industrial), the refund mode shall be 21 PDCs corresponding to the quarterly refundable amount. The PDCs shall have sequential quarterly maturity dates beginning on the first month of the calendar quarter (21 quarters), maturing at the end of every quarter.